THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

If you have sold all your shares in China Aerospace International Holdings Limited, you should at once hand this Circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

If you are in any doubt as to any aspect of this Circular or as to any action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

MAJOR TRANSACTION FOR THE LAND DEVELOPMENT OF THE COMPLEX ZONE OF THE LAUNCHING SITE IN WENCHANG CITY, HAINAN PROVINCE

AND

MAJOR AND CONNECTED TRANSACTION FOR THE ESTABLISHMENT OF A JOINT VENTURE COMPANY

AND

MAJOR AND CONNECTED TRANSACTION FOR THE IMPLEMENTATION OF THE LAND DEVELOPMENT

AND

RE-ELECTION OF DIRECTOR

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee of the Company and the Independent Shareholders

SOMERLEY LIMITED

A notice convening the Extraordinary General Meeting of China Aerospace International Holdings Limited to be held at the Salon One, First Floor, Harbour Plaza, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Friday, 10 October 2008 at 11:00 a.m. is set out on pages 97 to 98 of this Circular.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the share registrar of the Company, Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

10 September 2008

CONTENTS

In this circular, the following expressions shall have the following meanings, unless the context otherwise requires:

"Aerospace Times"	航天時代置業發展有限公司 (Aerospace Times Properties Development Limited)*, a subsidiary of CASC and its subsidiary established in the PRC as a limited liability company;
"Board"	the Board of Directors of the Company;
"CASC"	China Aerospace Science & Technology Corporation, a state-owned enterprise established in the PRC. As of the Latest Practicable Date, it holds a 44.47% shareholding in the Company and is a controlling shareholder of the Company;
"CASIL Hainan"	CASIL Hainan Holdings Limited, an indirect wholly-owned subsidiary of the Company established in Hong Kong as a limited liability company;
"Company"	China Aerospace International Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
"Complex Zone of the Launching Site"	the large scale multi-purpose complex zone comprising aerospace technology commercial centre, aerospace theme park, commercial leisure resort and residential area to be constructed on a parcel of land next to the proposed launching site at the north-east coast of Dongjiao town in Wenchang City, Hainan Province with a site area of approximately 6,100 mu;
"Directors"	the Directors of the Company;
"Extraordinary General Meeting"	the extraordinary general meeting to be convened by the Company at the Salon One, First Floor, Harbour Plaza, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Friday, 10 October 2008 at 11:00 a.m. for the purpose of approving the Land Development Agreement (being a major transaction), the Promoters' Agreement (being a major and connected transaction), the Implementation Agreement (being a major and connected transaction) and the re-election of Director;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the legal currency of the Hong Kong Special Administrative Region of the PRC;

"Implementation Agreement"	the contract to be entered into between CASIL Hainan and the Joint Venture Company for the implementation of the development activities under the Land Development Agreement upon the establishment of the Joint Venture Company;
"Independent Board Committee"	an independent committee of the Board of Directors of the Company comprising Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, being all the independent non-executive directors;
"Independent Financial Adviser"	Somerley Limited, a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the two major and connected transactions;
"Independent Shareholders"	all shareholders of the Company excluding CASC and its associates;
"Joint Venture Company"	海南航天開發投資有限公司 (Hainan Aerospace Development Investment Company Limited)*, the Sino-foreign equity joint venture company to be established by Aerospace Times and CASIL Hainan in the PRC pursuant to the Promoters' Agreement;
"Land Development Agreement"	The Land Development Agreement of the Project of the Complex Zone of the Launching Site in Hainan Province dated 20 August 2008 entered into by CASIL Hainan and the Wenchang Government;
"Latest Practicable Date"	4 September 2008, being the latest practicable date for ascertaining information for inclusion in this Circular;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"PRC"	the People's Republic of China (for the purpose of this Circular, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan);
"Promoters' Agreement"	the Promoters' Agreement dated 20 August 2008 entered into by CASIL Hainan and Aerospace Times;
"RMB"	Renminbi, the legal currency of the PRC;

"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong); and
"Wenchang Government"	The People's Government of Wenchang City, Hainan Province.

For the purpose of this Circular, the exchange rate of RMB:HK$ is RMB0.884: HK$1.00.

* *These PRC entities do not have English names. The English name is inserted herein for identification purpose only.*

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

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

Non-Executive Directors
Mr Wu Zhuo *(Chairman)*
Mr Chen Xuechuan
Mr Li Hongjun
Ms Chan Ching Har, Eliza
Mr Xu Jianhua
Mr Jin Xuesheng

Independent Non-Executive Directors
Mr Chow Chan Lum, Charles
Mr Luo Zhenbang
Mr Wang Junyan

Registered Office:
Room 1103–1107A
11th Floor, One Harbourfront
18 Tak Fung Street, Hung Hom
Kowloon
Hong Kong

10 September 2008

To the shareholders of the Company

Dear Sir or Madam,

MAJOR TRANSACTION FOR THE LAND DEVELOPMENT OF THE COMPLEX ZONE OF THE LAUNCHING SITE IN WENCHANG CITY, HAINAN PROVINCE

AND

MAJOR AND CONNECTED TRANSACTION FOR THE ESTABLISHMENT OF A JOINT VENTURE COMPANY

AND

MAJOR AND CONNECTED TRANSACTION FOR THE IMPLEMENTATION OF THE LAND DEVELOPMENT

AND

RE-ELECTION OF DIRECTOR

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The Board published an announcement on 20 August 2008 that CASIL Hainan, an indirect wholly-owned subsidiary of the Company, entered into the Land Development Agreement with the Wenchang Government in relation to the land development of the Complex Zone of the Launching Site in Wenchang City, Hainan Province and a Promoters' Agreement with Aerospace Times in respect of the establishment of the Joint Venture Company to be engaged in the land development activities of the Complex Zone of the Launching Site, and, upon the establishment of the Joint Venture Company, will enter into an Implementation Agreement with the Joint Venture Company.

On 6 August 2008, the Board of Directors announced that, with effect from 6 August 2008, Mr Chen Xuechuan was appointed as Non-Executive Director and member of Remuneration Committee of the Company. Pursuant to Code A.4.2 of Appendix 14 of the Listing Rules, all directors of listed issuers appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. As such, an ordinary resolution will be proposed at the Extraordinary General Meeting to approve the re-election of Mr Chen Xuechuan.

The purpose of this Circular is to provide you with further information regarding (1) the Land Development Agreement, (2) the Promoters' Agreement, (3) the Implementation Agreement, (4) the recommendation of the Independent Board Committee, (5) the advice of the Independent Financial Adviser, (6) the re-election of Director and (7) the notice of Extraordinary General Meeting.

1. THE LAND DEVELOPMENT AGREEMENT DATED 20 AUGUST 2008

Parties:

1. CASIL Hainan, an indirect wholly-owned subsidiary of the Company
2. The Wenchang Government

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Wenchang Government is a government department independent of the Company and its connected persons. Neither the Company nor members of the Group had prior transaction with the Wenchang Government.

The project: To construct and develop the land of the Complex Zone of the Launching Site in Wenchang City, Hainan Province.

Total investment for the project:	Approximately RMB1,200,000,000 (approximately HK$1,357,466,063), being the agreed total investment for the land development of the Complex Zone of the Launching Site in Wenchang City, Hainan Province to be borne solely by CASIL Hainan in cash, comprising: a. approximately RMB670,000,000 (approximately HK$757,918,552) for the purpose of construction of basic infrastructure; and b. approximately RMB530,000,000 (approximately HK$599,547,511), earmarked for compensation payment for demolition, resettlement and other expenses. The investment of RMB670,000,000 (approximately HK$757,918,552) for the construction of basic infrastructure shall be made over 4 years from 1 July 2009 to 30 June 2013 with construction of basic infrastructure to be completed before 30 June 2013 (subject to extension if the demolition and resettlement which should be completed by the Wenchang Government before 30 June 2009 is delayed) as follows: (a) Within the first year: 30% of total investment or approximately RMB201,000,000 (approximately HK$227,375,566); (b) Within the second year: 20% of total investment or approximately RMB134,000,000 (approximately HK$151,583,710); (c) Within the third year: 20% of total investment or approximately RMB134,000,000 (approximately HK$151,583,710); and (d) Within the fourth year: 30% of total investment or approximately RMB201,000,000 (approximately HK$227,375,566).
Principal responsibilities of the Wenchang Government:	Responsible for plans approvals, demolition and resettlement works, issuing approvals and land sale within the Complex Zone of the Launching Site, etc, and all costs and expenses incurred thereon shall be accounted for in the accounts in relation to the land development, which shall be independently audited.

Principal responsibilities of CASIL Hainan:	As the exclusive principal developer for the land in the Complex Zone of the Launching Site and will be responsible for construction of basic infrastructure and arranging for or contribute all development costs required for the construction and development of basic infrastructure for the land in the Complex Zone of the Launching Site. The development costs and expenses shall be audited by a certified public accountant appointed by both parties. The development work is intended to be carried out by the Joint Venture Company but such arrangement shall not prejudice CASIL Hainan's rights and responsibilities as the exclusive principal developer for the land in the Complex Zone of the Launching Site.
Profit sharing ratio:	Revenues (after reimbursing CASIL Hainan the development costs and expenses) from the sale of the land within the Complex Zone of the Launching Site shall be shared between the Wenchang Government and CASIL Hainan in the ratio of 30%: 70%.
Conditions precedents:	The Wenchang Government has to fulfil the relevant approval procedures and obtain the relevant approval documents whereas CASIL Hainan has to fulfil the requirements of a Hong Kong listed company and obtain the approval of the Company's shareholders.

In the event that the establishment of the Joint Venture Company is not approved by the Independent Shareholders in the Extraordinary General Meeting, CASIL Hainan shall carry out the development work by itself.

The Complex Zone of the Launching Site

The Complex Zone of the Launching Site will be established at the north-east coast of Dongjiao town in Wenchang City, Hainan Province, the PRC. It comprises aerospace technology commercial centre, aerospace theme park, commercial leisure resort and residential area to be constructed on a parcel of land with a site area of approximately 6,100 mu.

Construction of basic infrastructure shall be completed within 4 years, which shall be before 30 June 2013 (subject to any extension if the demolition and resettlement which should be completed by the Wenchang Government before 30 June 2009 is delayed).

The project is subject to the approval of the development/building plan by the Government of Hainan Province.

Major Transaction

As the percentage ratios in respect of the transaction under the Land Development Agreement are more than 25% but less than 100%, the entering into the Land Development Agreement constitutes a major transaction of the Company, which is subject to approval of the shareholders of the Company.

2. THE PROMOTERS' AGREEMENT DATED 20 AUGUST 2008

Parties:	1. CASIL Hainan, an indirect wholly-owned subsidiary of the Company. 2. Aerospace Times, a subsidiary of CASC, which in turn is the controlling shareholder of the Company, and its subsidiary.
Business scope of the Joint Venture Company:	Basic infrastructure construction, development, management and operation of the Complex Zone of the Launching Site, landscaping, property development, property investment and management, trading, business investment and management, direct investment or equity participation in properties and ventures etc. (subject to the approval by the Administration of Industry and Commerce of the PRC ("AIC")).
Term:	50 years from the date of issue of the business licence of the Joint Venture Company.
Total investment:	RMB1,200,000,000 (approximately HK$1,357,466,063)
Total registered capital (being 50% of the total capital commitment): (in HK$ equivalent)	RMB600,000,000 (approximately HK$678,733,032)

	CASIL Hainan	**Aerospace Times**
Share of registered capital: (in HK$ equivalent) (% of total registered capital)	RMB390,000,000 (approximately HK$441,176,471) (65%)	RMB210,000,000 (approximately HK$237,556,561) (35%)
Payment of registered capital		
first instalment in cash at the time of registration at the AIC:	RMB78,000,000	RMB42,000,000
second instalment in cash within 1 year from the date of establishment of the Joint Venture Company:	RMB312,000,000	RMB168,000,000

Directorship: The board of the Joint Venture Company will comprise five members, three directors will be nominated by CASIL Hainan and two directors will be nominated by Aerospace Times.

Termination: In the event that the Joint Venture Company fails to be established, the costs incurred in the establishment of the Joint Venture Company shall be split between CASIL Hainan and Aerospace Times in proportion to their respective contributions to the registered capital of the Joint Venture Company. The party in default leading to the failure of the establishment of the Joint Venture Company shall compensate the Joint Venture Company or the other party for its losses.

The establishment of the Joint Venture Company is subject to obtaining the approval from the relevant PRC government authorities (including AIC) and the Promoters' Agreement and the Implementation Agreement are conditional on the approval of the Land Development Agreement by the Shareholders at the Extraordinary General Meeting. It is expected that the Joint Venture Company will be established by the end of 2008 and will be accounted as an indirect subsidiary of the Company, as such, the Joint Venture Company will be consolidated into the Group's financial statement. Upon establishment of the Joint Venture Company, parties to the Promoters' Agreement will procure the Joint Venture Company to enter into the Implementation Agreement with CASIL Hainan.

Reasons for and benefit of investing in the Joint Venture Company and development of the Complex Zone of the Launching Site

The Group is principally engaged in hi-tech manufacturing, science and technology park complex development and related property investment, and hi-tech industries investment businesses, etc.

Given that Hainan Province is increasingly becoming popular as a tourist destination and the prosperous development of property market in Hainan Province in recent years, it is anticipated that the Company would benefit from good return from the development of the Complex Zone of the Launching Site. The establishment of the Joint Venture Company will further strengthen the development of science and technology park complex of the Company. With Aerospace Times as the joint venture partner of the Joint Venture Company will facilitate the communications between the Company and the governments of Hainan Province and Wenchang City, as well as the sharing of the Company's investment in the land development. Given the recent positive prospects of developing industrial park, technology zone and related property in the PRC, the Company would benefit from the development and operation of the Complex Zone of the Launching Site.

The terms of the Land Development Agreement were arrived at after arm's length negotiation. The Directors consider that the Land Development Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Land Development Agreement (including the consideration) are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The terms of the Promoters' Agreement were arrived at after arm's length negotiation. The Directors consider that the transaction was entered into on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Promoters' Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Funding

The development of the Complex Zone of the Launching Site is expected to be funded by internal resources and bank borrowing. It is also intended that the registered capital of the Joint Venture Company will be applied towards the development, management and operation of the Complex Zone of the Launching Site.

Pursuant to the Promoters' Agreement, the amount of investment made by each party is restricted to their respective contributions in the registered capital of the Joint Venture Company. The sum being the difference between the total investment and the registered capital will be mainly financed by internal resources and bank borrowing. The funding of CASIL Hainan's capital contribution will be by way of internal resources and bank borrowing.

Given the duration of the Land Development Agreement, the Company is not in a position to provide a breakdown of the funding sources. However, the Company will consider the most cost effective and efficient manner in funding the transaction.

Financial effects of the Transaction

Following the establishment of the Joint Venture Company, it will be accounted for as an indirect subsidiary of the Company and its results and net assets position will be consolidated into the Group's financial statements. As the land development activities of the Complex Zone of the Launching Site are still in the preliminary stage, the entering into of the Land Development Agreement, the Promoters' Agreement and the Implementation Agreement is not expected to have any immediate material effect on the net assets and earnings of the Group.

Information on Aerospace Times

The principal activities of Aerospace Times are property development, sale of self-developed commodity apartments, professional subcontracting, gardening design, project management, investment advisory, property information advisory, etc.

Major and Connected Transaction

Aerospace Times, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, and its subsidiary, is a connected person of the Company under the Listing Rules. Accordingly, the entering into the Promoters' Agreement between CASIL Hainan and Aerospace Times constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders of the Company (excluding CASC and its associates) voting by poll at the Extraordinary General Meeting. CASC and its associates shall abstain from voting at the Extraordinary General Meeting.

As the percentage ratios in respect of the transaction under the Promoters' Agreement are more than 25% but less than 100%, the investment by CASIL Hainan in the Joint Venture Company also constitutes a major transaction under the Listing Rules, which is subject to shareholders' approval at the Extraordinary General Meeting.

Save for the establishment of 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-Tech Investment Management Company Limited)*, a 60% owned indirect subsidiary of the Company in which a wholly-owned subsidiary of CASC owns 20%, which establishment was approved by Independent Shareholders in the Extraordinary General Meeting held on 10 January 2008, the Group has no prior transactions or relationship with Aerospace Times and its ultimate beneficial owners. As the nature of these two transactions is different, it is not required to be subject to the aggregation under Rules 14.22 and 14A.25 of the Listing Rules.

3. THE IMPLEMENTATION AGREEMENT

Upon establishment of the Joint Venture Company, CASIL Hainan will enter into the Implementation Agreement with the Joint Venture Company for the implementation of the land development activities under the Land Development Agreement. Pursuant to the Promoters' Agreement, CASIL Hainan and the Joint Venture Company shall execute the Implementation Agreement in the form as agreed upon establishment of the Joint Venture Company.

Parties:	1. CASIL Hainan, an indirect wholly-owned subsidiary of the Company. 2. The Joint Venture Company, a 65% indirectly owned subsidiary of the Company and a 35% indirectly owned associated company of CASC, the controlling shareholder of the Company.
Scope of implementation work:	To implement the land development activities under the Land Development Agreement. The Joint Venture Company has to ensure the completion of all basic infrastructure development and all obligations and responsibilities of CASIL Hainan under the Land Development Agreement.
Duration:	The implementation arrangement shall commence from the date of establishment of the Joint Venture Company and co-terminate with the Land Development Agreement.
Major terms:	The Joint Venture Company shall agree to abide by and undertake all responsibilities of CASIL Hainan under the Land Development Agreement and irrevocably undertake to CASIL Hainan to take up any responsibilities which may arise under the Implementation Agreement and the Land Development Agreement, including but not limited to all specific or potential compensation, losses, damages, security, assurance, etc. Subject to the fulfilment of all the provisions of the Implementation Agreement, the Joint Venture Company shall receive all CASIL Hainan's share of profit, net of taxes and expenses, pursuant to land sales under the Land Development Agreement.

Information on the Joint Venture Company

The proposed business activities of the Joint Venture Company are basic infrastructure construction, development, management and operation of the Complex Zone of the Launching Site, landscaping, property development, property investment and management, trading, business investment and management, direct investments or equity participation in properties and ventures etc. (subject to the approval by the AIC).

Reasons for the Implementation Agreement

Although CASIL Hainan is the developer of the Complex Zone of the Launching Site, it is inevitable and necessary for a domestic company established in the PRC to take up the development work. As the establishment of the Joint Venture Company takes time, the Wenchang Government has agreed under the Land Development Agreement that the implementation of the land development activities under the Land Development Agreement to be conducted by the Joint Venture Company. As such, the Implementation Agreement is intended to be entered into to (i) implement the spirits and intentions of the Promoter's Agreement to enable the Joint Venture Company to undertake the development activities under the Land Development Agreement; and (ii) to utilise the capital of the Joint Venture Company to reduce part of the development obligations of CASIL Hainan under the Land Development Agreement.

The terms of the Implementation Agreement were arrived at after arm's length negotiation, the Directors are of the view that the Implementation Agreement will be entered into on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Implementation Agreement are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Financial effects of the Transaction

Following the establishment of the Joint Venture Company, it will be accounted for as an indirect subsidiary of the Company and its results and net assets position will be consolidated into the Group's financial statements. As the land development activities of the Complex Zone of the Launching Site are still in the preliminary stage, the entering into of the Land Development Agreement, the Promoters' Agreement and the Implementation Agreement is not expected to have any immediate material effect on the net assets and earnings of the Group.

Major and Connected Transaction

As the Joint Venture Company commits in the Implementation Agreement to take up the obligations of CASIL Hainan under the Land Development Agreement and CASIL Hainan agrees that the Joint Venture Company shall receive the profits (net of tax and fees) CASIL Hainan is entitled to under the Land Development Agreement, it is considered that CASIL Hainan is transferring its rights and obligations under the Land Development Agreement to the Joint Venture Company, and thus a transaction falling under Rule 14.04(1)(b) of the Listing Rules.

The Joint Venture Company being an indirectly owned associated company of the controlling shareholder of the Company, CASC, is a connected person of the Company under the Listing Rules. Accordingly, the proposed entering into of the Implementation Agreement between CASIL Hainan and the Joint Venture Company constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders of the Company (being shareholders of the Company excluding CASC and its associates) voting by poll at the Extraordinary General Meeting. CASC and its associates shall abstain from voting at the Extraordinary General Meeting.

Given the Joint Venture Company commits in the Implementation Agreement to take up the obligations of CASIL Hainan under the Land Development Agreement, the Joint Venture Company is effectively agreeing to commit RMB1,200,000,000 for the return of profits (net of tax and fees) CASIL Hainan is entitled to under the Land Development Agreement. As such, the Company considers the consideration is RMB1,200,000,000. As the percentage ratios in respect of the transaction under the Implementation Agreement are more than 25% but less than 100%, the Implementation Agreement would constitute a major transaction under the Listing Rules, which is subject to shareholders' approval at the Extraordinary General Meeting.

4. RE-ELECTION OF NON-EXECUTIVE DIRECTOR

On 6 August 2008, the Board of Directors announced that, with effect from 6 August 2008, Mr Chen Xuechuan was appointed as Non-Executive Director and member of Remuneration Committee of the Company.

Pursuant to Code A.4.2 of Appendix 14 of the Listing Rules, all directors of listed issuers appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. As such, an ordinary resolution will be proposed at the Extraordinary General Meeting to approve the re-election of Mr Chen Xuechuan.

Mr Chen Xuechuan, aged 45, a Research Fellow, graduated from the Dailian Polytechnic University with a master's degree in engineering. Mr Chen started his career and held such posts as Deputy Factory Officer, Chief Metallurgist, Deputy Chief Engineer and Deputy General Manager of Capital Aerospace Machinery Company from 1983, Deputy Director General of Personnel & Education Department of the First Academy of China Aerospace Corporation from 1997, Vice President of the Academy of Beijing Aerospace System Engineering from 2000, Director General of Human Resources Department of China Aerospace Science & Technology Corporation from April 2005 till now, and as standing council member of both China Institute of Space Law and China Space Foundation, member of Chinese Society of Astronautics and Director of Aerospace Science & Technology Finance Company Limited from 2007 onwards. Mr Chen has been engaged into the machinery manufacturing of launch vehicles, the management of corporations and academies, as well as human resources management and has substantial experience in corporate management and human resources management.

As at the Latest Practicable Date, Mr Chen Xuechuan:

1. has confirmed that he does not have any interest in and does not hold any short position in any share or underlying share in or any debenture of the Company or any of its associated companies within the meaning of Part XV of the SFO;

2. has confirmed that he has no relationships with any director, senior management or substantial or controlling shareholder of the Company (as defined in the Listing Rules);

3. has confirmed that he did not have any directorship in other listed public company in the past three years;

4. will entitle to a director's fee of HK$150,000 per annum and remuneration to member of Remuneration Committee of HK$30,000 per annum, which is based on his past experience, professional qualifications, the operations of the Company and the prevailing market condition; and

5. has a fixed term of two years and is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles of the Company.

Save as disclosed above, there is no other information that needs to be brought to the attention of the shareholders of the Company or disclosed pursuant to Rule 13.51(2) of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

The notice of the Extraordinary General Meeting is set out on pages 97 to 98 of this Circular.

A form of proxy is enclosed with this document for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting, you are requested to complete and return the enclosed form of proxy to the share registrar of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

RECOMMENDATION

The Directors are of the opinion that the entering into of the Land Development Agreement, the Promoters' Agreement and the Implementation Agreement are in the best interests of the Company and are fair and reasonable. None of the Independent Non-Executive Directors of the Company has any material interests in the Land Development

Agreement, the Promoters' Agreement and the Implementation Agreement. The Directors recommend that Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the forthcoming Extraordinary General Meeting.

The Independent Board Committee, having reviewed the advice given by Somerley Limited, has recommended Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the forthcoming Extraordinary General Meeting.

Your attention is also drawn to the letters from the Independent Board Committee and Independent Financial Adviser for additional information in respect of the Land Development Agreement, the Promoters' Agreement and the Implementation Agreement. Further information of the Group is set out in the Appendix.

In addition, the Board of Directors has recommended shareholders to approve the re-election of Mr Chen Xuechuan as an Non-Executive Director of the Company and to approve his remuneration package.

By order of the Board
Wu Zhuo
Chairman

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

10 September 2008

To the Independent Shareholders,

MAJOR AND CONNECTED TRANSACTION FOR THE ESTABLISHMENT OF A JOINT VENTURE COMPANY

AND

MAJOR AND CONNECTED TRANSACTION FOR THE IMPLEMENTATION OF THE LAND DEVELOPMENT

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the Circular of the Company dated 10 September 2008 (the "Circular") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders in respect of a Promoters' Agreement entered into between CASIL Hainan and Aerospace Times on 20 August 2008 in respect of the establishment of the Joint Venture Company to be engaged in the land development activities of the Complex Zone of the Launching Site, and an Implementation Agreement to be entered into between CASIL Hainan and the Joint Venture Company. Details of which are contained in the Letter from the Board as set out on pages 4 to 16 of the Circular.

We have considered the various details of the Land Development Agreement, the Promoters' Agreement and the Implementation Agreement, in particular, the reasons and benefits of transaction and the effect thereof. We have also reviewed the advice given by Somerley Limited, the Independent Financial Adviser, on the terms of the Land Development Agreement, the Promoters' Agreement and the Implementation Agreement as set out in their letter reproduced on pages 19 to 27 of the Circular.

Having considered the information set out in the Letter from the Board and taking into account the advice from Somerley Limited, we consider the terms of the Promoters' Agreement and the Implementation Agreement are on normal commercial terms and are fair and reasonable and in the interests of the shareholders of the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the Extraordinary General Meeting.

Yours faithfully,
Chow Chan Lum, Charles **Luo Zhenbang** **Wang Junyan**
Independent Board Committee

The following is the letter from Somerley Limited to the Independent Board Committee and the Independent Shareholders for inclusion in this Circular.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

10 September 2008

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ESTABLISHMENT OF THE JOINT VENTURE COMPANY AND MAJOR AND CONNECTED TRANSACTION EXECUTION OF THE IMPLEMENTATION AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Group's proposed establishment of the Joint Venture Company with Aerospace Times and entering into the Implementation Agreement with the Joint Venture Company for the implementation of the land development activities under the Land Development Agreement. Details of the above transactions are set out in the circular of the Company dated 10 September 2008 (the "Circular") to its shareholders, of which this letter forms a part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

Aerospace Times is a subsidiary of CASC which in turn is the controlling shareholder of the Company. Accordingly, the Group's formation of the Joint Venture Company with Aerospace Times constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders by way of poll at the Extraordinary General Meeting. CASC and its associates shall abstain from voting at the Extraordinary General Meeting. The above transaction also constitutes a major transaction under the Listing Rules.

The Joint Venture Company, if formed, will be an indirectly owned associated company of CASC. Accordingly, the proposed entering into of the Implementation Agreement between CASIL Hainan and the Joint Venture Company upon the latter's formal establishment constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders by way of poll at the Extraordinary General

Meeting. CASC and its associates shall abstain from voting at the Extraordinary General Meeting. The above transaction will also constitute a major transaction under the Listing Rules.

The Independent Board Committee comprising all the three Independent Non-Executive Directors, namely Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, has been formed to advise the Independent Shareholders in respect of the terms of the Promoters' Agreement which governs the establishment of the Joint Venture Company and the terms of the Implementation Agreement. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete at the time they were made and up to the date of the Extraordinary General Meeting. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. However, we have not conducted any independent investigation into the business and affairs of the Group or Aerospace Times.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Promoters' Agreement and the Implementation Agreement are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for establishment of the Joint Venture Company and entering into the Implementation Agreement

The Company is 44.47% held by CASC, which is a state-owned enterprise under the direct supervision of the government of the People's Republic of China ("PRC"). CASC specializes in designing, developing and manufacturing a range of spacecraft, launch vehicles and satellites and is also engaged in producing high end civilian products such as machinery and communication products. The Group is a commercial arm of CASC and has been engaging in hi-tech manufacturing, such as liquid crystal displays, printed circuit boards, plastic injection and intelligent battery chargers since establishment.

Starting from 2006, the Group has also been engaged in development of science and technology park complexes. Currently, the Group is undertaking two such development projects, which are based in Shanghai and Shenzhen of the PRC.

The entering into of the Land Development Agreement by CASIL Hainan, a subsidiary of the Company, represents a further project by the Group in the property sector. It is intended that a launching site for spacecraft and satellites would be established in Dongjiao town in Wenchang City, Hainan Province, the PRC and the area in the vicinity of the launching site would be developed into an aerospace theme complex zone comprising commercial, residential and resort facilities. The Complex Zone of the Launching Site will be constructed on a parcel of land located at the north-east coast of Dongjiao town in Wenchang City, Hainan Province, the PRC with a site area of approximately 6,100 mu (the "Land"). Pursuant to the Land Development Agreement entered into between CASIL Hainan and the Wenchang Government, the Wenchang Government shall be responsible for approving plans, demolition and resettlement works while CASIL Hainan will undertake land development for the Complex Zone of the Launching Site in Wenchang City, Hainan Province (the "Land Development Project") and provide the necessary funding. In return, CASIL Hainan shall be reimbursed all such development costs and expenses out of proceeds from sale of the Land. It is expected that the Land would be put up for sale in portions. Any surplus after the above reimbursement shall be shared between parties to the Land Development Agreement (namely the Wenchang Government and CASIL Hainan) on a 30:70 basis. The Land Development Agreement constitutes a major transaction of the Company and is subject to shareholders' approval at the Extraordinary General Meeting. CASC and its associates who currently hold 44.47% of the Company may vote on the resolution relating to the Land Development Agreement. The Land Development Agreement is also subject to fulfilment of the relevant approval procedures and obtaining the relevant approval documents by the Wenchang Government.

To leverage on CASC's PRC network and share the investment sum in the Land Development Project, the Group proposes to establish the Joint Venture Company with a subsidiary of CASC namely Aerospace Times to undertake the Land Development Project. Establishment of the Joint Venture Company will be governed by the terms of the Promoters' Agreement.

As a term of the Promoters' Agreement, the Joint Venture Company shall upon establishment enter into the Implementation Agreement with CASIL Hainan. Pursuant to the Implementation Agreement, the Joint Venture Company shall agree to abide by and undertake all responsibilities of CASIL Hainan under the Land Development Agreement and irrevocably undertake to CASIL Hainan to take up any responsibilities which may arise under the Land Development Agreement, including but not limited to all specific or potential compensation and losses.

The Wenchang Government has agreed under the Land Development Agreement that the implementation of the land development activities under the Land Development Agreement may be conducted by the Joint Venture Company, though CASIL Hainan shall remain ultimately responsible as the exclusive developer of the Land.

Subject to the fulfilment of all the provisions of the Implementation Agreement by the Joint Venture Company, the Joint Venture Company shall receive all CASIL Hainan's share of profit, net of taxes and expenses (if any) which may be incurred by CASIL Hainan in relation to the project, pursuant to the Land Development Agreement. The Promoters' Agreement and the Implementation Agreement are subject to approval by Independent Shareholders. CASC and its associates shall abstain from voting on the resolution relating to the above agreements.

Hainan Province is becoming popular as a tourist spot and the property market in Hainan Province is growing. With the establishment of the launching facilities in Wenchang City, Hainan Province, the Directors expect that the tourist and commercial activities in Wenchang City, Hainan Province would increase. The Directors therefore anticipate a good return from the development of the Land. Being a subsidiary of CASC which has a strong network in the PRC, Aerospace Times could facilitate good communications between the Joint Venture Company and the governments of Hainan Province and Wenchang City. Taking the benefit of good communications and the relatively large size of investment into account, we agree with the Directors that the establishment of the Joint Venture Company with Aerospace Times for the purpose of entering into the Implementation Agreement is a suitable approach for the Group to participate in the Land Development Project.

2. Principal terms of the Promoters' Agreement

Information on the Joint Venture Company

The business scope of the Joint Venture Company includes the basic infrastructure construction, development, management and operation of the Complex Zone of the Launching Site, landscaping, property development, property investment and management, trading, business investment and management, direct investment or equity participation in properties and ventures (subject to approval by the Administration of Industry and Commerce of the PRC ("AIC")).

The term of the Promoters' Agreement is 50 years from the date of issue of the business licence of the Joint Venture Company.

Shareholding structure of the Joint Venture Company

The Joint Venture Company shall be formed as a Sino-foreign equity joint venture company and 65% owned by CASIL Hainan and the remaining 35% owned by Aerospace Times.

Registered capital, total investment and funding arrangements

The total investment of the Joint Venture Company is approximately RMB1,200,000,000 (approximately HK$1,357,466,063), which is the same as the total investment under the Land Development Agreement.

The total amount of the registered capital of the Joint Venture Company will be approximately RMB600,000,000 (approximately HK$678,733,032), being 50% of the total investment of the Joint Venture Company.

Both the total investment and the registered capital will be contributed by CASIL Hainan and Aerospace Times in proportion to their respective shareholdings in the Joint Venture Company. Accordingly, CASIL Hainan and Aerospace Times will need to contribute approximately RMB390,000,000 (approximately HK$441,176,471) and approximately RMB210,000,000 (approximately HK$237,556,561) respectively. First instalment of the registered capital, being 20% of the registered capital, will need to be made at the time of registration by the AIC and second instalment, being the remaining 80% of the registered capital, will need to be made within one year from the date of establishment of the Joint Venture Company.

It is intended that the difference between the total investment and the registered capital amounting to approximately RMB600,000,000 (approximately HK$678,733,032) would be financed by bank borrowing and internal resources of the Joint Venture Company which may be resulted from sale of any portions of the Land. In the event that the Joint Venture Company requires additional funding, it would be contributed by the joint venture partners on pro-rata basis and on the same terms. Contributions may be in the form of equity or shareholders' loan pursuant to the Promoters' Agreement.

We consider the above investment contribution formula fair and reasonable.

The funding of CASIL Hainan's capital contribution of approximately RMB390,000,000 will come from the Group's internal resources and bank borrowing.

As at 30 June 2008, the Group had net cash (defined as cash and bank balances minus bank borrowings) of approximately HK$869,000,000 and capital commitments of approximately HK$19,000,000. On this basis, even if the capital contribution of approximately RMB390,000,000 (approximately HK$441,176,471) needs to be funded primarily from internal resources of the Group, the contribution is not expected to have a significant adverse effect on the Group's working capital.

The Directors may consider to use bank loans to finance part of the investment into the Joint Venture Company so as to achieve a favourable capital structure for the Group. Given that the Group is currently in a net cash position, we consider that the Group would be able to raise bank borrowing for funding the capital contribution to the Joint Venture Company on commercially acceptable terms.

Besides the capital contribution of RMB600,000,000 to the Joint Venture Company, it is possible that the joint venture partners to the Joint Venture Company would need to contribute further funding of not more than

RMB600,000,000 to fund the Land Development Project in the event that the Joint Venture Company is not able to generate enough internal resources or raise sufficient bank borrowing to finance the remaining sum of the estimated investment cost. The Group's attributable share of such further funding will amount to not more than RMB390,000,000 or approximately HK$441,200,000. The Land Development Project is expected to be completed by 30 June 2013. The Directors intends to finance such further funding from internal resources and bank borrowing. On the basis of the Group's current financial position and cashflow requirements for its existing business activities, we agree with the Directors that the Company would have ability to fund its attributable share of investment into the Land Development Project to completion.

Profit and losses

Under the terms of the Promoters' Agreement, any future net profit (or loss) generated by the Joint Venture Company will be shared by the joint venture partners on a pro-rata basis according to their respective equity interest in the Joint Venture Company. Accordingly, the Group and Aerospace Times will share any economic return from the Joint Venture Company on a 65:35 basis.

In the event that the Joint Venture Company fails to be established, the costs incurred in the establishment of the Joint Venture Company shall be split between CASIL Hainan and Aerospace Times in proportion to their respective contribution to the registered capital of the Joint Venture Company. The party in default leading to the failure of the establishment of the Joint Venture Company shall compensate the Joint Venture Company or the other party for any losses.

Management of the Joint Venture Company

The board of the Joint Venture Company will comprise five members. Three directors will be nominated by CASIL Hainan and two directors will be nominated by Aerospace Times. The board composition of the Joint Venture Company broadly reflects the respective equity interests of CASIL Hainan and Aerospace Times.

The Promoters' Agreement set out the major terms which regulate the rights and obligations of the parties to the Joint Venture Company. We note that the rights and obligations of the joint venture partners are largely in proportion to their respective equity interests in the Joint Venture Company. On this basis, we consider the terms of the Promoters' Agreement fair and reasonable.

3. Principal terms of the Implementation Agreement

The Joint Venture Company is initially established for the purpose of undertaking the Implementation Agreement, which will be signed when the Joint Venture Company is properly established. Principal terms of the Implementation Agreement are set out below:

Rights and obligations

Pursuant to the Implementation Agreement, the Joint Venture Company shall undertake the land development activities on the Land as agreed under the Land Development Agreement. The Joint Venture Company is obliged to ensure the completion of all basic infrastructure development on the Land and assume all obligations and responsibilities of CASIL Hainan under the Land Development Agreement including but not limited to all specific or potential compensation and losses.

Subject to the fulfilment of all the provisions of the Implementation Agreement by the Joint Venture Company, the Joint Venture Company shall receive all CASIL Hainan's share of profit, net of taxes and expenses which CASIL Hainan may incur, arising from sales of the Land, in parts or in whole, pursuant to the Land Development Agreement.

Duration

The Implementation Agreement will commence from the date of establishment of the Joint Venture Company and co-terminate with the Land Development Agreement.

Total investment

Pursuant to the Implementation Agreement, the Joint Venture Company shall provide funding for land development activities on the Land. Total investment for the Land Development Project is estimated to be approximately RMB1,200,000,000 (or approximately HK$1,357,466,063), which includes:

(i) approximately RMB530,000,000 (approximately HK$599,547,511) earmarked for compensation payment for demolition and resettlement and other expenses, which is expected to be completed by 30 June 2009; and

(ii) approximately RMB670,000,000 (approximately HK$757,918,552) for construction of basic infrastructure.

The investment of RMB670,000,000 (approximately HK$757,918,552) for the construction of basic infrastructure shall be made from 1 July 2009 to 30 June 2013 (subject to extension if the demolition and resettlement (which should be completed by the Wenchang Government before 30 June 2009) is delayed) as follows:

(a) from 1 July 2009 to 30 June 2010: 30% of total investment or approximately RMB201,000,000 (approximately HK$227,375,566);

(b) from 1 July 2010 to 30 June 2011: 20% of total investment or approximately RMB134,000,000 (approximately HK$151,583,710);

(c) from 1 July 2011 to 30 June 2012: 20% of total investment or approximately RMB134,000,000 (approximately HK$151,583,710); and

(d) from 1 July 2012 to 30 June 2013: 30% of total investment or approximately RMB201,000,000 (approximately HK$227,375,566).

The Joint Venture Company would apply the capital contributions from the joint venture partners totalling RMB600,000,000 to fund the above investment. The remaining RMB600,000,000 investment cost is expected to be financed by the internal resources and bank borrowing to be undertaken by the Joint Venture Company. In the event that the Joint Venture Company is not able to raise the remaining RMB600,000,000 investment cost through the above means, the joint venture partners of the Joint Venture Company would provide the required funding, to the maximum extent of RMB600,000,000, on the same terms and pro-rata basis.

Comment

Through the Implementation Agreement, the Joint Venture Company is effectively assuming all the rights and obligations of CASIL Hainan under the Land Development Agreement. In consideration, CASIL Hainan agrees to transfer all of its economic return, net of taxes and expenses (if any), from the Land Development Project to the Joint Venture Company. On this basis, we consider the terms of the Implementation Agreement fair and reasonable. The principal terms of the Implementation Agreement were negotiated after arm's length negotiation.

4. Financial effects of the establishment of the Joint Venture Company

(i) Net assets and earnings

The Joint Venture Company will be accounted for as an indirect subsidiary of the Company and its results and net assets will be consolidated into the Group's financial statements.

As the land development activities of the Complex Zone of the Launching Site are still in the preliminary stage, the entering into of the Promoters' Agreement and the Implementation Agreement is not expected to have any immediate material effect on the net assets and earnings of the Group.

(ii) Working capital

Based on the maximum total investment in the Joint Venture Company, the maximum contribution of the Group to the Joint Venture Company is approximately RMB780,000,000 (HK$882,352,941). The Group had net cash of approximately HK$869,000,000 and capital commitments of HK$19,000,000 as at 30 June 2008. Having reviewed the current financial position and cashflow requirements for the existing business activities of the Group, we agree with the Directors that the investment into the Joint Venture Company would not have material adverse effect on the Group's working capital position.

RECOMMENDATION

Having taken into account the above principal factors, we consider that the Promoters' Agreement and the Implementation Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned, we also consider that the entering into of the Promoters' Agreement and the Implementation Agreement in the ordinary course of business of the Company is in the interests of the Company and its shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the entering into of the Promoters' Agreement and the Implementation Agreement.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Sylvia Leung
Director

1. RESPONSIBILITY STATEMENT

This Circular 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 Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this Circular have been arrived at after due and careful consideration and that there are no other facts the omission of which would make any statement contained herein misleading.

2. DISCLOSURE OF INTERESTS

A. Directors' or chief executive's interests in the securities and debentures of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors or chief executive of the Company were, or were taken or deemed to have any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

B. Persons who have interests or short positions in Shares and underlying Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, the following parties, had, or were deemed or taken to have any interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of shareholder	Capacity	Number of shares held for long positions	Percentage of issued share capital of the Company	Number of shares held for short positions	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Interested in controlled corporations *(note 1)*	1,143,330,636	44.47%	200,000,000	7.78%
Jetcote Investments Limited	Beneficial owner	131,837,011	5.13%	—	—
	Interested in controlled corporations *(note 2)*	1,011,493,625	39.34%	200,000,000	7.78%
		1,143,330,636	44.47%	200,000,000	7.78%
Burhill Company Limited	Interested in controlled corporations *(note 2)*	539,566,136	20.98%	200,000,000	7.78%
Sin King Enterprises Company Limited	Interested in controlled corporations *(note 2)*	471,927,489	18.36%	—	—
Montpelier Investment Management LLP *(note 3)*	Investment manager *(note 4)*	222,932,706	8.67%	—	—
Montpelier Global Funds Limited — The Montpelier Fund	Interested in controlled corporations *(note 4)*	177,442,766	6.90%	—	—

Notes:

(1) These 1,143,330,636 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, and its subsidiaries.

(2) These 1,011,493,625 shares are duplicated in the interests held by Burhill Company Limited and Sin King Enterprises Company Limited, being wholly-owned subsidiaries of Jetcote Investments Limited.

(3) Montpelier Investment Management LLP was formerly named as Montpelier Asset Management Limited.

(4) Montpelier Investment Management LLP 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 Investment Management LLP.

Save as disclosed in this Circular, as at the Latest Practicable Date, so far is known to any Director or chief executive of the Company, no other person has an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group and none of the Directors are directors or employees of person have such interest or short position.

As at the Latest Practicable Date, there were no outstanding securities, options or warrants which were convertible into new Shares.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with any member of the Group excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

Save for Mr Wu Zhuo, Mr Zhao Liqiang, Mr Zhou Qingquan, Mr Wu Hongju, Mr Guo Xianpeng, Mr Chen Xuechuan, Mr Li Hongjun, Mr Xu Jianhua and Mr Jin Xuesheng, the Directors of the Company, who are employees of CASC or its subsidiaries, as at the Latest Practicable Date, none of the Directors and the chief executive officer of the Company were considered to have interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses in which (a) the Group was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Group.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Group.

6. INDEBTEDNESS

Borrowings

As at the close of business on 31 July 2008 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular), the Group had outstanding bank borrowing of approximately HK$159,000,000, which secured by fixed charges on certain of the Group's assets, including investment properties, property, plant and equipment and bank deposits. The aggregate net book value of those pledged assets as of 31 July 2008 was approximately HK$217,000,000. In addition, the Group had outstanding unsecured loans from a third party of approximately HK$8,000,000 as of 31 July 2008.

Save as aforesaid, apart from intra-group liabilities, the Group did not have outstanding as at the close of business on 31 July 2008 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 31 July 2008, the Group had no contingent liabilities in respect of bills discounted with recourse.

Save as disclosed herein, there are no other contingent liabilities as at the close of business on 31 July 2008.

7. WORKING CAPITAL

After taking into account the Group's:

(1) internal resources;

(2) present available banking facilities;

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in financial or trading position of the Group since 31 December 2007, the date to which the latest audited consolidated financial statements of the Group were made up.

9. PROSPECTS

Business Review

Results

The turnover for the six-month period ended 30 June 2008 of the Group was HK$804,542,000, representing an increase of 10.59% compared with the same period of 2007 of HK$727,523,000. Profits for the first half were HK$92,769,000, representing a decrease of 41.64% compared with HK$158,949,000 in the same period of 2007. Profit attributable to shareholders was HK$93,340,000, reduced by 40.85% compared with that of HK$157,806,000 in the same period last year. Earnings per share was HK$0.036, dropped by 47.06% as compared with that of HK$0.068 in the same period of 2007.

The reduction in profit and profit attributable to shareholders in the first half was mainly due to a non-recurring income of HK$105,187,000 recorded during the first half of 2007. The profit for the period and profit attributable to shareholders in the first half of 2008 increased by 72.55% and 77.39% respectively as compared with the same period of last year should the effect of such non-recurring income being excluded.

Considering the possible capital requirement for the future development of the Company, the Board of Directors recommends that no interim dividend be declared for the six-month period ended 30 June 2008.

Hi-tech Manufacturing

For the six-month ended 30 June 2008, the turnover of hi-tech manufacturing business was HK$792,423,000, representing an increase of 10.43% as compared with the same period last year. In encountering unfavourable factors such as fierce market competition, overall soaring costs and continuous appreciation of Renminbi, etc., the hi-tech manufacturing business had strengthened market development, enhanced management capabilities, and tightened control in costs and expenses and generated an operating profit of HK$90,556,000, being approximately the same as that of the same period last year.

Science and Technology Park Complex Development

Shanghai Aerospace Technology Industrial Park

The business of Shanghai Aerospace Technology Industrial Park has been progressing well. The first project entering the Park has already been completed. Other type of projects in progress include new energy, rare earth, and the project of the Space Propellers Academy of Shanghai, etc. Shanghai Aerospace Technology Investment Management Company Limited ("Shanghai Aerospace") will continue to facilitate these confirmed projects in entering the Shanghai Aerospace Technology Industrial Park, to speed up the construction of the complex zone of the Park, to impel the landscape planning, and to strengthen merchant promotions. Shanghai Aerospace has also started the preliminary study of the development of an aerospace science popularization park in Shanghai and is discussing with relevant departments of the Shanghai Municipal Government in relation to the project's future development feasibility and preliminary construction planning etc.

Aerospace International Centre

Through the joint venture company, Shenzhen Aerospace Hi-Tech Investment Management Company Limited ("Shenzhen Aerospace"), the Company won a public bid to acquire the land use right of a parcel of land of 10,458.44 square metres situated at Nanshan Houhai Centre District at the consideration of RMB495,000,000 in March 2008. Shenzhen Aerospace is formulating a development and construction plan of Aerospace International Centre (formerly named as Shenzhen Aerospace Technology Building) and it is anticipated that the development will commence by early next year.

Nanshan Houhai Centre District is planned as an urban city centre hub circumvented by harbour sea view in a modernized style, comprising financial, business office, commercial service and public facilities. It is believed that Nanshan Houhai Centre District will become a popular area for the market of Shenzhen office building under the facilitation of the government towards the planning of the Nanshan Houhai Centre District and the inauguration of Hong Kong-Shenzhen Western Corridor.

The Complex Zone of the Launching Site in Hainan Province

CASIL Hainan, an indirect wholly-owned subsidiary of the Company, entered into an Agreement of the Land Development Project of the Complex Zone of the Launching Site, Hainan Province with the Wenchang Government, Hainan Province on 20 August 2008 with a total investment of approximately RMB1,200,000,000, signalling a formal commencement of the Hainan project of the Company.

The joint venture company, proposed to be established by the Company and Aerospace Times Properties Development Limited, a subsidiary of CASC, the controlling shareholder of the Company, is responsible for the organization and implementation of the construction and land development of the Complex Zone. The

Government of Hainan Province has already approved the master plan of the Complex Zone. Construction of the infrastructure of the Complex Zone is planned to be completed by 2013.

The Complex Zone of the Launching Site is situated in Wenchang City, Hainan Province. The area of the Complex Zone is approximately 4 million square metres (6,100 mu), possessing a coastline of about 4 km. The development includes construction of aerospace technology services district, aerospace theme park, commercial & resort district, as well as residential complex zone, etc.

Looking Forward

With the strong support of the controlling shareholder, CASC, the Company was able to activate different pivotal projects during the past two years. This gradually shapes the business structure of science and technology park complex development, so that such business will become one of the major businesses of the Company. Looking forward to the second half of 2008, the Company, under the leadership of the Board of Directors, will pay special attention to the changing macroeconomic environment so as to put forward appropriate action with an aim to reduce potential risks as much as possible, and will continue to maintain a stable operation of the hi-tech manufacturing business. With respect to the business of science and technology park complex development, Shanghai Aerospace Technology Industrial Park, Shenzhen Aerospace International Centre and the land development of the Complex Zone in Hainan Province will proceed to the formal stages of planning and implementation. The Group needs to optimize its management system and to allocate internal resources reasonably, as well as to further enhance the execution and supervision of projects. The Board believes that the business of science and technology park complex development will support the future growth of the Company, thereby creating greater value for our shareholders.

Management Discussion and Analysis

Operating expenses

The administrative expenses of the Group for the first half of 2008 were HK$109,428,000, representing a slight increase of 5.85% as compared with the same period last year. The increase was due to the rise in human resources costs and management expenses as the result of the development of new business. The Company, as originally planned, settled large parts of liabilities since the completion of an open offer (the "Open Offer") last year. This resulted in a decrease of the finance costs to HK$1,081,000, representing a remarkable decrease of 81.73% as compared with that of HK$5,916,000 for the same period last year.

Assets

As of 30 June 2008, the total assets of the Group were HK$3,382,041,000, of which the non-current assets were HK$1,753,390,000, representing an increase of 44.56% as compared with that of HK$1,212,880,000 for the end of 2007, the increase was due to the acquisition of a parcel of land in Shenzhen at the consideration of RMB495,000,000 by way of public bid by Shenzhen Aerospace, a subsidiary of the Company, in March 2008. The current assets were HK$1,628,651,000, dropped by 9.28% as compared with HK$1,795,156,000 for the end of 2007. The equity attributable to shareholders of the Company, after minority interests, was HK$2,119,962,000, increased by about 5.91%, compared with that of HK$2,001,606,000 for the end of 2007 and the equity attributable to shareholders of the Company was HK$0.82 per share, based on the issued share capital of 2,570,903,882 shares.

Certain of the Group's assets have been mortgaged to a bank to secure financings with fixed interest rate at 1.25% per annum and the remaining mortgage term is about 3 years.

Liabilities and Contingent Liabilities

As of 30 June 2008, the total liabilities of the Group were HK$923,971,000, which is more or less the same as that of the end of 2007. As of 30 June 2008, the Group did not have any material contingent liabilities.

Financial ratios

In the first half of 2008, the Group's gross profit margin was 22.91%, slightly decreased as compared with that of 24.68% for the same period of 2007. The return on equity ratio was 4.40%, significantly decreased as compared with that of 11.12% for the same period of 2007 as the result of a non-recurring income recorded during the same period of 2007. The liabilities/assets ratio was 27.32%, recording a further improvement from 30.82% as compared with the end of 2007. The current ratio and the quick ratio were 2.14 and 1.88 respectively, recording a slight decrease as compared with the end of 2007 of 2.40 and 2.21 respectively but maintained at a reasonable level.

Liquidity

The source of funding of the Group mainly relies on internal resources and banking facilities. The cash and bank balances (included pledged bank deposits) as at 30 June 2008 were HK$1,050,812,000, mainly in Hong Kong Dollars and Renminbi.

In respect of the shareholders' funds generated from the Open Offer during 2007, the Company has utilized a sum of HK$146,900,000 to repay its debts, a sum of HK$82,820,000 as the registered capital of Shanghai Aerospace and partly as working capital. The remaining balance is still placed with banks.

Capital Expenditure

As of 30 June 2008, the Group's capital undertaking was HK$18,898,000 (31 December 2007: HK$8,047,000). With the intended construction of the Shenzhen Aerospace International Centre and the intended project of the land development in the Complex Zone of the Launching Site in Hainan Province, it is expected that the future capital expenditure of the Group is going to increase.

Financial Risks

The Group reviews its cash flow and financial position periodically and is not presently engaged in any financial instruments or derivatives to hedge the exchange and the interest rate risks.

Human Resources & Emolument Policy

As at 30 June 2008, the Group has a total of about 6,000 staff based in the Mainland and Hong Kong. The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualification and competence and the emoluments of the Directors are decided by the Remuneration Committee, after taking into considerations the Company's operating results, individual performance and comparable market statistics.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this Circular and are or may be material:

(a) the Land Development Agreement dated 20 August 2008;

(b) the Promoters' Agreement dated 20 August 2008;

(c) an agreement dated 14 March 2008 entered into between 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-Tech Investment Management Company Limited)* and the Shenzhen Municipal Bureau of Land Resources and Housing Management in respect of the transfer of land use right of a parcel of land in Shenzhen;

(d) a promoters' agreement dated 30 November 2007 entered into between 航科新世紀科技發展(深圳)有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited)*, 航天科技投資控股有限公司 (Aerospace Technology Investment Holdings Limited)* and 深圳航天科技創新研究院 (Shenzhen Science & Technology Institute)* in respect of the establishment of a joint venture company; and

(e) a promoters' agreement dated 26 October 2006 entered into between 航科新世紀科技發展(深圳)有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited)* and 上海閔航投資建設有限公司 (Shanghai Minhang Investment Construction Company Limited)* in respect of the establishment of a joint venture to develop, manage and operate the Aerospace Technology Park in Shanghai, the PRC.

11. EXPERT

Somerley Limited is licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities. Somerley Limited has confirmed that it does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Somerley Limited has given and has not withdrawn its written consent to the issue of this Circular with its advice included in the form and context in which it is included.

12. MATERIAL ADVERSE CHANGE

So far as the directors of the Company are aware, there is no material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited accounts of the Company have been made up.

13. MISCELLANEOUS

(a) The qualified accountant of the Company is Mr Luk Chi Keung. Mr Luk is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

(b) The company secretary of the Company is Mr Chan Ka Kin, Ken. Mr Chan is a fellow member of both The Institute of Chartered Secretaries and Administrators, UK and The Hong Kong Institute of Chartered Secretaries.

(c) The Company's Hong Kong share registrar and transfer office is Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) Pursuant to article 74 of the articles of association of the Company, the following categories of persons may demand the vote in respect of the resolutions to be put to at any general meeting be taken on a poll:

(i) by the Chairman of the meeting; or

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

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

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

A poll may be so demanded before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll.

(e) Neither Somerley Limited or any directors of the Company have any interest, direct or indirect, in any assets which have been, since 31 December 2007, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(f) None of the directors of the Company is materially interested in any contract or arrangement subsisting at the date of the Latest Practicable Date and which is significant in relation to the business of the Group.

(g) The English text of this Circular shall prevail over the Chinese text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents (or copies thereof) will be available for inspection during normal office hours at the registered office of the Company from the date of this Circular up to the date of the Extraordinary General Meeting (both dates inclusive):

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

(b) the Land Development Agreement dated 20 August 2008;

(c) the Promoters' Agreement dated 20 August 2008 (together with a draft of the Implementation Agreement);

(d) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(e) the letter from the Independent Financial Adviser;

(f) the annual report of the Group for the year ended 31 December 2007 and the interim report of the Group for the six months ended 30 June 2008; and

(g) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts.

(A) Summary of audited consolidated financial information for the three years ended 31 December 2007 and unaudited consolidated financial information for the six months ended 30 June 2008

The following is a summary of the audited consolidated financial information of the Group for each of the three years ended 31 December 2005, 31 December 2006 and 31 December 2007 and unaudited consolidated financial information of the Group for the six months ended 30 June 2008 as extracted from the respective audited annual accounts and unaudited interim accounts of the Group.

RESULTS

		Year ended 31 December		
	30.6.2008	**2007**	**2006**	**2005**
	unaudited	*audited*	*audited*	*audited*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	804,542	1,681,854	1,528,101	1,780,938
Profit before taxation	112,261	356,380	141,846	287,381
Taxation	(19,492)	(45,986)	(26,784)	(1,506)
Profit for the year/period	92,769	310,394	115,062	285,875
Attributable to:				
Equity holders of the Company	93,340	310,037	110,966	286,403
Minority interests	(571)	357	4,096	(528)
	92,769	310,394	115,062	285,875

ASSETS AND LIABILITIES

	At	At 31 December		
	30.6.2008	**2007**	**2006**	**2005**
	unaudited	*audited*	*audited*	*audited*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,753,390	1,212,880	1,132,296	957,080
Current assets	1,628,651	1,795,156	1,154,182	1,141,325
Current liabilities	(761,401)	(748,239)	(824,418)	(814,360)
Non-current liabilities	(162,570)	(178,744)	(189,061)	(203,721)
Shareholders' funds	2,458,070	2,081,053	1,272,999	1,080,324
Attributable to:				
Equity holders of the Company	2,119,962	2,001,606	1,220,412	1,061,187
Minority interests	338,108	79,447	52,587	19,137
	2,458,070	2,081,053	1,272,999	1,080,324

(B) Audited consolidated financial statements for the year ended 31 December 2007

The following audited financial statements of the Group are extracted from the Group's annual report for the year ended 31 December 2007.

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Turnover	5(a)	1,681,854	1,528,101
Cost of sales	5(b)	(1,326,220)	(1,170,772)
Gross profit		355,634	357,329
Other income	7	278,595	32,909
Selling and distribution costs		(48,943)	(50,073)
Administrative expenses		(206,748)	(199,060)
Impairment loss recognised in respect of property, plant and equipment		(11,131)	(937)
Fair value changes of investment properties		11,387	23,414
Finance costs	9	(7,569)	(15,956)
Share of results of jointly controlled entities		(14,845)	(5,579)
Loss on disposal of associates		—	(201)
Profit before taxation	10	356,380	141,846
Taxation	11	(45,986)	(26,784)
Profit for the year		310,394	115,062
Attributable to:			
Equity holders of the Company		310,037	110,966
Minority interests		357	4,096
		310,394	115,062
Earnings per share — basic (restated)	12	HK12.76 cents	HK4.80 cents

Consolidated Balance Sheet
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	14	692,464	634,124
Prepaid lease payments	15	65,493	61,888
Investment properties	16	159,732	160,562
Interests in associates	17	—	—
Interests in jointly controlled entities	18	56,732	63,831
Available-for-sale investments	19	127,899	101,331
Pledged bank deposits	20	110,560	110,560
		1,212,880	1,132,296
Current assets			
Inventories	21	141,579	134,106
Trade and other receivables	22	348,773	267,198
Prepaid lease payments	15	2,308	2,153
Loans receivable	23	93,849	70,269
Financial assets at fair value through profit or loss	24	31,946	—
Taxation recoverable		1,412	1,400
Bank balances and cash		1,144,957	658,756
		1,764,824	1,133,882
Assets classified as held for sale	16	30,332	20,300
		1,795,156	1,154,182
Current liabilities			
Trade and other payables	25	670,712	591,307
Amounts due to associates	26	1,050	1,050
Amount due to a major shareholder	27	—	116,161
Taxation payable		51,251	40,927
Obligations under finance leases-amount due within one year	28	44	2,634
Secured bank loans	29	17,500	65,172
Other loan	30	7,682	7,167
		748,239	824,418
Net current assets		1,046,917	329,764
Total assets less current liabilities		2,259,797	1,462,060

Consolidated Balance Sheet
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Secured bank loans	29	148,901	166,401
Deferred taxation	31	29,843	22,616
Obligations under finance leases-amount due after one year	28	—	44
		178,744	189,061
		2,081,053	1,272,999
Capital and reserves			
Share capital	32	257,090	214,242
Reserves		1,744,516	1,006,170
Equity attributable to equity holders of the Company		2,001,606	1,220,412
Minority interests		79,447	52,587
		2,081,053	1,272,999

The consolidated financial statements on pages 40 to 96 were approved and authorised for issue by the Board of Directors on 18 March 2008 and are signed on its behalf by:

Zhao Liqiang
Director

Zhou Qingquan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 (Note 32 (c))	General reserve HK$'000 (Note)	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 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 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	—	—	—	—	—	—	—	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 and at 1 January 2007	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
Increase in fair value of available-for-sale investments	—	—	—	—	—	26,568	—	—	—	—	26,568	—	26,568
Exchange differences arising on translation of foreign operations	—	—	—	—	57,709	—	—	—	—	—	57,709	5,067	62,776
Share of exchange reserve of jointly controlled entities	—	—	—	—	7,746	—	—	—	—	—	7,746	—	7,746
Net income recognised directly in equity	—	—	—	—	65,455	26,568	—	—	—	—	92,023	5,067	97,090
Profit for the year	—	—	—	—	—	—	—	—	—	310,037	310,037	357	310,394
Total recognised income for the year	—	—	—	—	65,455	26,568	—	—	—	310,037	402,060	5,424	407,484
Issue of shares in allotment of shares	42,848	342,787	—	—	—	—	—	—	—	—	385,635	—	385,635
Expenses incurred in connection with issue of shares	—	(6,501)	—	—	—	—	—	—	—	—	(6,501)	—	(6,501)
Capital contribution from a minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	21,436	21,436
At 31 December 2007	257,090	336,286	14,044	23,916	52,982	47,575	3,899	21,570	1,080	1,243,164	2,001,606	79,447	2,081,053

Note: The general reserve is non-distributable and represents reserve fund and enterprise expansion fund of the subsidiaries in the People's Republic of China other than Hong Kong (the "PRC") used to (i) make up prior year losses or (ii) expand production operations.

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	356,380	141,846
Adjustments for:		
Depreciation	54,613	45,657
Amortisation of prepaid lease payments	2,188	2,116
Interest income	(18,294)	(11,143)
Interest expense	7,436	15,499
Finance lease charges	133	457
(Gain) loss on disposal of property, plant and equipment	(424)	7,165
Gain on disposal of assets classified as held for sale	(4,566)	—
Fair value changes of investment properties	(11,387)	(23,414)
Reversal of impairment loss recognised in respect of loans receivable	(54,860)	—
(Reversal of) allowance for doubtful debts	(844)	4,235
Impairment loss recognised in respect of property, plant and equipment	11,131	937
Share of results of jointly controlled entities	14,845	5,579
Allowance (reversal of allowance) for obsolete inventories	4,490	(1,408)
Loss on disposal of associates	—	201
Operating cash flows before movements in working capital	360,841	187,727
Increase in inventories	(11,322)	(3,686)
(Increase) decrease in trade and other receivables	(79,731)	26,698
Increase in trade and other payables	53,668	134
Increase in financial assets at fair value through profit or loss	(30,832)	—
Cash generated from operations	292,624	210,873
Hong Kong Profits Tax (paid) refunded	(10,359)	231
PRC Enterprise Income Tax paid	(20,264)	(4,323)
NET CASH FROM OPERATING ACTIVITIES	262,001	206,781

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(90,850)	(94,506)
Interest received	18,294	11,143
Proceeds from disposal of property, plant and equipment	3,840	2,368
Proceeds from disposal of investment properties	25,196	—
Repayment of loans receivable	31,280	—
Proceeds from disposal of associates	—	7,864
Net cash inflows in respect of acquisition of subsidiaries	—	16,940
Purchase of investment properties	—	(3,950)
NET CASH USED IN INVESTING ACTIVITIES	(12,240)	(60,141)
FINANCING ACTIVITIES		
Proceeds from issue of shares	385,635	—
Issue share expenses	(6,501)	—
Capital contribution from a minority shareholder of a subsidiary	21,436	20,000
Repayment to a major shareholder	(119,989)	—
Repayment of loans	(65,172)	(27,832)
Repayment of obligations under finance leases	(2,634)	(9,001)
Interest paid	(3,608)	(4,037)
Finance lease charges	(133)	(457)
New loans raised	—	50,700
Advance from a major shareholder	—	106
NET CASH FROM FINANCING ACTIVITIES	209,034	29,479
NET INCREASE IN CASH AND CASH EQUIVALENTS	458,795	176,119
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	658,756	474,767
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	27,406	7,870
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	1,144,957	658,756

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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 are 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 40, 41 and 42, 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, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

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 is required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions[2]
HK(IFRIC) – INT 12	Service concession arrangements[3]
HK(IFRIC) – INT 13	Customer loyalty programmes[4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

[1] Effective for annual periods beginning on or after 1 January 2009.

[2] Effective for annual periods beginning on or after 1 March 2007.

[3] Effective for annual periods beginning on or after 1 January 2008.

[4] Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

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 values, 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

The acquisition of businesses 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 postacquisition 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, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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 three categories, including financial assets at fair value through profit or loss ("FVTPL"), 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 financial assets at FVTPL, loans and receivables and available-for-sale financial assets are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are mainly classified as investments held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

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 receivables (including trade and other receivables, loans receivable, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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. The Group designated equity securities held for an identified long term strategic purpose as available-for-sale 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 (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and loans receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

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. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Non-current assets held for sale

Non-current assets 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 is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' 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.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

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 including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has been changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 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

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

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

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

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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 the presentation currency of the Group (i.e. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenses

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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

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

Inventories

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

Impairment

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

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. TURNOVER AND COST OF SALES

(a) Turnover represents the gross invoiced sales of goods less discounts and sales related taxes and rental income as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Sales of goods	1,665,188	1,511,618
Rental income	16,666	16,483
	1,681,854	1,528,101

(b) Cost of sales includes an amount of HK$4,490,000 of allowance for obsolete inventories (2006: HK$1,408,000 of reversal of allowance for obsolete inventories which were recovered through subsequent sales).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. 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 2007 is presented below:

	External sales	Inter-segment sales	Total turnover
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
Manufacturing and distribution			
Plastic products	623,673	86,101	709,774
Liquid crystal display	254,664	—	254,664
Printed circuit boards	215,695	—	215,695
Intelligent chargers	556,296	—	556,296
Other products	5,457	—	5,457
	1,655,785	86,101	1,741,886
Property investment	16,666	9,116	25,782
Trading of electronic products	9,403	—	9,403
	1,681,854	95,217	1,777,071
Elimination	—	(95,217)	(95,217)
Consolidated total	1,681,854	—	1,681,854

Inter-segment sales are charged at prevailing market prices.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2007 is presented below:

	Segment results
	HK$'000
RESULTS	
Manufacturing and distribution	
Plastic products	50,683
Liquid crystal display	21,764
Printed circuit boards	31,987
Intelligent chargers	65,831
Other products	(8,900)
	161,365
Property investment	25,681
Trading of electronic products	(1,761)
Financial service	56,387
Trading of securities	46,192
Total segment results	287,864
Unallocated corporate income	148,731
Unallocated corporate expenses	(57,801)
	378,794
Finance costs	(7,569)
Share of results of jointly controlled entities	(14,845)
Profit before taxation	356,380
Taxation	(45,986)
Profit for the year	310,394

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of balance sheet at 31 December 2007 is presented below:

	Segment assets *HK$'000*
ASSETS	
Manufacturing and distribution	
Plastic products	443,366
Liquid crystal display	266,615
Printed circuit boards	152,669
Intelligent chargers	210,165
Other products	3,513
	1,076,328
Property investment	222,876
Trading of electronic products	37,604
Financial service	93,849
Trading of securities	31,946
Other investments	127,899
Segment assets	1,590,502
Unallocated corporate assets	1,360,802
Interest in jointly controlled entities	56,732
Consolidated total assets	3,008,036

	Segment liabilities *HK$'000*
LIABILITIES	
Manufacturing and distribution	
Plastic products	131,567
Liquid crystal display	48,118
Printed circuit boards	40,453
Intelligent chargers	119,892
Other products	25,235
	365,265
Property investment	70,564
Trading of electronic products	117,785
Financial service	501
	554,115
Unallocated corporate liabilities	372,868
Consolidated total liabilities	926,983

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

OTHER INFORMATION – 2007

	Capital additions *HK$'000*	Depreciation *HK$'000*	Impairment losses of property, plant and equipment *HK$'000*	Fair value changes of investment properties *HK$'000*	Allowance for obsolete inventories *HK$'000*	Reversal of impairment loss recognised on loans receivable *HK$'000*	Gain (loss) on disposal of property, plant and equipment *HK$'000*
Manufacturing and distribution							
Plastic products	7,615	20,906	6,192	—	1,481	—	—
Liquid crystal display	28,682	6,422	4,360	—	1,305	—	—
Printed circuit boards	16,037	11,713	—	—	42	—	61
Intelligent chargers	10,653	3,311	—	—	—	—	(6)
Other products	49	258	579	—	1,662	—	370
	63,036	42,610	11,131	—	4,490	—	425
Property investment	27,257	9,083	—	11,387	—	—	(1)
Trading of electronic products	3	762	—	—	—	—	—
Financial service	—	—	—	—	—	54,860	—
Others	554	2,158	—	—	—	—	—
Consolidated total	90,850	54,613	11,131	11,387	4,490	54,860	424

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

	External sales *HK$'000*	Inter-segment sales *HK$'000*	Total turnover *HK$'000*
TURNOVER			
Manufacturing and distribution			
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	502,383	—	502,383
Other products	3,928	—	3,928
	1,506,388	76,076	1,582,464
Property investment	16,483	10,341	26,824
Trading of electronic products	5,230	—	5,230
Financial service	—	2,078	2,078
	1,528,101	88,495	1,616,596
Elimination	—	(88,495)	(88,495)
Consolidated total	1,528,101	—	1,528,101

Inter-segment sales are charged at prevailing market prices.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

	Segment results
	HK$'000
RESULTS	
Manufacturing and distribution	
Plastic products	53,108
Liquid crystal display	20,428
Printed circuit boards	46,639
Intelligent chargers	56,572
Other products	(12,944)
	163,803
Property investment	30,514
Trading of electronic products	(3,625)
Financial service	4,038
Trading of securities	7,190
Total segment results	201,920
Unallocated corporate income	657
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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

	Segment assets *HK$'000*
ASSETS	
Manufacturing and distribution	
Plastic products	444,209
Liquid crystal display	229,500
Printed circuit boards	135,224
Intelligent chargers	152,487
Other products	9,016
	970,436
Property investment	212,153
Trading of electronic products	37,361
Financial service	70,582
Other investments	101,331
Segment assets	1,391,863
Unallocated corporate assets	830,784
Interest in jointly controlled entities	63,831
Consolidated total assets	2,286,478

	Segment liabilities *HK$'000*
LIABILITIES	
Manufacturing and distribution	
Plastic products	114,408
Liquid crystal display	51,112
Printed circuit boards	32,344
Intelligent chargers	98,106
Other products	37,967
	333,937
Property investment	60,870
Trading of electronic products	110,121
Financial service	512
	505,440
Unallocated corporate liabilities	508,039
Consolidated total liabilities	1,013,479

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

OTHER INFORMATION – 2006

	Capital additions *HK$'000*	Depreciation *HK$'000*	Impairment losses of property, plant and equipment *HK$'000*	Fair value changes of investment properties *HK$'000*	(Reversal of allowance) allowance for obsolete inventories *HK$'000*	Allowance for doubtful debts *HK$'000*	Loss on disposal of property, plant and equipment *HK$'000*
Manufacturing and distribution							
Plastic products	14,378	13,672	—	—	(224)	—	96
Liquid crystal display	13,598	4,950	—	—	355	—	161
Printed circuit boards	25,374	11,628	937	—	4,381	—	1,100
Intelligent chargers	13,343	2,513	—	—	1,305	—	—
Other products	1,025	2,247	—	—	(7,225)	—	3,554
	67,718	35,010	937	—	(1,408)	—	4,911
Property investment	137,682	8,638	—	23,414	—	—	—
Trading of electronic products	25	696	—	—	—	—	
Financial service	—	—	—	—	—	—	—
Others	3,493	1,313	—	—	—	4,235	2,254
Consolidated total	208,918	45,657	937	23,414	(1,408)	4,235	7,165

(b) Geographical segments:

(i) The following table provides an analysis of the Group's turnover by geographical market based on the locations of customers:

	Turnover by geographical market 2007 *HK$'000*	2006 *HK$'000*
Hong Kong	1,360,538	1,248,059
The PRC	320,349	279,533
Overseas	967	509
	1,681,854	1,528,101

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments: (continued)

(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	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	718,665	822,590	16,825	29,067
The PRC	765,182	478,407	73,973	109,352
Overseas	106,655	90,866	52	70,499
	1,590,502	1,391,863	90,850	208,918

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7. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Service income *(Note)*	104,436	—
Change in fair value of financial assets at fair value through profit or loss	46,320	7,190
Bank interest income	18,294	11,143
Reversal of impairment loss recognised in respect of loans receivable *(Note 23)*	54,860	—
Gain on disposal of assets classified as held for sale	4,566	—
Gain on disposal of prepaid lease payments at nil cost	17,726	—
Gain on disposal of property, plant and equipment	424	—
Exchange gain	15,815	2,473
Sundry income	16,154	12,103
	278,595	32,909

Note: The amount represents commission income earned by a subsidiary of the Company on arrangement and consultancy services rendered to a third party with respect to certain securities investments held by that party.

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8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 16 (2006: 15) directors were as follows:

	Wu Zhuo	Zhao Liqiang	Zhou Qingquan	Zhao Yuanchang	Wu Hongju	Guo Xianpeng	Gong Bo	Chan Ching Har, Eliza	Wang Yujun	Xu Jianhua	Chow Chan Lum, Charles	Luo Zhenbang	Wang Junyan	Ma Xingrui	Lee Hung Sang	Chen Dingyi	2007
	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$'000*	*HK$'000*
Directors' fees																	
Executives	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-executives (excluding independent non-executives)	—	—	—	—	—	—	—	100	—	—	—	—	—	—	—	—	100
Independent non-executives	—	—	—	—	—	—	—	—	—	—	100	100	100	—	24	—	324
	—	—	—	—	—	—	—	100	—	—	100	100	100	—	24	—	424
Other emoluments																	
Salaries and other benefits	20	1,594	1,127	1,062	1,011	1,062	30	50	1,062	1,037	110	110	60	30	13	497	8,875
Bonuses *(Note)*	—	356	433	303	401	401	—	—	303	303	—	—	—	—	—	1,000	3,500
	20	1,950	1,560	1,365	1,412	1,463	30	50	1,365	1,340	110	110	60	30	13	1,497	12,375
Total emoluments	20	1,950	1,560	1,365	1,412	1,463	30	150	1,365	1,340	210	210	160	30	37	1,497	12,799

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

	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
	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

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

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

(b) Highest paid individuals' emoluments

During the year, the five (2006: five) highest paid individuals included two directors (2006: two directors), details of whose emoluments are set out above. The emoluments of the remaining three (2006: three) highest paid individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	1,683	1,470
Bonuses *(Note)*	7,190	3,095
Contributions to retirement benefits scheme	24	24
	8,897	4,589

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

The emoluments of these individuals were within the following bands:

	Number of individuals	
Emoluments band	**2007**	**2006**
HK$1,000,001 to HK$1,500,000	—	2
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	—
HK$5,000,001 to HK$5,500,000	1	—
	3	3

During the year, no emoluments were paid by the Group to the five (2006: five) highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest expenses on:		
— bank loans wholly repayable within five years	3,608	4,037
— finance lease charges	133	457
— other loans wholly repayable within five years	3,828	11,462
	7,569	15,956

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10. PROFIT BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
— current year	4,203	3,289
— underprovision in prior year	566	—
Depreciation on		
— owned assets	52,369	43,484
— assets held under finance leases	2,244	2,173
Amortisation on prepaid lease payments	2,188	2,116
Loss on disposal of property, plant and equipment	—	7,165
Impairment loss recognised in respect of property, plant and equipment	11,131	937
Allowance (reversal of allowance) for obsolete inventories *(note)*	4,490	(1,408)
(Reversal of) allowance for doubtful trade debts	(844)	634
Allowance for amount due from an associate	—	3,601
Minimum lease payments under operating leases in respect of land and buildings	5,527	4,751
Research and development expenses	4,431	11,603
Total staff costs, including directors' remuneration	202,686	182,725
and after crediting:		
Gross rental income	16,666	16,483
Less: Direct operating expenses from investment properties that generated rental income during the year	(1,463)	(1,346)
	15,203	15,137

Note: The amounts are included in cost of sales.

11. TAXATION

The tax charge for the year comprises:

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	8,242	5,998
PRC Enterprise Income Tax	34,852	16,240
	43,094	22,238
(Over)underprovision in prior years:		
Hong Kong Profits Tax	(2,159)	185
Deferred tax *(note 31)*	5,051	4,361
Taxation attributable to the Company and its subsidiaries	45,986	26,784

Notes to the Consolidated Financial Statements

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11. TAXATION (continued)

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

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	356,380	141,846
Tax at Hong Kong Profits Tax of 17.5% (2006: 17.5%)	62,367	24,823
Tax effect of share of results of jointly controlled entities	2,598	976
Tax effect of expenses not deductible for tax purposes	4,955	12,105
Tax effect of income not taxable for tax purpose	(5,448)	(5,057)
Tax effect of deferred tax assets not recognised	88	434
Utilisation of tax losses previously not recognised	(20,916)	(12,164)
Effect of tax exemption granted to a PRC subsidiary	—	(1,033)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,926	2,276
(Over)underprovision in prior years	(2,159)	185
Others	2,575	4,239
Tax charge for the year	45,986	26,784

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.

On 16 March 2007, the People's Republic of China ("PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The enactment of the New Tax Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable and deferred taxation.

12. EARNINGS PER SHARE

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 attributable to equity holders of the Company of HK$310,037,000 (2006: HK$110,966,000) and on 2,429,162,000 weighted average number of shares (2006: 2,310,925,000 shares (restated)) in issue during the year which have been adjusted for the effect of open offer of 428,483,980 offer shares at a price of HK$0.90 per offer share issued on 19 July 2007.

13. DIVIDENDS

No dividend was paid or proposed during 2007, nor has any dividend been proposed since the balance sheet date (2006: nil).

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14. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in Hong Kong	Long term leasehold land and buildings in the PRC	Medium term leasehold land and buildings in the PRC	Properties under development	Plant and equipment	Motor vehicles, furniture and other equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2006	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	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
Exchange adjustments	—	862	28,646	384	19,802	4,389	54,083
Additions	—	—	6,061	24,957	35,435	24,397	90,850
Reclassifications	—	—	48,296	(48,296)	—	—	—
Disposals	—	—	—	—	(6,594)	(9,372)	(15,966)
At 31 December 2007	54,785	12,870	500,848	12,919	418,226	105,345	1,104,993
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	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 d)*	—	—	—	—	—	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
Exchange adjustments	—	45	6,258	—	9,188	1,942	17,433
Charged for the year	549	319	13,201	—	30,572	9,972	54,613
Impairment loss recognised *(note d)*	—	—	—	—	6,625	4,506	11,131
Eliminated on disposals	—	—	—	—	(3,701)	(8,849)	(12,550)
At 31 December 2007	25,694	742	119,498	—	210,149	56,446	412,529
CARRYING VALUES							
At 31 December 2007	29,091	12,128	381,350	12,919	208,077	48,899	692,464
At 31 December 2006	29,640	11,630	317,806	35,874	202,118	37,056	634,124

Notes to the Consolidated Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

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

Leasehold land and buildings	Over the shorter of the term of lease, or 50 years
Plant and equipment	5%–15%
Others	6%–25%

(b) The aggregate carrying values of the Group's assets held under finance leases as at 31 December 2007 amounted to HK$1,603,000 (2006: HK$7,234,000).

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

(d) The Group has reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets were impaired, due to technical obsolescence. Accordingly, impairment losses have been recognised to write down plant and machinery and other assets which are no-longer used in the manufacturing segment to their recoverable amounts, which are determined based on their estimated fair value less costs to sell.

15. PREPAID LEASE PAYMENTS

	2007	**2006**
	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	2,308	2,153
Non-current portion	65,493	61,888
	67,801	64,041

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16. INVESTMENT PROPERTIES/ASSET CLASSIFIED AS HELD FOR SALE

	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*
FAIR VALUE				
At 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
Exchange adjustment	—	1,975	16,140	18,115
Increase in fair value during the year	4,830	6,557	—	11,387
Reclassifications to assets held for sale	—	(30,332)	—	(30,332)
At 31 December 2007	53,370	—	106,362	159,732

During the year, the Group entered into sale and purchase agreements with third parties to dispose of certain investment properties. The disposal is expected to be completed in the third quarter of 2008, in which the beneficial ownership will be passed to the acquirers.

The fair values of the Group's investment properties at 31 December 2007 and 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.

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17. INTERESTS IN ASSOCIATES

	2007	2006
	HK$'000	*HK$'000*
Cost of unlisted investments in associates	3,603	202,889
Share of post-acquisition profits, net of dividends received	(3,603)	42,784
Less: Impairment loss recognised	—	(245,673)
	—	—

One of the associated companies of the Group, in which impairment loss of HK$245,673,000 was recognised in previous year, had been wound-up.

Particulars of the principal associates of the Group at 31 December 2007 are set out in note 41.

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2007	2006
	HK$'000	*HK$'000*
Unrecognised share of results of associates for the year	929	2,677
Accumulated unrecognised share of losses of associates	(9,454)	(10,383)

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007	2006
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	88,531	88,531
Share of post-acquisition reserves	7,746	—
Share of post-acquisition losses	(39,545)	(24,700)
	56,732	63,831

Particulars of the principal jointly controlled entities of the Group at 31 December 2007 are set out in note 42.

Notes to the Consolidated Financial Statements

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18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the Group's China Aerospace New World Technology Limited ("CANW") and its subsidiaries ("CANW Group") (being significant jointly controlled entities of the Group) which have been extracted from the unaudited consolidated financial statements of:

	CANW Group	
	2007	**2006**
	HK$'000	*HK$'000*
Non-current assets	7,836	11,296
Current assets	51,296	55,014
Current liabilities	2,400	2,479
Income	2,045	2,104
Expenses	16,890	7,683

19. AVAILABLE-FOR-SALE INVESTMENTS

	2007	**2006**
	HK$'000	*HK$'000*
Available-for-sale investments:		
— equity securities listed in Hong Kong	64,584	51,168
— unlisted equity securities	63,315	50,163
	127,899	101,331

The available-for-sale investments are held for an identified long term strategic purpose and are stated at fair value by reference to quoted bid price. With respect to the unlisted equity securities, 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.

20. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure long-term bank loans.

The deposits carry fixed interest rate between 3.6% and 4.5% (2006: 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 2007 approximates to the corresponding carrying amount.

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21. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	59,687	54,527
Work-in-progress	34,630	28,843
Finished goods	47,262	50,736
	141,579	134,106

22. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	344,566	264,689
Less: Allowance for doubtful debts	(34,018)	(34,862)
	310,548	229,827
Other receivables, deposits and prepayments	38,225	37,371
	348,773	267,198

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

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	302,267	221,637
Between 91 – 180 days	8,281	8,190
	310,548	229,827

The Group allows an average credit period of 90 days to its trade customers. Receivables are unsecured and interest-free. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$8,258,000 (2006: HK$8,320,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. There are no balances included in other receivables which have been past due.

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22. TRADE AND OTHER RECEIVABLES (continued)

The following is an aged analysis of trade receivables which are past due but not impaired:

	2007	2006
	HK$'000	*HK$'000*
Age		
Overdue 0 – 90 days	8,258	8,320

Based on the historical experience of the Group, trade receivables which are past due but not impaired are generally recoverable.

The following is a movement in the allowance for doubtful debts:

	2007	2006
	HK$'000	*HK$'000*
At January 1	34,862	34,228
Allowance for doubtful debts	—	634
Reversal of allowance for doubtful debts	(844)	—
At December 31	34,018	34,862

The fair value of the Group's trade and other receivables at 31 December 2007 approximates to the corresponding carrying amount.

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23. LOANS RECEIVABLE

	2007	2006
	HK\$'000	*HK\$'000*
Fixed-rate loans receivable	93,849	70,269

Included in the carrying amount of loans receivable as at 31 December 2007 is an accumulated impairment loss of HK\$314,379,000 (2006: HK\$369,239,000).

The above amounts include loans receivable which is subject to a settlement plan (see the Company's announcement on 14 September 2007 for details), details of which are set out below:

	Maturity date	Collateral	Effective and contractual interest rate	Carrying amount 2007	Carrying amount 2006
				HK\$'000	*HK\$'000*
HK\$251,517,000 fixed-rate loan receivable	23 July 1999	Certain properties	15%	93,849	70,269

The Group has reviewed the carrying amounts of loans receivable and reversed HK\$54,860,000 (2006: nil) impairment loss recognised in respect of loan receivables during the year based on the amount recovered during the year and subsequent to the 31 December 2007 and the best estimates made by the management of the Company for the amount that would be recovered from the disposal of the properties pledged to secure the loans receivable. The management closely monitors the settlement status of loans receivables and will strengthen its effort to chase the debts and thus considered that the loans receivable that have past due of HK\$93,849,000 are recoverable in view of the fair value of assets under pledge for the loans receivable and the amounts of subsequent settlements.

The fair value of the Group's loans receivable at 31 December 2007 approximates to the carrying amount.

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24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss held for trading is analysed as follows:		
Equity securities — listed in Hong Kong	3,652	—
Managed investment fund — unlisted in the PRC	28,294	—
	31,946	—

Notes:

(1) The fair value of listed securities are determined by the quoted market bid price available on the relevant market.

(2) The fair value of unlisted management investment funds are provided by a financial institution. The valuation is generally based upon the quoted market price of the underlying listed investments and liquid funds.

25. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Trade payables	304,965	268,350
Other payables and accrued charges	365,747	322,957
	670,712	591,307

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

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	283,661	236,508
Between 91 – 180 days	166	5,872
Between 181 – 365 days	95	348
Between 1 to 2 years	602	5,256
Over 2 years	20,441	20,366
	304,965	268,350

The fair value of trade and other payables at 31 December 2007 approximates to the corresponding carrying amount.

26. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are of non-trade nature, unsecured, non-interest bearing and repayable on demand. The directors consider the fair value approximates to the carrying amount.

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27. AMOUNT DUE TO A MAJOR SHAREHOLDER

The amount represented amount due to CASC which carried interest at 7.75% (2006: ranging from 7.75% to 8.25%) per annum and was fully repaid in 2007.

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	45	2,718	44	2,634
In the second to the fifth year inclusive	—	45	—	44
	45	2,763	44	2,678
Less: Future finance charges	(1)	(85)	N/A	N/A
Present value of lease obligations	44	2,678	44	2,678
Less: Amount due within one year shown under current liabilities			(44)	(2,634)
Amount due after one year			—	44

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 2007, the average effective borrowing rate was 5% (2006: 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 the carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

29. SECURED BANK LOANS

	2007	2006
	HK$'000	*HK$'000*
Secured bank loans	166,401	231,573
Carrying amount repayable:		
On demand or within one year	17,500	65,172
More than one year, but not exceeding two years	148,901	17,500
More than two years, but not more than five years	—	148,901
	166,401	231,573
Less: Amount due within one year shown under current liabilities	(17,500)	(65,172)
Amount due more than one year	148,901	166,401

The secured bank loans carry interest at 1.25% (2006: ranging 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$44,100,000 (2006: HK$42,180,000), HK$18,032,000 (2006: HK$18,502,000), HK$110,560,000 (2006: HK$110,560,000) and HK$64,584,000 (2006: HK$51,168,000), respectively, were pledged to banks for the above banking facilities.

The directors consider the fair value of the Group's secured bank loans approximates to the carrying amount.

At the balance sheet date, the Group has undrawn borrowing facilities at floating rate expiring beyond one year of HK$11,000,000 (2006: HK$11,000,000).

30. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

31. 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 2006	10,620	(2,666)	—	7,954
Acquisition of subsidiaries	—	—	9,990	9,990
Charge (credit) 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
(Credit) charge to income for the year	(402)	2,717	2,736	5,051
Exchange differences	—	63	2,113	2,176
At 31 December 2007	12,181	(26)	17,688	29,843

Note: The amount mainly represents temporary differences arising on allowances for doubtful debts and unrealised fair value gain on financial assets at fair value through profit or loss.

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.

	2007	2006
	HK$'000	*HK$'000*
Deferred tax liabilities	29,843	22,616

At 31 December 2007, the Group has unused tax losses of approximately HK$1,415 million (2006: HK$1,554 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

32. SHARE CAPITAL

(a) Authorised, issued and fully paid share capital

	Number of shares *'000*	Nominal value *HK$'000*
Authorised:		
At 1 January 2006, 1 January 2007 and 31 December 2007 Ordinary shares of HK$0.10 each	100,000,000	10,000,000
Issued and fully paid:		
At 1 January 2006 and 1 January 2007 Ordinary shares of HK$0.10 each	2,142,420	214,242
Issue of shares on open offer *(Note)*	428,484	42,848
At 31 December 2007 Ordinary shares of HK$0.10 each	2,570,904	257,090

Note: On 19 July 2007, the Company allotted and issued 428,483,980 ordinary shares of HK$0.10 each at a price of HK$0.90 per offer share ("Offer Share") as a result of open offer on the basis of one Offer Share for every five existing shares held by the qualifying shareholders of the Company. All the shares which were issued during the year rank pari passu with the then existing shares in all aspects.

(b) Share option scheme

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

No share option under the Scheme was granted to either the directors or the employees of the Company or its subsidiaries in both years ended 31 December 2006 and 31 December 2007.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

32. SHARE CAPITAL (continued)

(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;

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

32. SHARE CAPITAL (continued)

(c) Share premium (continued)

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

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

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which mainly includes the bank loans disclosed in note 29, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Fair value through profit or loss		
Held for trading	31,946	—
Loans and receivables (including cash and cash equivalents)	1,682,007	1,090,192
Available-for-sale financial assets	127,899	101,331
Financial liabilities		
Amortised cost	669,175	785,362

b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, pledged bank deposits, trade and other receivables, loans receivable, financial assets at fair value, bank balances and cash, equity investments, borrowings, trade and other payables and bank loans. Details of the 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.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see liquidity table below). However, the management considered the risk is insignificant to the Group.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly on equity instruments operating in telecommunications and property industry sector quoted in the Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower:

- profit for the year ended 31 December 2007 increase/decrease by HK$1,597,000 (2006: nil) as a result of the changes in fair value of financial assets at fair value through profit or loss; and

- investment valuation reserve would increase/decrease by HK$6,395,000 (2006: increase/ decrease by HK$5,067,000) for the Group as a result of the changes in fair value of available-for-sale investments.

The Group's sensitivity to available-for-sale investments and financial assets at fair value through profit or loss held for trading have increased during the period mainly due to the growth of market price of equity securities listed in Hong Kong and managed investment fund in the PRC.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in HK$ and RMB (the functional currencies of the Group's major subsidiaries) and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the balance sheet date. The Company is exposed to foreign currency risk as certain amounts due from subsidiaries are denominated in RMB other than the functional currency of the Company. In order to mitigate the foreign currency risk, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Company's monetary assets and monetary liabilities denominated in RMB other than the functional currencies of the Company at the reporting date, are as follows:

	Assets		Liabilities	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	493,925	392,352	59,497	44,271

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

Sensitivity analysis

The sensitivity analyses below details the Company's sensitivity to a 5% increase and decrease in Hong Kong dollars against Renminbi. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign currency rate.

The sensitivity analysis includes amounts due from/to subsidiaries where the denomination of the amount is in a currency other than the currency of the lender or the borrower.

	Increase (decrease) in exchange rate	**Increase (decrease) in profit before tax** *HK$'000*
Year 2007		
— if Hong Kong dollars weaken against foreign currencies RMB	-5%	22,865
— if Hong Kong dollars strengthen against foreign currencies RMB	5%	(22,865)
Year 2006		
— if Hong Kong dollars weaken against foreign currencies RMB	-5%	18,320
— if Hong Kong dollars strengthen against foreign currencies RMB	5%	(18,320)

The resulting amounts above are mainly attributable to the exposure outstanding on amounts due from/to subsidiaries not subject to cash flow hedges at year end.

The Company's sensitivity to foreign currency has increased during the current year mainly due to the appreciation of Renminbi.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on loans receivable and liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. 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 and value of collateral assets (Note 23) to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation.

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.

As at 31 December 2007, the Group has available unutilised overdraft and short-term bank loan facilities of approximately HK$1,000,000 (2006: HK$1,000,000) and HK$10,000,000 (2006: HK$10,000,000) respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand	Less than 1 year	1–5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007						
Financial liabilities						
Non-interest bearing	N/A	238,613	264,117	—	502,730	502,730
Fixed interest rate instruments	1.25	—	19,441	152,065	171,506	166,445
		238,613	283,558	152,065	674,236	669,175
At 31 December 2006						
Financial liabilities						
Non-interest bearing	N/A	118,735	316,215	—	434,950	434,950
Fixed interest rate instruments	1.25	—	13,012	171,506	184,518	177,579
Variable interest rate instruments*	7.22	1,003	190,330	—	191,333	172,833
		119,738	519,557	171,506	810,801	785,362

* The interest rates applied to project variable interest rate instrument's undiscounted future cash flows are the interest rates at the balance sheet date.

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the fair value of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates to the carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

35. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	8,047	1,954

36. 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:

	2007	2006
	HK$'000	*HK$'000*
Within one year	4,037	1,703
In the second to fifth year inclusive	11,619	7,181
Over five years	37,723	30,248
	53,379	39,132

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:

	2007	2006
	HK$'000	*HK$'000*
Within one year	8,817	16,630
In the second to third year inclusive	3,659	12,142
	12,476	28,772

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

37. 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$2,153,000 (2006: HK$1,504,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

38. RELATED PARTY TRANSACTIONS

(a) Save as disclosed in notes 26 and 27 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	2007	2006
			HK$'000	*HK$'000*
CASC	Major shareholder	Interest expenses paid	3,828	11,462

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 8.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

38. RELATED PARTY TRANSACTIONS (continued)

(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 26 and 27 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 deposit 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.

39. POST BALANCE SHEET EVENT

On 14 March 2008, 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-Tech Investment Management Company Limited), a 60% indirect own subsidiary of the Company, entered into an agreement with the Shenzhen Municipal Bureau of Land Resources and Housing Management to acquire a parcel of commercial office usage land at Nanshan Houhai Centre District, Shenzhen, the PRC, with a site area of 10,458.44 metre^2 for a term of 50 years from 14 March 2008. The consideration payable is RMB495,000,000 (approximately HK$538,043,000). Shenzhen Aerospace Hi-Tech Investment Management Company Limited intends to develop the Shenzhen Aerospace Technology Building on the land. Details of the transaction have been published in the Company's announcement dated 14 March 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. 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 investment
CASIL Electronic Products Limited	HK$15,000,000	100	—	100	Distribution of electronic products
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
Incorporated and operating in Canada:					
Vanbao Development (Canada) Limited	CAD1,080,000	—	79	79	Property investment
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	Trading of electronic 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 investment
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 investment
Huizhou Jeckson Electric Company Limited##	US$1,000,000	—	90	90	Manufacturing of intelligent battery chargers and electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited##	US$400,000	—	90	90	Electroplating of metals
Shanghai Aerospace Technology Investment Management Company Limited##	RMB200,000,000	—	80	80	Property investment
Shenzhen Chee Yuen Plastics Company Limited##	RMB22,000,000	—	80	80	Manufacturing and distribution of plastic products
航科新世紀科技發展 (深圳) 有限公司#	US$30,000,000	100	—	100	Investment holding

Wholly foreign-owned enterprises registered in the PRC

Sino-foreign joint equity enterprises registered in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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 or at any time during the year.

41. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital/ registered 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

42. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entity	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 the PRC:			
Aerospace New World (China) Technology Company Limited	RMB120,000,000	50	Digital TV broadcasting and application development

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of China Aerospace International Holdings Limited (the "Company") will be held at the Salon One, First Floor, Harbour Plaza, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Friday, 10 October 2008 at 11:00 a.m. to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

Ordinary Resolutions

(1) **THAT** the proposed development of the land of the Complex Zone of the Launching Site in Hainan Province pursuant to the Land Development Agreement dated 20 August 2008 between CASIL Hainan Holdings Limited and the Wenchang Government and transactions contemplated thereunder, as more particularly set out in the Circular of the Company dated 10 September 2008, be and are hereby approved **AND THAT** the Directors of the Company be and are hereby authorized to take such action and execute such documents as they may deem appropriate and expedient in respect of the completion of the proposed transaction contemplated under the Land Development Agreement;

(2) **THAT** subject to the passing of resolution numbered (1),

(a) the proposed establishment of the Joint Venture Company pursuant to the Promoters' Agreement dated 20 August 2008 between CASIL Hainan Holdings Limited and 航天時代置業發展有限公司 (Aerospace Times Properties Development Limited)* and transactions contemplated thereunder, as more particularly set out in the Circular of the Company dated 10 September 2008, be and are hereby approved;

(b) the proposed implementation of land development activities under the Land Development Agreement pursuant to the Implementation Agreement to be entered into between CASIL Hainan Holdings Limited and the Joint Venture Company and transactions contemplated thereunder, as more particularly set out in the Circular of the Company dated 10 September 2008, be and are hereby approved; and

(c) the Directors of the Company be and are hereby authorized to take such action and execute such documents as they may deem appropriate and expedient in respect of the completion of the proposed transaction contemplated under the Promoters' Agreement and the Implementation Agreement."

(3) **THAT** the appointment of Mr Chen Xuechuan as a Non-Executive Director of the Company be and is hereby approved and that a director's fee of HK$150,000 per annum and a remuneration as member of Remuneration Committee of HK$30,000 per annum be and are hereby approved.

By order of the Board
Chan Ka Kin, Ken
Company Secretary

Hong Kong, 10 September 2008

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the share registrar of the Company, Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3. Resolutions numbered (1) and (3) will be proposed to be passed by a show of hands. Resolution numbered (2) is required to be approved by way of a poll.

* *This PRC entity does not have an English name, the English name sets out in herein is for identification purpose only.*