THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand the Prospectus Documents to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the existing Shares and the Offer Shares may be settled through CCASS established and operated by HKSCC. You should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

A copy of each of the Prospectus Documents, together with copies of the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this Prospectus, have been registered with the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any of these documents.

The Stock Exchange and HKSCC take no responsibility for the contents of the Prospectus Documents, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Prospectus Documents.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 0031)

OPEN OFFER OF 428,483,980 OFFER SHARES TO QUALIFYING SHAREHOLDERS ON THE BASIS OF ONE OFFER SHARE FOR EVERY FIVE SHARES HELD ON THE RECORD DATE AND PAYABLE IN FULL ON ACCEPTANCE

Underwriter

DBS

The latest time for acceptance of and payment for the Offer Shares is 4:00 p.m. on Thursday, 12 July 2007. The procedures for acceptance and transfer of the Offer Shares is set out on pages 14 to 16 of this Prospectus.

The Underwriter, may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to 4:00 p.m. (Hong Kong time) on 17 July 2007:

(a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties was, when originally given or when repeated as provided in the Underwriting Agreement, untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Open Offer; or

(b) there shall develop, occur, exist or come into effect:

- (i) force majeure events;
- (ii) any change or development or a prospective change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or matters and/or disaster or monetary or trading settlement system;
- (iii) any new law or regulation, or there is any change or development in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
- (iv) the imposition of economic sanctions by or for the United States or by the European Union (or any member thereof) on Hong Kong or elsewhere;
- (v) a change or prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws in Hong Kong or elsewhere or affecting an investment in the Shares; or
- (vi) any general moratorium on commercial banking activities in Hong Kong, New York, Singapore, London or the PRC or a material disruption in commercial banking or securities settlement or clearance services in Hong Kong or elsewhere,
- (vii) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) Business Days;
- (viii) any contravention of, or non-compliance with, any applicable laws and regulations by any member of the Group; and
- (ix) any other event, series of events, change, development or situation,

which is or are in the reasonable opinion of the Underwriter:

- (1) likely to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of any Group Company; or
- (2) likely to have a material adverse effect on the success of the Open Offer or the level of Offer Shares Taken Up; or
- (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Open Offer.

The Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Termination of the Underwriting Agreement" herein). Accordingly, the Open Offer may or may not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

The Shareholders should note that the Shares have been dealt in on an ex-entitlements basis commencing from Wednesday, 20 June 2007 and that dealings in Shares take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on Tuesday, 17 July 2007), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

The Offer Shares will not be offered or sold, and copies of these offering documents will not be distributed or caused to be distributed, directly or indirectly, in France except to corporate entities having the status of "qualified investors" and/or to a restricted circle of investors all as defined in and in accordance with article L. 411-2 of the French Monetary and Financial Code, in each case acting for their own account, or otherwise in circumstances which have not resulted and will not result in a public offering in France as defined in article L. 411-1 of the French Monetary and Financial Code.

As required by article 211-4 of the General Regulations of the Autorite des Marches Financiers, such qualified investors and restricted circle of investors are informed that: (i) no prospectus or other offering documents in relation to the Offer Shares have been lodged or registered with the Autorite des Marches Financiers; (ii) they must participate in the offering on their own account, in the conditions set out in articles D. 411-1, D. 411-2, D.734-1, D. 744-1, D. 754-1 and D.764-1 of the French Monetary and Financial Code; and (iii) the direct or indirect offer or sale, to the public in France, of the Offer Shares can only be made in accordance with articles L. 411-1, L.411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Monetary and Financial Code.

This offering document does not constitute and may not be used for or in connection with either an offer to any person to whom it is unlawful to make such an offer or a solicitation by anyone not authorised so to act in accordance with articles L. 341-3, L. 341-4 and L. 341-7 of the French Monetary and Financial Code. Accordingly, no Offer Shares will be offered, under any circumstances, directly or indirectly, to the public in France.

27 June 2007

CONTENTS

EXPECTED TIMETABLE

The expected timetable for the proposed Open Offer is set out below:

	2007
Last day of dealings in Shares on a cum-entitlements basis	18 June
First day of dealings in Shares on an ex-entitlements basis	20 June
Latest time for lodging transfers of Shares and related documents in order to qualify for the Open Offer	4:00 p.m., 21 June
Register of members closes	22 to 26 June (both dates inclusive)
Record Date	26 June
Despatch of the Prospectus Documents	27 June
Latest time for payment for and acceptance of Offer Shares and the application and payment for the excess Offer Shares	4:00 p.m., 12 July
Open Offer expected to become unconditional	after 4:00 p.m., 17 July
Announcement of results of acceptance and excess application	17 July
Despatch of refund cheques for wholly and partially unsuccessful excess applications on or about	18 July
Share certificates for Offer Shares to be posted on or about	18 July
First day of dealings in Offer Shares	20 July

Note:

Dates stated in this Prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be announced as appropriate.

The Shareholders of the Company should note that completion of the Underwriting Agreement is conditional and may or may not proceed. The Shareholders and potential investors of the Company should exercise extreme caution when dealing in the Shares.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or

- a "black" rainstorm warning

  (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Thursday, 12 July 2007. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same business day;

  (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Thursday, 12 July 2007. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Open Offer does not take place on Thursday, 12 July 2007, the dates mentioned in the section headed "Expected timetable" in this Prospectus may be affected. A press announcement will be made by the Company in such event.

The Underwriter, may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to the Latest Time for Termination if:

(a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties was, when originally given or when repeated as provided in the Underwriting Agreement, untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Open Offer; or

(b) there shall develop, occur, exist or come into effect:

(i) any event, or series of events, beyond the reasonable control of the Underwriter (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities, insurrection or armed conflict (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics in Hong Kong including Severe Acute Respiratory Syndrome and H5N1 and such related or mutated forms or interruption or delay in transportation);

(ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or matters and/or disaster or monetary or trading settlement system;

(iii) any new law or regulation, or there is any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;

(iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Union (or any member thereof) on Hong Kong or elsewhere;

(v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws in Hong Kong or elsewhere or affecting an investment in the Shares;

(vi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise), Singapore, London or the PRC or a material disruption in commercial banking or securities settlement or clearance services in Hong Kong or elsewhere;

(vii) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) Business Days;

(viii) any contravention of, or non-compliance with, any applicable laws and regulations (including, without limitation, the Companies Ordinance and the Listing Rules) by any member of the Group;

(ix) any other event, series of events, change, development or situation,

which is or are in the reasonable opinion of the Underwriter:

(1) likely to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of any Group Company; or

(2) likely to have a material adverse effect on the success of the Open Offer or the level of Offer Shares Taken Up; or

(3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Open Offer.

Upon the giving of notice of termination, all the liabilities of the Underwriter and the Company under the Underwriting Agreement shall cease and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (other than antecedent breaches) and the Company shall not be liable to pay to the Underwriter the underwriting commission. If the Underwriter exercises such right, the Open Offer will not proceed.

Unless the context otherwise require, the following expressions have the following meanings in this prospectus:

"Announcement"	the announcement of the Company dated 6 June 2007 in respect of the Open Offer;
"Assured Allotment Letter"	the form of application for the Offer Shares to be issued in connection with the Open Offer to Qualifying Shareholders;
"Board"	the Board of Directors;
"Business Day"	a day on which banks are generally open for business for normal banking business in Hong Kong other than Saturdays and Sundays;
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
"Company"	China Aerospace International Holdings Limited (航天科技國際集團有限公司), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange;
"connected persons"	has the meaning given to it in the Listing Rules;
"Controlling Shareholders"	Jetcote and its wholly-owned subsidiaries, Burhill Company Limited and Sin King Enterprises Company Limited, both having been incorporated in Hong Kong. The Controlling Shareholders are the beneficial owners of an aggregate of 911,108,864 Shares, representing approximately 42.53% of the Company's issued share capital;
"Director(s)"	the director(s) of the Company;
"EAF(s)"	the excess application form(s) to be issued to Qualifying Shareholders in connection with the Open Offer;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;

"Independent Third Party(ies)"	third party(ies) who, together with its/their ultimate beneficial owners, is/are independent of the Company and connected persons of the Company;
"Irrevocable Undertaking(s)"	the irrevocable undertakings dated 5 June 2007 given by the Controlling Shareholders in favour of the Company and the Underwriter to, amongst other things, subscribe for an aggregate of 182,221,772 Offer Shares;
"Jetcote"	Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Limited (a state-owned enterprise), as at the date of the Announcement;
"Latest Practicable Date"	14 June 2007, being the latest practicable date for ascertaining certain information for inclusion herein;
"Latest Time for Termination"	4:00 p.m. on 17 July 2007;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Non-Qualifying Shareholders"	Overseas Shareholders (as shown in the register of members of the Company at the close of business on the Record Date) to whom, in the opinion of the Directors and based on opinions obtained from legal advisors licensed to practice in the respective jurisdictions of the Overseas Shareholders, the Offer Shares may not be offered without the issue of a separate prospectus;
"Offer Share(s)"	new Share(s) to be allotted and issued under the Open Offer, being not less than 428,483,980 Shares;
"Open Offer"	the issue by way of open offer of one Offer Share for every five Shares in issue on the Record Date at a price of HK$0.90 per Offer Share;
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong;
"Prospectus"	the prospectus to be issued for the Open Offer;
"Prospectus Documents"	the Prospectus, the Assured Allotment Letter and the EAF;

"Prospectus Posting Date"	27 June 2007 (on such other date as may be agreed in writing between the Company and the Underwriter upon the approval of the Stock Exchange);
"Qualifying Shareholder(s)"	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date;
"Record Date"	26 June 2007 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Open Offer are to be determined;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shanghai Project"	has the meaning ascribed to it in the section headed "Reasons for the Open Offer and use of proceeds";
"Share Option Scheme"	the share option scheme of the Company adopted on 8 July 1997 and expiring on 8 July 2007;
"Shareholder(s)"	holder(s) of Share(s);
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Underwriter"	DBS Asia Capital Limited, a registered institution to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong);
"Underwriting Agreement"	the underwriting agreement dated 5 June 2007 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Open Offer; and
"Underwritten Offer Shares"	the Offer Shares but excluding the Offer Shares to be offered to the Controlling Shareholders, being up to an aggregate of 246,262,208 Offer Shares.

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航 天 科 技 國 際 集 團 有 限 公 司

(incorporated in Hong Kong with limited liability)

(Stock Code: 0031)

Executive Directors:
Mr Zhao Liqiang *(President)*
Mr Zhou Qingquan
Mr Zhao Yuanchang
Mr Wu Hongju
Mr Guo Xianpeng

Registered Office:
Room 1103-1107A, One Harbourfront
18 Tak Fung Street
Hung Hom
Kowloon
Hong Kong

Non-executive Directors:
Mr Ma Xingrui *(Chairman)*
Mr Chow Chan Lum, Charles *(Independent)*
Mr Luo Zhenbang *(Independent)*
Mr Wang Junyan *(Independent)*
Mr Gong Bo
Ms Chan Ching Har, Eliza
Mr Wang Yujun
Mr Xu Jianhua

27 June 2007

Dear Sirs,

OPEN OFFER OF 428,483,980 OFFER SHARES TO QUALIFYING SHAREHOLDERS ON THE BASIS OF ONE OFFER SHARE FOR EVERY FIVE SHARES HELD ON THE RECORD DATE AND PAYABLE IN FULL ON ACCEPTANCE

INTRODUCTION

The Company has announced on 6 June 2007 that it proposes to raise approximately HK$386 million, before expenses, by issuing 428,483,980 Offer Shares at a price of HK$0.90 per Offer Share by way of the Open Offer of new Shares, on the basis of one Offer Share for every five existing Shares held on the Record Date and payable in full on acceptance. Qualifying Shareholders are entitled to apply for excess Offer Shares not taken up in excess of their respective entitlements under the Open Offer. The Open Offer is only available to the Qualifying Shareholders. Fractional entitlements to any Offer Shares will not be offered to Shareholders but will be aggregated and allocated to satisfy excess applications (if any) and/or disposed of in such manner as the Directors in their absolute discretion deem appropriate and for the benefits and interests of the Company.

The purpose of this Prospectus is to set out further information on the Open Offer, including information on dealing in and transfers and acceptances of the Offer Shares and financial and other information in respect of the Group.

OPEN OFFER

Issue Statistics

Issue statistics prepared on the basis of the Company's existing 2,142,419,902 Shares in issue as at the Latest Practicable Date are as follows:

Basis of the Offer Shares	:	one Offer Share for every five Shares held on the Record Date on an assured basis
Number of Shares in issue as at the Latest Practicable Date	:	2,142,419,902 Shares
Number of Offer Shares	:	428,483,980 Offer Shares
Subscription price	:	HK$0.90 per Offer Share
Enlarged issued share capital upon completion of the Open Offer	:	2,570,903,882 Shares
Right of excess application	:	Qualifying Shareholders will have the right to apply for excess Offer Shares
Amount to be raised	:	approximately HK$386 million before expenses and HK$378 million after expenses
Number of Offer Shares undertaken to be taken up by the Controlling Shareholder	:	182,221,772 Offer Shares
Number of Offer Shares underwritten by the Underwriter	:	246,262,208 Offer Shares, being the difference between the total number of Offer Shares of 428,483,980 Offer Shares and the aggregate of 182,221,772 Offer Shares which Controlling Shareholders have undertaken to subscribe for; and representing approximately 9.58% of the issued share capital of the Company as enlarged by the issue of the Offer Shares

The 428,483,980 Offer Shares will represent (a) approximately 20% of the Company's issued share capital as at the date of this announcement; and (b) approximately 16.67% of the Company's issued share capital as enlarged by the issue of the Offer Shares. The Offer Shares are not issued under any general mandate to issue shares granted by the Shareholders. The Offer Shares are issued pursuant to section 57B of the Companies Ordinance (Cap. 32 of the

Laws of Hong Kong) as the allotment of shares in the Company is to be made pro rata by the Company to the Shareholders, excluding for that purpose any Shareholder whose address is in a place where such offer is not permitted under the law of that place. The Company does not currently have any intention to offer and issue Shares under the Share Option Scheme or make any repurchase of Shares from the date of the Announcement to the Record Date.

The Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date and has no intention to issue any new Share or any of the above securities before the latest time for acceptance of the Open Offer, which is 17 July 2007.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders. For the Non-Qualifying Shareholders, the Company will send copies of the Prospectus to them for their information only, but the Company will not send any Assured Allotment Letter and Excess Application Form to the Non-Qualifying Shareholders.

To qualify for the Open Offer, a Shareholder must be: (i) registered as a member of the Company at the close of business on the Record Date; and (ii) a Qualifying Shareholder.

In order to be registered as a member of the Company at the close of business on the Record Date, purchasers of Shares or investors in Shares must lodge any transfers of Shares (together with the relevant share certificate(s)) with the Company's share registrar in Hong Kong, being Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 21 June 2007.

The rights to subscribe for the Offer Shares are not transferable.

Subscription price

The subscription price for the Offer Shares is HK$0.90 per Offer Share, payable in full upon acceptance of the assured entitlement of Offer Shares or, where applicable, upon application for excess Offer Shares under the Open Offer. The subscription price represents:

(i) a discount of approximately 46.74% to the closing price of HK$1.69 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 51.08% to the closing price of HK$1.84 per Share ("Last Closing Price") as quoted on the Stock Exchange on 4 June 2007, being the last date on which trading took place in the Shares before suspension of trading prior to the release of the Announcement ("Last Trade Day");

(iii) a discount of approximately 46.42% to the theoretical ex-rights price of HK$1.68 per Share, which is calculated on the basis of the Last Closing Price;

(iv) a discount of approximately 51.40% to the average of the closing prices per Share for the 5 trading days ended on the Last Trade Day of approximately HK$1.85;

(v) a discount of approximately 50.71% to the average of the closing prices per Share for the 10 trading days ended on the Last Trade Day of approximately HK$1.83; and

(vi) a premium of approximately 58.17% to the audited consolidated net tangible asset value per Share of the Company as at 31 December 2006 of HK$0.57 (based on 2,142,419,902 Shares in issue as at the date of the Announcement).

The Subscription Price was arrived at after arm's length negotiation with the Underwriter and to provide an opportunity for all Shareholders to participate in the future growth of the Company.

After taking into consideration the reasons for the Open Offer as stated in the paragraph headed "Reasons for the Open Offer and use of proceeds" below, the Directors (including the independent non-executive directors) consider the terms of the Open Offer, including the subscription price (and the discounts or premium to the relative values as indicated above) and the Underwriter's commission and in the context of the Company's long-term expansion strategy, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of Open Offer

The basis of the assured entitlement under the Open Offer shall be one Offer Share for every five Shares held, being 428,483,980 Offer Shares at a price of HK$0.90 per Offer Share. Application for all or any part of a Qualifying Shareholder's assured entitlement should be made by completing the Assured Allotment Letter and lodging the same with a remittance for the Offer Shares being applied for. No odd lot matching services will be provided. Fractional entitlements to any Offer Shares will not be offered to Shareholders but will be aggregated and allocated to satisfy excess applications (if any) and/or disposed of in such manner as the Directors in their absolute discretion deem appropriate and for the benefits and interests of the Company.

Share certificates and refund cheques for the Open Offer

Subject to the fulfillment of the conditions of the Open Offer, share certificates for all fully-paid Offer Shares are expected to be posted on or about 18 July 2007 to those who have accepted and (where applicable) applied for, and paid for, the Offer Shares by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares (if any) are expected to be posted on or about 18 July 2007 by ordinary post to the applicants at their own risk.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue such that holders of fully-paid Offer Shares will be entitled to receive all future dividends and distributions the record dates of which are on or after the date of allotment of the Offer Shares.

Rights of Overseas Shareholders

As set out in the Announcement, the Company has sought advices from overseas legal advisers regarding the feasibility of extending the Open Offer to the Overseas Shareholders. If in the opinion of the Directors and based on opinions obtained from legal advisors licensed to practice in the respective jurisdictions of the Overseas Shareholders, the Offer Shares may not be offered without the issue of a separate prospectus, the Open Offer will not be available to such Overseas Shareholder pursuant to Rule 13.36(2)(a) of the Listing Rules.

Based on legal opinion received by the Company and based on the shareholders list as at the closure of the register of members of the Company on 22 June 2007, the local securities law and regulations of the jurisdictions of the Overseas Shareholders (save for Malaysia) do not require the Company to prepare a separate prospectus to offer the Offer Shares to the Overseas Shareholders.

In respect of Overseas Shareholders having their registered addresses in Malaysia, pursuant to the relevant law and/or regulations, the offer to the Overseas Shareholders in Malaysia requires the filing of a separate prospectus in form and content in compliance with the relevant Malaysian law. As such the Company will not send any Assured Allotment Letter, EAF and the Prospectus to those Overseas Shareholders having their registered addresses in Malaysia.

Entitlement of Non-Qualifying Shareholders, together with any Offers Shares entitlements not accepted, will be made available for excess application on EAFs by the Qualifying Shareholders.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares in its fully-paid form.

Dealings in the Shares will be subject to the payment of stamp duty in Hong Kong.

UNDERWRITING ARRANGEMENT

Underwriting agreement dated 5 June 2007

Parties	:	The Company and the Underwriter
Underwritten Offer Shares	:	246,262,208 Offer Shares, being the difference between the total number of Offer Shares of 428,483,980 Offer Shares and the aggregate of 182,221,772 Offer Shares which Controlling Shareholders have undertaken to subscribe for; and representing approximately 9.58% of the issued share capital of the Company as enlarged by the issue of the Offer Shares.
Underwriter's Commission	:	2.25% of the subscription price for the Underwritten Offer Shares, which the Directors consider fair and reasonable.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Underwriter and its ultimate beneficial controlling shareholders do not have any shareholding in the Company and are not connected persons of the Company, are Independent Third Parties and are not party acting in concert with the Controlling Shareholders.

Conditions of the Open Offer

The Open Offer is conditional, among other things, upon fulfillment of the following conditions:

(a) all necessary approvals, permits, waivers, consents and authorisations (if any) having been obtained for the issue and allotment of Offer Shares as well as for the completion of the Open Offer generally;

(b) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Offer Shares on the Stock Exchange and such listing and permission to deal not being subsequently revoked;

(c) the registration of the Prospectus Documents (with all the documents required to be attached thereto by Section 38D of the Companies Ordinance) (all having been duly authorised for registration by the Stock Exchange and signed by or on behalf of all Directors) by the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance by no later than the Prospectus Posting Date;

(d) the posting of the Prospectus Document to the Qualifying Shareholders on or before the Prospectus Posting Date;

(e) delivery by the Controlling Shareholders to the Company and the Underwriter of the Controlling Shareholders Undertakings duly executed by the Controlling Shareholders on the same date as this Agreement and compliance with and performance by the Controlling Shareholders of the terms of the Controlling Shareholders Undertakings up to and including the latest time for payment for and acceptance of Offer Shares and the application and payment for the excess Offer Shares; and

(f) the underwriting arrangement not having been terminated in accordance with the Underwriting Agreement.

If the conditions of the Open Offer are not fulfilled by the Latest Time for Termination (or such later date or time as the Underwriter may agree in writing with the Company pursuant to the Underwriting Agreement), then all liabilities of the parties thereto shall cease and terminate and neither party shall have any claim against the other (except in respect of any antecedent breach or reimbursement of certain out-of-pocket expenses to the extent incurred prior to such termination) and the Company shall not be liable to pay to the Underwriter the underwriting commission thereunder, and the irrevocable undertaking by the Controlling Shareholders to accept its entitlement under the Open Offer will lapse, and the Open Offer will not proceed.

Irrevocable undertakings from Controlling Shareholders

As at the Latest Practicable Date, the Controlling Shareholders are the beneficial owners of 911,108,864 Shares, representing approximately 42.53% of the total issued share capital of the Company. The Controlling Shareholders have irrevocably undertaken to the Company and the Underwriter that such Shares will remain beneficially owned by them respectively at the close of business on the Record Date as they were on the date of the undertaking, being 5 June 2007. The Controlling Shareholders will take up an aggregate of 182,221,772 Offer Shares to be allotted under the Open Offer.

Non-Disposal undertakings

The Controlling Shareholders have undertaken to the Company and the Underwriter that they will not without the prior written consent of the Underwriter at any time after the date of the Underwriting Agreement up to and including the date falling 30 days after the date of the latest time for payment for and acceptance of Offer Shares and the application and payment for the excess Offer Shares to dispose of any Offer Shares allotted and issued to respectively pursuant to the Open Offer, or any interest therein.

Termination of the Underwriting Agreement

The Underwriter, may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to the Latest Time for Termination if any of the termination event occurs. For details of the termination events, please refer to the section headed "Termination of the Underwriting Agreement" of the Prospectus.

WARNING ON DEALINGS IN THE SHARES

The obligations of the Underwriter to underwrite the relevant Offer Shares are conditional on (i) the satisfaction of, among other things, the conditions referred to in the paragraph headed "Conditions of the Open Offer" above, and (ii) the Underwriting Agreement not being terminated by the Underwriter in accordance with its terms as set out in the section headed "Termination of the Underwriting Agreement" above. If the conditions are not fulfilled or the Underwriting Agreement is terminated pursuant to its terms, the Open Offer will not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

The Shareholders should note that the Shares have been dealt in on an ex-entitlements basis commencing from 20 June 2007 and that dealings in Shares take place while the conditions to which the Open Offer is subject remain unfulfilled. **Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on 17 July 2007), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed.** Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

SHAREHOLDING OF THE COMPANY

The shareholdings in the Company immediately before and after the completion of the Open Offer will be as follows:

	Existing shareholding as at the Latest Practicable Date		**Immediately after completion of the Open Offer (assuming all Offer Shares will be taken up by Qualifying Shareholders)**		**Immediately after completion of the Open Offer (assuming no Offer Shares will be taken up by Qualifying Shareholders other than Controlling Shareholders)**	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Controlling Shareholders	**911,108,864**	**42.53**	**1,093,330,636**	**42.53**	**1,093,330,636**	**42.53**
Public	1,231,311,038	57.47	1,477,573,246	57.47	1,231,311,038	47.89
Underwriter	0	0.00	0	0.00	246,262,208	9.58
Public Shareholders	**1,231,311,038**	**57.47**	**1,477,573,246**	**57.47**	**1,477,573,246**	**57.47**
Total	**2,142,419,902**	**100.00**	**2,570,903,882**	**100.00**	**2,570,903,882**	**100.00**

Reasons for the Open Offer and use of proceeds

The Group is principally engaged in hi-tech manufacturing business, science and technology park complex development, and hi-tech industries development.

The Directors believe that it would be in the interests of the Company and the Shareholders to raise long-term equity funding via the proposed Open Offer to strengthen the Company's financial position for its expansion of its major businesses, whilst allowing all Shareholders the equitable opportunity to increase their investment in the Company and participate in the Company's prospects.

The estimated net proceeds of the Open Offer is approximately HK$378 million and will be used as to (i) approximately HK$80 million to finance the development costs of the Shanghai Project (as described below); (ii) approximately HK$157 million for the repayment of debts; and (iii) the remaining net proceeds of the Open Offer of HK$141 million as additional working capital.

Reference is made to the announcements of the Company dated 26 October 2006 and the circular of the Company dated 16 November 2006 in relation to the development of the Aerospace Technology Park in Shanghai (the "Shanghai Project").

PREVIOUS FUND RAISING EXERCISE OF THE COMPANY

Save for the Open Offer, the Company has not undertaken any equity fund raising exercise in the past 12 months ending on the date of this Prospectus.

REVIEW OF OPERATIONS AND PROSPECTS OF THE GROUP

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. Production has been commenced in the new factory buildings, of around 45,000 m^2, 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 bank balances and cash and pledged bank deposits 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 China Aerospace Science & Technology Corporation 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 completed 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.

PROCEDURES FOR ACCEPTANCE

An assured allotment letter is enclosed with this Prospectus which entitles you to accept any number of Offer Shares provisionally allotted to you. Qualifying Shareholders should note that they may accept any number of Offer Shares but are assured of an allotment only up to the number set out in the Assured Allotment Letter. If you are a Qualifying Shareholder and you wish to accept your assured allotment of Offer Shares to which you are entitled as specified in the enclosed Assured Allotment Letter or you wish to accept any number less than your assured entitlement, you must complete, sign and lodge the Assured Allotment Letter in accordance with the instructions printed thereon, together with remittance for the aggregate subscription price in respect of such number of Offer Shares you have accepted with the Registrar, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by not later than 4:00 p.m. on 12 July 2007. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "China Aerospace International Holdings Limited – Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the Assured Allotment Letter, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on 12 July 2007, that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions, the subscription monies will be refunded, without interest, by sending a cheque made out to the relevant Shareholder named on the Assured Allotment Letter (or in the case of joint Shareholders, to the first-named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholder(s) to the address specified in the register of members of the Company on or about 18 July 2007.

The Assured Allotment Letter contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements under the Open Offer. All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Any Assured Allotment Letter in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The Assured Allotment Letter is for use only by the person(s) named therein and is not transferable. No receipt will be issued in respect of any acceptance monies received.

APPLICATION FOR EXCESS OFFER SHARES

Qualifying Shareholders may apply, by way of excess application, for the entitlements of the Non-Qualifying Shareholders and for any Offer Shares entitlements not accepted.

Applications for excess Offer Shares can be made only by completing an EAF and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Directors will allocate the excess Offer Shares at their discretion on a fair and equitable basis, but will give preference to topping-up odd lots to whole board lots.

Investors with their Shares held by a nominee (or CCASS) should note that the Board will regard the nominee (including CCASS) as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of a nominee (or CCASS) should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Offer Shares will not be extended to them individually.

If you, as a Qualifying Shareholder, wish to apply for any Offer Shares in addition to your provisional allotment, you must complete and sign an EAF and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Offer Shares applied for, with the Registrar, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by not later than 4:00 p.m. on 12 July 2007, or such later time and/or date as may be agreed between the Company and the Underwriter in writing. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "China Aerospace International Holdings Limited – Excess Application Account" and crossed "Account Payee Only". The EAF contains full information regarding the procedures to be followed to apply for excess Offer Shares in addition to the assured entitlements under the Open Offer.

The Registrar will notify you of any allotment of the excess Offer Shares made, which allotment will be allocated on a fair and reasonable basis to be decided at the sole discretion of the Directors.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions or no excess Offer Shares are allotted, the subscription monies for excess Offer Shares will be refunded, without interest, by sending a cheque made out to the relevant Shareholder named on the EAF (or in the case of joint Shareholders, to the first-named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholder(s) to the address specified in the register of members of the Company on or about 18 July 2007.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Any EAF in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Prospectus.

By order of the Board
China Aerospace International Holdings Limited
Ma Xingrui
Chairman

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following information has been extracted from the audited consolidated financial statements of the Group for each of the three years ended 31 December 2006:

RESULTS

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,528,101	1,780,938	1,410,240
Profit (loss) before taxation	141,846	287,381	(137,910)
Taxation	(26,784)	(1,506)	397
Profit (loss) for the year	115,062	285,875	(137,513)
Attributable to:			
Equity holders of the Company	110,966	286,403	(137,740)
Minority interests	4,096	(528)	227
	115,062	285,875	(137,513)

ASSETS AND LIABILITIES

	At 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	1,132,296	957,080	1,470,341
Current assets	1,154,182	1,141,325	1,071,337
Current liabilities	(824,418)	(814,360)	(983,678)
Non-current liabilities	(189,061)	(203,721)	(780,786)
Shareholders' funds	1,272,999	1,080,324	777,214
Attributable to:			
Equity holders of the Company	1,220,412	1,061,187	757,780
Minority interests	52,587	19,137	19,434
	1,272,999	1,080,324	777,214

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated income statements of the Group for each of the two years ended 31 December 2006, the audited consolidated balance sheets of the Group as at 31 December 2005 and 2006, the audited consolidated statements of changes in equity of the Group for each of the two years ended 31 December 2006 and the audited consolidated cash flow statements of the Group for each of the two years ended 31 December 2006, together with accompanying notes extracted from the 2006 annual report and accounts of the Group:

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

	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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company												
	Share capital *HK$'000*	Share premium *HK$'000*	Special capital reserve *HK$'000* *(Note 34(c))*	General reserve *HK$'000* *(Note)*	Translation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Capital reserve *HK$'000*	Capital redemption reserve *HK$'000*	(Accumulated losses) retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
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	2005
	HK$'000	*HK$'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

	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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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.

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.

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.

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.

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.

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.

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.

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.

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.

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	**Inter-segment sales**	**Total turnover**
	HK$'000	*HK$'000*	*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.

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

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

OTHER INFORMATION

	Capital additions	Depreciation	Impairment losses of property, plant and equipment	Fair value changes of investment properties	Reversal of allowance for obsolete inventories	Allowance for doubtful debts	Loss on disposal of property, plant and equipment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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	Inter-segment sales	Total turnover
	HK$'000	*HK$'000*	*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.

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

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

CONSOLIDATED BALANCE SHEET

	Segment assets	**Interests in associates**	**Total**
	HK$'000	*HK$'000*	*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

OTHER INFORMATION

	Capital additions	Depreciation	Impairment losses of property, plant and equipment	Fair value changes of investment properties	Reversal of allowance for obsolete inventories	Allowance for doubtful debts	(Loss) gain on disposal of property, plant and equipment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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	2005
	HK$'000	*HK$'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	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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	Zhao Liqiang	Zhou Qingquan	Zhao Yuanchang	Wu Hongju	Guo Xianpeng	Lee Hung Sang	Chow Chan Lum, Charles	Luo Zhenbang	Gong Bo	Chen Dingyi	Chan Ching Har, Eliza	Wang Yujun	Xu Jianhua	Rui Xiaowu	2006 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*	*HK$'000*	*HK$'000*	*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	Zhao Liqiang	Zhou Qingquan	Zhao Yuanchang	Wu Hongju	Guo Xianpeng	Lee Hung Sang	Chow Chan Lum, Charles	Luo Zhenbang	Gong Bo	Chen Dingyi	Chan Ching Har, Eliza	Wang Yujun	Li Jinsheng	Xu Shilong	2005 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*	*HK$'000*	*HK$'000*	*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.

(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	2005
	HK$'000	*HK$'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	**2005**
	HK$'000	*HK$'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 *HK$'000*	Long term leasehold land and buildings in the PRC *HK$'000*	Medium term leasehold land and buildings in the PRC *HK$'000*	Properties under development *HK$'000*	Plant and equipment *HK$'000*	Motor vehicles, furniture and other equipment *HK$'000*	Total *HK$'000*
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

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	Medium term leasehold investment properties in Hong Kong	Medium term leasehold investment properties in the PRC	Freehold investment properties overseas	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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:

	Maturity date	Collateral	Effective interest rate	Carrying amount 2006	Carrying amount 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	2005
	HK$'000	*HK$'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	2005
	HK$'000	*HK$'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	2005
	HK$'000	*HK$'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	**Others**	**Revaluation of investment properties**	**Total**
	HK$'000	*HK$'000* *(Note)*	*HK$'000*	*HK$'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	**2005**
	HK$'000	*HK$'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	Nominal value
	'000	*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

(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.

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;

(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.

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	2005
			HK$'000	*HK$'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	held by subsidiaries	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

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	held by subsidiaries %	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
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

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	held by subsidiaries %	attributable to the Group %	Principal activities
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
CASIL New Century Technology Development (Shenzhen) Company Limited#	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

3. INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus), the Group had outstanding bank borrowings of approximately HK$205.8 million which was secured by fixed charges on certain of the Group's assets, including investment properties, property, plant and equipment, bank deposit and available-for-sale investments. The aggregate net book value of those pledged assets as of 30 April 2007 was approximately HK$229.7 million. In addition, the Group had outstanding at that date obligations under finance leases, loans from third parties and amount due to CASC of approximately HK$1.6 million, HK$7.2 million and HK$103.5 million respectively.

Save as aforesaid, apart from intra-group liabilities, the Group did not have outstanding as at the close of business on 30 April 2007 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, or guarantees.

Contingent liabilities

As at the close of business on 30 April 2007, the Group had no contingent liabilities in respect of bills discounted with recourse.

The Group had not made any provisions for the damages pursuant to the litigation referred to in the section headed "Litigation" in Appendix III of this Prospectus.

Save as disclosed herein, there are no other contingent liabilities as at the close of business on 30 April 2007.

4. WORKING CAPITAL

After taking into account of:

(1) the Group's internal resources;

(2) the Group's present available banking facilities;

(3) the estimated net proceeds of the Open Offer of the Group; and

(4) on the basis that no material compensation is required to pay for damages pursuant to the litigation of CASIL Clearing Limited, as set out in Appendix III,

the Directors are of the opinion that the Group will have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of the Prospectus, in the absence of any unforeseen circumstances.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited financial statements of the Group were made up.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the net tangible assets of the Group as if the Open Offer had taken place on 31 December 2006.

The unaudited pro forma financial information has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Open Offer.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared based on the audited consolidated net tangible assets of the Group as at 31 December 2006 as set out in Appendix I to this Prospectus and adjusted to reflect the effect of the Open Offer:

	HK$'000
Audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006 *(Note 1)*	1,220,412
Estimated net proceeds from the Open Offer *(Note 2)*	377,669
Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company	1,598,081
Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company per Share after the Open Offer *(Note 3)*	HK$ 0.6216

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2006 is arrived at based on the audited consolidated net assets of the Group attributable to equity holders of the Company, as extracted from the Company's annual report, as at 31 December 2006 of HK$1,220,412,000. The payments for obtaining the land use rights are considered as operating lease payment, which are prepayments for future economic benefits to be used by the Group. Accordingly, they are considered as tangible in nature.

(2) The estimated total proceeds of the Open Offer are HK$385,636,000. Expenses associated with the Open Offer are approximately HK$7,967,000, resulting in net proceeds of HK$377,669,000.

(3) The number of shares used in the calculation of the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company per share is based on 2,570,903,882 shares, representing 2,142,419,902 shares in issue as at the Latest Practicable Date and 428,483,980 Offer Shares after the completion of the Open Offer.

2. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Set out below is the text of the report, prepared for the purpose of incorporation in this Prospectus, from the reporting accountants of the Group, Deloitte Touche Tohmatsu, in connection with the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group:

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

TO THE DIRECTORS OF CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed open offer of 428,483,980 offer shares to qualifying shareholders on the basis of one offer share for every five shares held on the Record Date (as defined in the prospectus referred to below) at a price of HK$0.90 per offer share might have affected the financial information presented, for inclusion in Appendix II of the prospectus dated 27 June 2007 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 65 to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 June 2007

1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon completion of the Open Offer, were and will be as follows:

(i) As at the Latest Practicable Date:

Authorised:		*HK$*
100,000,000,000	Shares	10,000,000,000.00
Issued and fully paid:		
2,142,419,902	Shares	214,241,990.20

(ii) Upon completion of the Open Offer:

Authorised:		*HK$*
100,000,000,000	Shares	10,000,000,000.00
Issued and fully paid:		
2,142,419,902	Shares	214,241,990.20
428,483,980	Offer Shares	42,848,398.00
2,570,903,882	Shares	257,090,388.20

All Shares in issue and the Offer Shares rank and will rank *pari passu* in all respects with each other including as regards to dividends, voting and return of capital.

The Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

No share or loan capital of any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted as at the Latest Practicable Date.

The Shares are listed on the Stock Exchange. No part of the Shares is listed or dealt in, nor is listing or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial Shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following Shareholders had notified the Company of relevant interests of 5% or more in the issued share capital of the Company:

Name of shareholder	Capacity	Number of Shares held for long positions	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Interested in controlled corporations	911,108,864 *(Note a)*	42.53%
Jetcote Investments Limited	Beneficial owner	109,864,176	5.13%
	Interested in controlled corporations	801,244,688 *(Note b)*	37.40%
Burhill Company Limited	Beneficial owner	407,971,780 *(Note b)*	19.04%
Sin King Enterprises Company Limited	Beneficial owner	393,272,908 *(Note b)*	18.36%
Montpelier Asset Management Limited	Investment manager	154,794,600 *(Note c)*	7.23%
Montpelier Global Funds Limited – The Montpelier Fund	Beneficial owner	114,552,850 *(Note c)*	5.35%

Notes:

(a) These 911,108,864 Shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, and its subsidiaries.

(b) These 801,244,688 Shares are duplicated in the interests held by Burhill Company Limited and Sin King Enterprises Company Limited, wholly-owned subsidiaries of Jetcote Investments Limited.

(c) Montpelier Asset Management Limited has been appointed by Montpelier Global Funds Limited as Investment Manager and the shareholding of Montpelier Global Funds Limited in the Company is duplicated in the interests held by Montpelier Asset Management Limited.

Save as disclosed herein, as at the Latest Practicable Date, the Directors or chief executive of the Company are not aware of any other person who has an interest or short position in the Shares and underlying Shares of the Company which would be required to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more in the issued share capital of the members of the Group.

4. DIRECTORS

As at the Latest Practicable Date, the Directors of the Company are as follows:

Name	Residential Address	Nationality
Executive Directors		
Zhao Liqiang *(President)*	Flat E, 30th Floor, Tower 16, 8 Laguna Verde Avenue, Phase IV, Costa Del Sol Laguna Verde, Hung Hom, Kowloon, Hong Kong	Chinese
Zhou Qingquan	Flat 614, 6/F, Block C, Telford Garden, Kowloon Bay, Kowloon, Hong Kong	Chinese
Zhao Yuanchang	Flat H, 7/F, Block 4, Phase 2, Cherry Mansion, Whampao Garden, Hung Hom, Kowloon, Hong Kong	Chinese
Wu Hongju	Room 402, Block 88, No. 99 Street, Wan Ding Road, Shanghai, People's Republic of China	Chinese
Guo Xianpeng	Flat H, 12/F, Block 9, Phase 2, Whampao Garden, Hung Hom, Kowloon, Hong Kong	Chinese

Name	Residential Address	Nationality
Non-executive Directors		
Ma Xingrui *(Chairman)*	Room 405, Block 2, 8/F, 31 South Main Street, Zhongguancun, Haidian District, Beijing, The People's Republic of China	Chinese
Gong Bo	Room 605, Block A20, Double Elm Tree East Lane, Haidian District, Bejing, The People's Republic of China	Chinese
Chan Ching Har, Eliza	Flat B, 21/F, Estoril Court, 55 Garden Road, Hong Kong	Canadian
Wang Yujun	Flat F, 7/F, Block A2, Yu Lam Court, Lucky Plaza, 1-5 Wang Pok Street, Shatin, New Territories, Hong Kong	Chinese
Xu Jianhua	Flat D, 13/F, Oak Mansions, Block 8, Whompoa Garden, Kowloon, Hong Kong	Chinese
Independent Non-executive Directors		
Chow Chan Lum, Charles	C1, 4/F, Block C, Wisdom Court, 5 Hatton Road, Mid-Level, Hong Kong	Australian
Luo Zhenbang	Room 1402, Block 12, Sun Garden, Haidien District, Beijing, The People's Republic of China	Chinese
Wang Junyan	Flat A, 18/F, Block 1, Dynasty Court, 23 Old Peak Road, Hong Kong	Chinese

Set out below the Biography of the Directors of the Company:

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 since 1987 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 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.

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.

5. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at the Latest Practicable Date, no Directors or the chief executive of the Company, either in their capacity as Directors or as chief executive of the Company has an interest or short position in the Shares or was deemed to have any interest or short position in the Shares, the underlying Shares or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code for Securities Transaction by Directors of Listed Companies in the Listing Rules, or which would be required pursuant to the SFO to enter in the register to be maintained pursuant to section 352 of the SFO.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, 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.

7. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2006 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

8. CORPORATE INFORMATION

Registered office	:	Room 1103-1107A, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong
Hong Kong legal adviser of the Company in relation to the Open Offer	:	Richards Butler 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong
Auditors	:	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place, 88 Queensway, Hong Kong
Principal banks	:	Bank of China (Hong Kong) CITIC Ka Wah Bank Wing Hang Bank
Registrar	:	Standard Registrars Limited 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong
Authorised representatives	:	Guo Xianpeng Flat H, 12/F, Block 9, Phase 2, Whampao Garden, Hung Hom, Kowloon, Hong Kong Chan Ka Kin, Ken Room 1103-1107A, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong

Company Secretary	:	Chan Ka Kin, Ken fellow member of both the Institute of Chartered Secretaries and Administrators, UK and the Hong Kong Institute of Chartered Secretaries
Qualified Accountant	:	Luk Chi Keung associate member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants

9. EXPERT AND CONSENT

Deloitte Touche Tohmatsu, a firm of Certified Public Accountants, has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its letter as set out in this Prospectus and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, direct or indirect, in any assets which have been, since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. BINDING EFFECT

This Prospectus and the enclosed Assured Allotment Letter and EAF, and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance, so far as applicable.

11. EXPENSES

The expenses in connection with the Open Offer, including underwriting commission, professional service fees and printing costs, are estimated to amount to approximately HK$8 million and will be payable by the Company.

12. LITIGATION

As at the Latest Practicable Date and so far as the Directors are aware, there was no litigation or claims of material importance pending or threatened against the Company or any of its subsidiaries save in respect of the following:

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 had not been agreed by both parties, further application to the Court for adjudication had been scheduled, and the judgement sum was confirmed by the Court in June 2007. As of 31 December 2006, the outstanding balance of the advance was HK$70,269,000.

13. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this Prospectus and are or may be material:

(1) the Supplemental Debt Restructuring Deed dated 21 December 2005 and entered into between Bank of China (Hong Kong) Limited as the lender, CASIL Clearing Limited and CASIL Properties Limited as the borrowers and the Company as the guarantor to amend and revise the terms of the Original Debt Restructuring Deed;

(2) the sale and purchase agreement dated 20 March 2006 and entered into between China Aerospace Science & Technology Corporation and CASIL Clearing Limited, a subsidiary of the Company;

(3) the Promoters' Agreement dated 26 October 2006 and entered into by 航科新世紀科技發展(深圳)有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited), a wholly-owned subsidiary of the Company, and 上海閔航投資建設有限公司 (Shanghai Minhang Investment Construction Company Limited) in respect of the Shanghai Project; and

(4) the Underwriting Agreement.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this Prospectus.

14. MISCELLANEOUS

The English texts of this Prospectus and the accompanying Assured Allotment Letter and EAF shall prevail over their respective Chinese texts.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the registered office of the Company at Room 1103-1107A, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong from the date of this Prospectus up to and including 27 June 2007 to 17 July 2007, both dates inclusive:

(a) the memorandum and articles of association of the Company;

(b) the annual reports and accounts of the Company for the two years ended 31 December 2006;

(c) the comfort letter from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this Prospectus;

(d) the written consent referred to in the paragraph headed "Expert and consent" in this Appendix;

(e) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(f) the circular issued by the Company on 16 November 2006 regarding the Shanghai Project;

(g) the circular issued by the Company on 16 April 2006 regarding the acquisition of two property investment companies and setting-off of shareholder's loan;

(h) the circular issued by the Company on 28 July 2005 regarding the reduction in capital, cancellation in share premium and increase in authorised share capital of the Company;

(i) the Underwriting Agreement; and

(j) this Prospectus.

16. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents and the written consent of Deloitte Touche Tohmatsu referred to in the paragraph headed "Expert and consent" in this appendix have been delivered to the Registrar of Companies in Hong Kong pursuant to Section 38D of the Companies Ordinance.