THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Prospectus (as defined herein), or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CASIL Telecommunications Holdings Limited (the "Company"), you should at once hand the Prospectus Documents (as defined herein) to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the shares of the Company and the Offer Shares (as defined herein) may be settled through CCASS (as defined herein) established and operated by HKSCC (as defined herein). You should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

A copy of each of the Prospectus Documents, together with copies of the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this Prospectus, have been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility for the contents of any of these documents.

The Stock Exchange (as defined herein) and HKSCC take no responsibility for the contents of the Prospectus Documents, make no representation as to their 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 the Prospectus Documents.

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

CASTEL

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1185)

OPEN OFFER OF 406,855,905 OFFER SHARES AT HK$0.35 PER OFFER SHARE PAYABLE IN FULL ON ACCEPTANCE (ON THE BASIS OF FOUR OFFER SHARES FOR EVERY TEN EXISTING SHARES IN ISSUE ON THE RECORD DATE)

Financial adviser to CASIL Telecommunications Holdings Limited

WAG Worldsec Corporate Finance Limited

Underwriter to the Open Offer

聯發證券有限公司
LUEN FAT SECURITIES CO. LTD.

The latest time for the acceptance of and payment for the Offer Shares is 4:00 p.m. on Friday, 5 October 2007 or such later time or date as may be agreed between the Company and the Underwriter. The procedures for acceptance and payment or transfer of the Offer Shares is set out on pages 20 to 21 of this Prospectus.

It should be noted that the Underwriter has the right to terminate the Underwriting Agreement by notice in writing given to the Company at any time prior to 4:00 p.m. on the second Business Day after the latest time for the acceptance of and payment for Offer Shares, if:

(i) the occurrence of the following events would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or

(c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);

(ii) any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;

(iii) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

(iv) the Underwriter shall receive notification pursuant to the terms of the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties by the Company in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate and the Underwriter shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Open Offer; or

(v) the Company shall, after any matter or event that comes to the attention of the Company that any representation or warranty given would be untrue or inaccurate in any respect or would render untrue, inaccurate in any material respect or misleading or such events come to the attention of the Underwriter, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Shareholders should note that if the conditions referred to in the section headed "Conditions of the Open Offer" are not fulfilled or the Underwriting Agreement is terminated, the Open Offer will not proceed. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Open Offer is subject are fulfilled will bear the risk that the Open Offer may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers.

20 September 2007

** For identification purpose only*

CONTENTS

	2007
Despatch of the Prospectus Documents	Thursday, 20 September
Latest time for the acceptance of and payment for Offer Shares	4:00 p.m. on Friday, 5 October
Latest time for the Open Offer to become unconditional	4:00 p.m. on Tuesday, 9 October
Announcement of the results of acceptance and excess applications of the Open Offer	Friday, 12 October
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Monday, 15 October
Despatch of share certificates for Offer Shares	Monday, 15 October
Dealing in fully-paid Offer Shares commences	Wednesday, 17 October

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

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

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

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

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

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

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 5 October 2007. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Open Offer does not take place on Friday, 5 October 2007, the dates mentioned in the section headed "Expected timetable" in this Prospectus may be affected. A press announcement will be made by the Company in such event.

The Underwriter has the right to terminate the Underwriting Agreement by notice in writing given to the Company at any time prior to 4:00 p.m. on the second Business Day after the latest time for the acceptance of and payment for Offer Shares, if:

(i) the occurrence of the following events would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or

(c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);

(ii) any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;

(iii) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

(iv) the Underwriter shall receive notification pursuant to the terms of the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties by the Company in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate and the Underwriter shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Open Offer; or

(v) the Company shall, after any matter or event that comes to the attention of the Company that any representation or warranty given would be untrue or inaccurate in any respect or would render untrue, inaccurate in any material respect or misleading or such events come to the attention of the Underwriter, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of such termination notice, all obligations of the Underwriter shall cease and determine (save for any antecedent breaches thereof) and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement.

Shareholders should note that if the conditions referred to in the section headed "Conditions of the Open Offer" are not fulfilled or the Underwriting Agreement is terminated, the Open Offer will not proceed. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Open Offer is subject are fulfilled will bear the risk that the Open Offer may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers.

DEFINITIONS

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

"Acquired Businesses"	the 49% equity interest in Beijing Delphi, 40% equity interest in Wanyuan GDX, 29% equity interest in Hangzhou REPM, 45% equity interest in Nantong Acciona and 45% equity interest in Beijing Acciona
"Advanced Grade"	Advanced Grade Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Astrotech
"Announcement"	the announcement of the Company dated 2 April 2007 in relation to, among other things, the Proposed Acquisition, the Whitewash Waiver and the Open Offer
"Astrotech"	Astrotech Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CALT
"associates"	has the meaning ascribed to it under the Listing Rules
"Beijing Accoina"	Beijing CASC Wanyuan Accoina Renewable Energy Corporation Ltd. (北京航天萬源安迅能新能源有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Beijing Delphi"	Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd. (北京德爾福萬源發動機管理系統有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Board"	board of Directors
"Business Day"	any day (other than a Saturday or Sunday) on which banks in Hong Kong are generally open for business
"CALT"	中國運載火箭技術研究院(China Academy of Launch Vehicle Technology), a legal entity established in the PRC and wholly-owned by CASC

"CASC"	中國航天科技集團公司(China Aerospace Science and Technology Corporation), a state-owned enterprise established in the PRC and the ultimate controlling Shareholder of the Company
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Circular"	the circular dated 1 June 2007 issued by the Company in relation to, among other things, the Proposed Acquisition and the Whitewash Waiver
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	CASIL Telecommunications Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Sale and Purchase Agreements
"Consideration"	the consideration of HK$900,000,000 for the acquisition by the Company of the entire issued share capital of Advanced Grade pursuant to the Sale and Purchase Agreements
"Consideration Share(s)"	the new Share(s) to be allotted and issued by the Company to Astrotech as part consideration under the Sale and Purchase Agreements
"Director(s)"	director(s) of the Company
"EAF"	the form of application for excess Offer Shares
"EGM"	the extraordinary general meeting of Company which was convened on 18 June 2007 to consider and, if thought fit, approve, among other things, the entering into of the Sale and Purchase Agreements and the Whitewash Waiver

"Excluded Shareholder(s)"	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions, consider it necessary or expedient not to offer the Open Offer to such Overseas Shareholder(s) on account either of restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in place
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
"Enlarged Group"	The Group immediately after Completion
"Group"	the Company and its subsidiaries as at the date of this Prospectus
"Hangzhou REPM"	杭州航天萬源稀土電機應用技術有限公司(Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd.), a limited liability company established in the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	Shareholders other than Astrotech and parties acting in concert with it, their respective associates and those involved or interested in the Proposed Acquisition and the Whitewash Waiver
"Issue Price"	the issue price of HK$0.35 per Consideration Share
"Last Trading Day"	12 February 2007, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	17 September 2007, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information contained herein
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange

"Nantong Accoina"	Nantong CASC Wanyuan Accoina Wind Turbine Manufacture Corporation Ltd. (南通航天萬源安迅能風電設備製造有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Offer Share(s)"	406,855,905 new Shares to be issued by the Company pursuant to the Open Offer
"Open Offer"	the issue of the Offer Shares by the Company to the Qualifying Shareholders on the basis of four Offer Shares for every ten existing Shares held at the Subscription Price
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong
"PAL"	provisional allotment letter for the Offer Shares
"parties acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Posting Date"	20 September 2007 or such other date as the Underwriter may agree in writing with the Company for the despatch of the Prospectus Documents;
"PRC"	the People's Republic of China, which for the purpose of this Prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposed Acquisition"	the proposed acquisition of the entire issued share capital of Advanced Grade by the Company pursuant to the terms and conditions of the Sale and Purchase Agreements
"Prospectus"	this prospectus issued by the Company in connection with the Open Offer
"Prospectus Documents"	the Prospectus, PAL and EAF

"Qualifying Shareholder(s)"	Shareholder(s), other than the Excluded Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	18 September 2007 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Open Offer are to be determined
"Registrar"	Tricor Standard Limited, being the share registrar of the Company
"Restructuring"	the restructuring of Wan Yuan Industry as described in the section headed "Information of Advanced Grade and Wan Yuan Industry" in the letter from the Board as set out on pages 13 to 14 of the Circular
"Sale and Purchase Agreements"	the sale and purchase agreement dated 15 February 2007, a supplemental agreement dated 27 March 2007 and a supplemental agreement dated 7 September 2007 between Astrotech, CALT and the Company in respect of the sale and purchase of the entire issued share capital of Advanced Grade
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.35 per Offer Share
"Sub-underwriter"	Sino Grade Securities Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity under the SFO

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Underwriter"	Luen Fat Securities Company Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity under the SFO
"Underwriting Agreement"	the underwriting agreement dated 2 April 2007 and a supplemental agreement dated 7 September 2007 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements of the Open Offer
"Wanyuan GDX"	Beijing Wanyuan GDX Automotive Sealing Products Co., Ltd. (北京萬源金德汽車密封製品有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Wan Yuan Industry"	北京萬源工業公司(Beijing Wan Yuan Industry Corporation), a state-owned enterprise established in the PRC, and a wholly-owned subsidiary of CALT
"Wan Yuan Science & Technology"	北京航天萬源科技公司(Beijing CASC Wan Yuan Science & Technology Corporation), a state-owned enterprise established in the PRC and a wholly-owned subsidiary of Wan Yuan Industry, which will become a direct wholly-owned subsidiary of CALT after completion of the Restructuring
"Whitewash Waiver"	a waiver in respect of the obligation on the part of Astrotech and parties acting in concert with it to make a mandatory general offer to the Shareholders for all the issued Shares not already owned or agreed to be acquired by Astrotech and parties acting in concert with it as a result of the taking up of the Consideration Shares under the Proposed Acquisition in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

For the purpose of this Prospectus, unless otherwise indicated, the exchange rates of RMB1.00 = HK$1.00 and US$1.00 = HK$7.78 have been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amount in US$, HK$ or RMB have been, could have been or may be converted at such or any other rates or at all.

Certain English translations of Chinese names or words in this Prospectus are included for information only, and are not official English translations of such Chinese names or words.

CASTEL

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1185)

Executive Directors:
Mr. Han Shuwang *(Vice-chairman)*
Mr. Wang Xiaodong
Mr. Li Guang

Non-executive Directors:
Mr. Wu Yansheng *(Chairman)*
Mr. Liang Xiaohong *(Vice-chairman)*
Mr. Tang Guohong

Independent non-executive Directors:
Mr. Yiu Ying Wai
Mr. Wong Fai, Philip
Mr. Zhu Shixiong
Mr. Moh Kwen Yung

Registered Office:
Ugland House
South Church Street
P.O. Box 309, George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
Suite 4701, 47th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

20 September 2007

To the Qualifying Shareholders and,
for information only, the Excluded Shareholders

Dear Sir or Madam,

OPEN OFFER OF 406,855,905 OFFER SHARES AT HK$0.35 PER OFFER SHARE PAYABLE IN FULL ON ACCEPTANCE (ON THE BASIS OF FOUR OFFER SHARES FOR EVERY TEN EXISTING SHARES IN ISSUE ON THE RECORD DATE)

INTRODUCTION

It was announced on 2 April 2007 that the Board intended to raise approximately HK$136 million, net of expenses, by issuing 406,855,905 Offer Shares at a price of HK$0.35 per Offer Share by way of Open Offer of new Shares, on the basis of four Offer Shares for every ten existing Shares in issue on the Record Date and payable in full on acceptance.

* *For identification purpose only*

This Prospectus sets out further information on the Open Offer, including information on dealing in and transfers and acceptances of the Open Shares and certain financial and other information in respect of the Group.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

Pursuant to the Sale and Purchase Agreements, the Company conditionally agreed to acquire, and Astrotech agreed to sell, the entire issued share capital of Advanced Grade for a consideration of HK$900,000,000 (the "Proposed Acquisition"). The Consideration will be satisfied by (i) HK$130,000,000 in cash; and (ii) the allotment and issue of 2,200,000,000 Consideration Shares by the Company.

On 28 December 2006, CALT, Wan Yuan Industry, Beijing Wan Yuan Sealing Device Factory, Wan Yuan Science & Technology and a subsidiary of CALT had entered into a set of deeds of assignment for the purpose of effecting a restructuring exercise. Also as part of the restructuring exercise, on 15 February 2007, CALT entered into a deed of assignment to assign its 100% direct shareholdings in Wan Yuan Industry to Advanced Grade (collectively referred the restructuring exercise as the "Restructuring").

Advanced Grade is a limited liability company incorporated in the British Virgin Islands which does not carry on any business or have any material assets. After the completion of the Restructuring, Advanced Grade will hold the entire equity interest in Wan Yuan Industry. Upon completion of the Restructuring, Wan Yuan Industry will not carry on any business or have any materials assets, other than the holding of a 49% equity interest in Beijing Delphi, a 40% equity interest in Wanyuan GDX, a 29% equity interest in Hangzhou REPM, a 45% equity interest in Nantong Acciona and a 45% equity interest in Beijing Acciona (the "Acquired Businesses"). Details of the Restructuring, Advanced Grade, Wan Yuan Industry and the Acquired Businesses were disclosed in the section headed "Information of Advanced Grade and Wan Yuan Industry" in the letter from the Board as set out on pages 11 to 16 of the Circular.

At the Latest Practicable Date, CALT, the guarantor under the Sale and Purchase Agreements, through Astrotech, is beneficially interested in 449,244,000 Shares, representing approximately 44.17% of the existing issued share capital of the Company.

The Proposed Acquisition constitutes a connected transaction and a very substantial acquisition for the Company under the Listing Rules, and subject to the approval of the Independent Shareholders by way of poll at the EGM.

Astrotech will be obliged to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Astrotech and parties acting in concert with it under Rule 26.1 of the Takeovers Code, unless a Whitewash Waiver is obtained from the Executive. In this regard, Astrotech had made an application to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted to Astrotech and its concert parties, subject to the approval of the Independent Shareholders by way of poll at the EGM.

Astrotech and parties acting in concert with it, their respective associates and those involved or interested in the Proposed Acquisition and the Whitewash Waiver are required to abstain from voting at the EGM.

On 18 June 2007, the Board announced that the Proposed Acquisition and the Whitewash Waiver were approved at the EGM.

Details of the Proposed Acquisition and the Whitewash Waiver were disclosed in the Circular.

To cater for the cash consideration of the Proposed Acquisition, the Company will raise approximately HK$136 million, net of expenses, by issuing 406,855,905 Offer Shares at a price of HK$0.35 per Offer Share by way of Open Offer.

The net proceeds from the Open Offer of approximately HK$136 million will be applied as to (i) HK$130 million for the cash consideration of the Proposed Acquisition; and (ii) the remaining balance for general working capital of the Group.

The expenses in connection with the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK$6.4 million and will be payable by the Company.

As majority of the proceeds of the Open Offer will be used as consideration for the Proposed Acquisition, the completion of the Open Offer will take place on or before Completion.

OPEN OFFER

Issue statistics

Basis of the Open Offer	:	Four Offer Shares for every ten existing Shares held on the Record Date
Subscription Price	:	HK$0.35 per Offer Share (the same as the Issue Price)
Number of existing Shares in issue as at the Latest Practicable Date	:	1,017,139,763 Shares
Number of Offer Shares	:	406,855,905 Offer Shares
Number of Shares in issue upon completion of the Open Offer	:	1,423,995,668 Shares

The Offer Shares to be issued represent (i) approximately 40% of the entire issued share capital of the Company as at the Latest Practicable Date, (ii) approximately 28.57% of the entire issued share capital of the Company as enlarged by the issue of the Offer Shares, and (iii) approximately 11.23% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and the Consideration Shares.

As at the Latest Practicable Date, the Company has no derivatives option, warrants and conversion rights and other similar rights which are convertible or exchangeable into Shares and, save for the Open Offer, has no intention to issue any new shares or any of the above securities before completion of the Open Offer.

As at the Latest Practicable Date, Astrotech is beneficially interested in 449,244,000 Shares. Astrotech has undertaken to the Company that it will not (i) subscribe for the Offer Shares to which it is entitled under the Open Offer in order to comply with Schedule VI 3(b) of the Takeovers Code; and (ii) dispose of the Shares held by it from the date of the Underwriting Agreement to Completion.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Open Offer, Shareholders must at the close of business on the Record Date:

(i) be registered on the register of members of the Company; and

(ii) not be an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:00 p.m. on Thursday, 13 September 2007. The address of the Registrar is:

Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange.

Closure of register of members

The register of members of the Company has been closed from Friday, 14 September 2007 to Tuesday, 18 September 2007, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price for the Offer Shares is HK$0.35 per Offer Share, payable in full on acceptance. The Subscription Price represents:

(a) a discount of approximately 55.13% to the closing price per Share of HK$0.78 as quoted on the Stock Exchange on 12 February 2007, being the Last Trading Day;

(b) a discount of approximately 50.70% to the average closing price per Share of HK$0.71 as quoted on the Stock Exchange for the last 5 trading days leading up to and including the Last Trading Day;

(c) a discount of approximately 50.00% to the average closing price per Share of HK$0.70 as quoted on the Stock Exchange for the last 10 trading days leading up to and including the Last Trading Day;

(d) a discount of approximately 40.68% to the average closing price per Share of HK$0.59 as quoted on the Stock Exchange for the last 30 trading days leading up to and including the Last Trading Day;

(e) a discount of approximately 46.97% to the theoretical ex-entitlement price per Share of HK$0.66 based on the closing price as quoted on the Stock Exchange on the Last Trading Day;

(f) a premium of approximately 337.50% over the latest published audited consolidated net tangible assets per Share of approximately HK$0.08 as at 31 December 2006; and

(g) a discount of approximately 70.34% to the closing price per Share of HK$1.18 quoted on the Stock Exchange as at the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter and after having taken into account, among other things, i) the historical price of the Shares for the past year; ii) the business performance of the Company in the past; and iii) the Issue Price. The Directors consider that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Fractions of Offer Shares

The Company will not allot fractions of the Offer Shares. Any fractional entitlement to the Offer Shares will be aggregated and will be taken up by the Underwriter and/or the Qualifying Shareholders who have applied for the excess Offer Shares.

Share certificates and refund cheques for Open Offer

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before Monday, 15 October 2007 to those entitled thereto by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares (if any) are expected to be posted on or before Monday, 15 October 2007 by ordinary post to the applicants at their own risk.

Overseas Shareholders and Excluded Shareholders

The Prospectus Documents have not been registered or filed under the applicable securities legislation of any jurisdictions other than Hong Kong.

Based on the register of members of the Company, as at the Latest Practicable Date, there were three Overseas Shareholders whose registered addresses as shown in the register of members of the Company are at Taiwan, the United Kingdom and the United States of America, respectively. Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the offer of the Offer Shares to such Overseas Shareholders.

The Open Offer will be extended to the Overseas Shareholders in Taiwan and the United Kingdom as the Company has obtained legal advice that no local regulatory compliance is required to be made in these jurisdictions. The Company has also obtained advice from legal advisers in the United States of America that local legal and regulatory requirements may have to be complied with if the Open Offer Issue is to be extended to the Overseas Shareholders in this jurisdiction. In this connection, the Company has considered that it would not be necessary or expedient to include the Overseas Shareholders in the United States of America in the Open Offer because of the time and costs involved in complying with the relevant legal and regulatory requirements. The Company will therefore send this Prospectus, for information only, to such Excluded Shareholder. The PAL and EAF will not be sent to the Excluded Shareholder.

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Offer Shares to satisfy himself or herself or itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

The entitlement of the Excluded Shareholders under the Open Offer will be taken up by the Underwriters and/or the Qualifying Shareholders who have applied for the excess Offer Shares.

Requirements under Cayman Islands laws

No authorisations, consents, approvals or licences are required by law from any governmental authorities or agencies or other official bodies in the Cayman Islands in connection with the issue of this Prospectus or the Offer Shares.

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Offer Shares.

Application for listing and dealings in the Offer Shares

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will commence on Wednesday, 17 October 2007 and will be subject to the payment of stamp duty in Hong Kong.

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

Conditions of the Open Offer

The Open Offer is conditional upon:

(1) the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by all Directors (or by their agents duly authorised in writing) in the manner as mentioned in paragraph (6) below of two copies of each of the Prospectus Documents on or before the Posting Date;

(2) the delivery of one such signed copy of each of the Prospectus Documents to the Underwriter on or before the Posting Date;

(3) the approval of the Sale and Purchase Agreements (including the allotment and issue of Consideration Shares) by Independent Shareholders by poll at the EGM on or before the Posting Date;

(4) the approval of the Whitewash Waiver by Independent Shareholders by poll at the EGM and the receipt of the Whitewash Waiver before the Posting Date;

(5) the obtaining of the necessary approvals issued by the relevant PRC authorities of the Restructuring and the Proposed Acquisition before the Posting Date;

(6) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly certified by two Directors (or by their agents duly authorised in writing) in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules on or before the Posting Date;

(7) the posting of copies of the Prospectus Documents to the Qualifying Shareholders on the Posting Date;

(8) compliance by the Company with all its obligations under the Underwriting Agreement; and

(9) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares on or before 4:00 p.m. on the Business Day immediately preceding the commencement of dealings in Offer Shares.

In the event the said conditions have not been satisfied on or before the respective dates above (or such other date as the Company and the Underwriter may otherwise agree, which shall not be later than 31 October 2007 unless extended by mutual agreement), the Underwriting Agreement shall terminate and all obligations and liabilities of the parties thereunder shall cease and determine and no party shall have any claim against the others (save for any antecedent breaches thereof).

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Underwriter	:	Luen Fat Securities Company Limited

Number of Offer Shares underwritten	:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite 406,855,905 Offer Shares, representing approximately 40% of the entire issued share capital of the Company as at the date of this Prospectus, on a fully underwritten basis
Commission	:	3% of the aggregate Subscription Price in respect of then number of Offer Shares agreed to be underwritten by the Underwriter

The 3% commission payable to the Underwriter was determined after arm's length negotiations between the Company and the Underwriter. The Directors consider that the underwriting commission is on normal commercial terms and accords with market rates.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Offer Shares which have not been taken up. The Underwriter and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules), and are not acting in concert with the Sub-underwriter, Astrotech and their respective concert parties.

Termination of the Underwriting Agreement

The Underwriter has the right to terminate the Underwriting Agreement by notice in writing given to the Company at any time prior to 4:00 p.m. on the second Business Day after the latest time for the acceptance of and payment for Offer Shares, if:

(i) the occurrence of the following events would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or

(c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);

(ii) any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;

(iii) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

(iv) the Underwriter shall receive notification pursuant to the terms of the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties by the Company in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate and the Underwriter shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Open Offer; or

(v) the Company shall, after any matter or event that comes to the attention of the Company that any representation or warranty given would be untrue or inaccurate in any respect or would render untrue, inaccurate in any material respect or misleading or such events come to the attention of the Underwriter, fail promptly to send out any announcement or Prospectus (after the despatch of the Prospectus Documents), in such manner as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of such termination notice, all obligations of the Underwriter shall cease and determine (save for any antecedent breaches thereof) and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES

Shareholders should note that if the conditions of the Open Offer are not fulfilled or the Underwriting Agreement is terminated, the Open Offer will not proceed. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Open Offer is subject are fulfilled will bear the risk that the Open Offer may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are tables showing the shareholding structure of the Company i) as at the Latest Practicable Date; ii) immediately upon completion of the Open Offer; and iii) immediately upon Completion:–

(i) & (ii)

	As at the Latest Practicable Date		Immediately upon completion of the Open Offer (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		Immediately upon completion of the Open Offer (assuming no Qualifying Shareholder takes up his/her/its entitlements under the Open Offer)	
Shareholders	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**
Astrotech and its concert parties	449,244,000	44.17	449,244,000	31.55	449,244,000	31.55
Underwriter *(Note)*	—	—	179,697,600	12.62	283,855,905	19.93
Sub-underwriter (Note)	—	—	—	—	*123,000,000*	*8.64*
Other Public Shareholders	*567,895,763*	*55.83*	*795,054,068*	*55.83*	*567,895,763*	*39.88*
Sub-total of public float	567,895,763	55.83	795,054,068	55.83	690,895,763	48.52
Total	**1,017,139,763**	**100.00**	**1,423,995,668**	**100.00**	**1,423,995,668**	**100.00**

(iii)

	Immediately upon Completion (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		Immediately upon Completion (assuming no Qualifying Shareholder takes up his/her/its entitlements under the Open Offer)	
Shareholders	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**
Astrotech and its concert parties	2,649,244,000	73.10	2,649,244,000	73.10
Underwriter (Note)	*179,697,600*	*4.96*	*283,855,905*	*7.83*
Sub-underwriter (Note)	—	—	*123,000,000*	*3.40*
Other Public Shareholders	*795,054,068*	*21.94*	*567,895,763*	*15.67*
Sub-total of public float	974,751,668	26.90	974,751,668	26.90
Total	**3,623,995,668**	**100.00**	**3,623,995,668**	**100.00**

Note: Pursuant to a sub-underwriting arrangement made between the Underwriter and the Sub-underwriter (who and whose respective ultimate beneficial owners are also third parties independent of the Company and its connected persons, and not acting in concert with the Underwriter, Astrotech and their respective concert parties), the Underwriter has conditionally agreed to sub-underwrite 123,000,000 Offer Shares to the Sub-underwriter.

Shareholders and public investors should note that the above shareholding structure is for illustration purpose only and the actual shareholding structure of the Company upon completion of the Open Offer and Completion are subject to various factors, including the results of acceptance of the Open Offer.

The Proposed Acquisition and the Open Offer will not result in a change of control of the Company.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE LAST TWELVE MONTHS IMMEDIATELY BEFORE THE DATE OF THE ANNOUNCEMENT

The Company did not have any capital raising activities in the last twelve months immediately before the date of the Announcement.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Taking into account of the past history of the Acquired Businesses, the Group's cashflow position will be substantially enhanced after Completion. The Group will continue to expand its business in the alternate energy market through acquiring or investing quality alternate energy projects. At the same time, the Group will also continue to seek for any investment opportunity to diversify its business.

The Group will benefit from its continuous investments in alternate energy industry given the shortage of electricity supplies in the PRC and the global trend towards renewable energy for environmental reasons assuring the tremendous demands in the future.

PROCEDURES FOR ACCEPTANCE

A PAL is enclosed with this Prospectus which entitles you to accept any number of Offer Shares provisionally allotted to you. Qualifying Shareholders should note that they may accept any number of Offer Shares but are assured of an allotment only up to the number set out in the PAL. If you are a Qualifying Shareholder and you wish to accept your assured allotment of Offer Shares to which you are entitled as specified in the enclosed PAL or you wish to accept any number less than your assured entitlement, you must complete, sign and lodge the PAL in accordance with the instructions printed thereon, together with remittance for the aggregate subscription price in respect of such number of Offer Shares you have accepted with the Registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by not later than 4:00 p.m. on Friday, 5 October 2007. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "CASIL Telecommunications Holdings Limited - Provisional Allotment" and crossed "Account Payee Only".

It should be noted that unless the PAL, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Friday, 5 October 2007, that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

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

The PAL contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements under the Open Offer.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any PAL in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The PAL is for use only by the person(s) named therein and is not transferable.

No receipt will be issued in respect of any acceptance monies received.

APPLICATION FOR EXCESS OFFER SHARES

Under the Open Offer, Qualifying Shareholders may apply for any entitlements of the Excluded Shareholders, any unsold fractions of Offer Shares and any Offer Shares not taken up by the Qualifying Shareholders. Application can be made by completing the EAF for excess Offer Shares and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Company will allocate the excess Offer Shares at their discretion on a fair and equitable basis.

If you are a Qualifying Shareholder and you wish to apply for excess Offer Shares in addition to your assured allotment of Offer Shares to which you are entitled as specified in the enclosed PAL, you must complete, sign and lodge the EAF in accordance with the instructions printed thereon, together with remittance for the aggregate subscription price in respect of such number of excess Offer Shares you have applied with the Registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by not later than 4:00 p.m. on Friday, 5 October 2007. All remittances must be made in Hong Kong dollars and cheques or cashier's order must be drawn on a bank account in Hong Kong and made payable to "CASIL Telecommunications Holdings Limited - Excess Application" and crossed "Account Payee Only". The Registrar will notify you of any allotment of the excess Offer Shares made to you, which allotment will be allocated on a fair and reasonable basis to be decided at the sole discretion of the Directors.

Investors with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

The latest time for the acceptance of and payment for Offer Shares is 4:00 p.m. on Friday, 5 October 2007, or such later time or date as may be agreed between the Company and the Underwriter.

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

The EAF contains full information regarding the procedures to be followed if you wish to apply for excess Offer Shares in addition to your assured entitlements under the Open Offer.

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

The EAF is for use only by person(s) named therein and is not transferable.

No receipt will be issued in respect of any monies received for application of excess Offer Shares.

FURTHER INFORMATION

Your attention is drawn to the information set out elsewhere in this Prospectus and in the appendices to it.

Yours faithfully,
For and on behalf of the board of directors of
CASIL Telecommunications Holdings Limited
Wang Xiaodong
Executive Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated income statement and balance sheet for the three years ended 31 December 2006 as extracted from the respective annual reports of the Group, and as restated and reclassified as appropriate. There was no modification or qualification in the auditor's reports of the Group for each of the three years ended 31 December 2004, 2005 and 2006. There were no extraordinary items or exceptional items for these three years.

Consolidated income statement

	For the year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
		(Note)	*(Note)*
Continuing operations			
Turnover	141,275	173,478	135,044
Cost of sales	(134,495)	(111,785)	(85,487)
Gross profit	6,780	61,693	49,557
Other income	20,775	2,914	8,553
Distribution costs	(9,458)	(9,355)	(10,474)
Administrative expenses	(74,795)	(46,665)	(34,749)
Impairment loss recognised in respect of intangible assets	(9,403)	—	—
Reversal of (allowance for) amount due from an associate	10,019	(27,633)	—
Finance costs	(9,370)	(5,803)	(5,059)
Share of result of associates	(1,300)	(259)	(149)
Net loss on liquidation of subsidiaries	—	—	(186)
(Loss) profit before taxation	(66,752)	(25,108)	7,493
Taxation	1,751	439	(2,408)
(Loss) profit for the year from continuing operations	(65,001)	(24,669)	5,085
Discontinued operation			
Loss for the year from discontinued operation	(224)	(4,695)	(907)
(Loss) profit for the year	(65,225)	(29,364)	4,178
Attributable to:			
Equity holders of the Company	(64,562)	(29,781)	5,368
Minority interests	(663)	417	(1,190)
	(65,225)	(29,364)	4,178
	HK cent	*HK cent*	*HK cent*
Basic (loss) earnings per share for (loss)/profit attributable to the equity holders of the Company			
— From continuing and discontinued operations	(6.35)	(2.93)	0.54
— From continuing operations	(6.33)	(2.47)	0.63

Note: Owing to the discontinuance of the Group's operation of video conference system in 2006, the consolidated results of the Group for the years ended 31 December 2004 and 2005 have been restated to conform with the presentation for the year ended 31 December 2006.

Consolidated balance sheet

	As at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	42,879	54,432	47,202
Goodwill	—	1,607	4,275
Intangible assets	9,800	33,634	36,391
Interests in associates	84,864	8,650	1,269
	137,543	98,323	89,137
Current assets			
Inventories	62,910	48,808	70,523
Trade and other receivables	92,615	165,873	124,170
Amounts due from related companies	15,291	15,291	15,291
Amounts due from associates	25,969	323	19,122
Taxation recoverable	—	—	210
Pledged bank deposits	1,537	1,351	1,264
Bank balances and cash	81,777	22,387	37,616
	280,099	254,033	268,196
Current liabilities			
Trade and other payables	41,587	85,385	68,312
Amounts due to related companies	4,407	4,407	3,743
Amounts due to associates	13,365	—	870
Amounts due to immediate holding company of a shareholder	—	—	906
Taxation payable	330	65	296
Borrowings — amount due within one year	97,350	98,998	39,358
	157,039	188,855	113,485
Net current assets	123,060	65,178	154,711

Consolidated balance sheet *(Continued)*

	As at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total assets less current liabilities	260,603	163,501	243,848
Non-current liabilities			
Borrowing — amount due after one year	168,317	6,654	59,381
Deferred taxation	—	2,217	2,675
	168,317	8,871	62,506
	92,286	154,630	181,342
Capital and reserves			
Share capital	101,714	101,714	101,714
Reserves	(11,440)	50,283	78,832
Equity attributable to equity holders of the Company	90,274	151,997	180,546
Minority interests	2,012	2,633	796
Total equity	92,286	154,630	181,342

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated income statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operations			
Turnover	6	141,275	173,478
Cost of sales		(134,495)	(111,785)
Gross profit		6,780	61,693
Other income		20,775	2,914
Distribution costs		(9,458)	(9,355)
Administrative expenses		(74,795)	(46,665)
Impairment loss recognised in respect of intangible assets		(9,403)	—
Reversal of (allowance for) amount due from an associate		10,019	(27,633)
Finance costs	8	(9,370)	(5,803)
Share of results of associates		(1,300)	(259)
Loss before taxation		(66,752)	(25,108)
Taxation	9	1,751	439
Loss for the year from continuing operations		(65,001)	(24,669)
Discontinued operation			
Loss for the year from discontinued operation	10	(224)	(4,695)
Loss for the year		(65,225)	(29,364)
Attributable to:			
Equity holders of the Company		(64,562)	(29,781)
Minority interests		(663)	417
		(65,225)	(29,364)
Loss per share — Basic	14		
From continuing and discontinued operations		HK(6.35) cents	HK(2.93) cents
From continuing operations		HK(6.33) cents	HK(2.47) cents

Consolidated balance sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	42,879	54,432
Goodwill	16	—	1,607
Intangible assets	17	9,800	33,634
Interest in associates	18	84,864	8,650
		137,543	98,323
Current assets			
Inventories	19	62,910	48,808
Trade and other receivables	20	92,615	165,873
Amounts due from related companies	21	15,291	15,291
Amounts due from associates	22	25,969	323
Pledged bank deposits	23	1,537	1,351
Bank balances and cash	24	81,777	22,387
		280,099	254,033
Current liabilities			
Trade and other payables	25	41,587	85,385
Amounts due to related companies	21	4,407	4,407
Amounts due to associates	22	13,365	—
Taxation		330	65
Borrowings — amount due within one year	26	97,350	98,998
		157,039	188,855
Net current assets		123,060	65,178
Total assets less current liabilities		260,603	163,501
Non-current liabilities			
Borrowings — amount due after one year	26	168,317	6,654
Deferred taxation	27	—	2,217
		168,317	8,871
		92,286	154,630

Consolidated balance sheet *(Continued)*
As at 31 December 2006

		2006	**2005**
	Notes	*HK$'000*	*HK$'000*
Capital and reserves			
Share capital	*28*	101,714	101,714
Reserves		(11,440)	50,283
Equity attributable to equity holders of the Company		90,274	151,997
Minority interests		2,012	2,633
Total equity		92,286	154,630

Consolidated cash flow statement
For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Cash flows from operating activities			
Loss before taxation		(66,931)	(29,874)
Adjustments for:			
Interest income		(567)	(154)
Interest expenses		9,447	5,889
Share of results of associates		1,300	259
Amortisation of intangible assets		12,900	5,016
Depreciation of property, plant and equipment		7,714	7,203
Loss on disposal of property, plant and equipment		48	45
Impairment loss recognised in respect of intangible assets		9,403	—
Gain on disposal and deemed disposal of subsidiaries		(2,641)	—
Impairment loss recognised in respect of goodwill		542	2,668
Allowance for doubtful debts		22,170	5,178
(Reversal of) allowance for amount due from an associate		(10,019)	27,633
Allowance for obsolete inventories		1,916	274
Write-off of development costs		—	228
Write-back of interest payable		(14,585)	—
Effect of foreign exchange rate changes on intercompany balances		(3,531)	(1,017)
Operating cash flows before movements in working capital		(32,834)	23,348
(Increase) decrease in inventories		(25,903)	22,754
Decrease (increase) in trade and other receivables		43,941	(45,342)
Increase in amounts due from associates		(15,601)	(8,466)
(Decrease) increase in trade and other payables		(5,382)	16,071
Increase in amounts due to related companies		—	592
Increase (decrease) in amounts due to associates		13,316	(887)
Decrease in amount due to immediate holding company of a shareholder		—	(923)

Consolidated cash flow statement *(Continued)*
For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Cash (used in) generated from operations		(22,463)	7,147
Income taxes (paid) refunded		(118)	31
Net cash (used in) generated from operating activities		(22,581)	7,178
Investing activities			
Capital contribution to associates		(66,476)	(7,640)
Purchase of property, plant and equipment		(9,787)	(13,846)
Increase in pledged bank deposits		(175)	(87)
Interest received		567	154
Proceeds from disposal of property, plant and equipment		458	184
Net cash inflow in respect of disposal and deemed disposal of subsidiaries	*30*	199	—
Development costs paid		—	(2,418)
Net cash used in investing activities		(75,214)	(23,653)
Financing activities			
New loans raised		208,911	4,717
Repayments of bank loans		(44,800)	(471)
Interest paid		(7,463)	(3,905)
Capital contribution from minority shareholders		—	1,413
Net cash from financing activities		156,648	1,754
Net increase (decrease) in cash and cash equivalents		58,853	(14,721)
Effect of foreign exchange rate changes		537	(508)
Cash and cash equivalents at beginning of the year		22,387	37,616
Cash and cash equivalents at end of the year, representing bank balances and cash		81,777	22,387

Consolidated statement of changes in equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	Special reserve HK$'000 (Note)	Share premium account HK$'000	Exchange reserve HK$'000	General reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	101,714	117,554	473,093	829	3,430	(516,074)	180,546	796	181,342
Exchange difference arising on translation of operations outside Hong Kong not recognised in the consolidated income statement	–	–	–	1,232	–	–	1,232	7	1,239
Loss for the year	–	–	–	–	–	(29,781)	(29,781)	417	(29,364)
Total recognised income (expense) for the year	–	–	–	1,232	–	(29,781)	(28,549)	424	(28,125)
Capital contribution from minority shareholders	–	–		–	–	–	–	1,413	1,413
At 31 December 2005 and 1 January 2006	101,714	117,554	473,093	2,061	3,430	(545,855)	151,997	2,633	154,630
Exchange difference arising on translation of operations outside Hong Kong not recognised in the consolidated income statement	–	–	–	2,707	–	–	2,707	42	2,749
Released on disposal and deemed disposal of subsidiaries	–	–	–	132	–	–	132	–	132
Loss for the year	–	–	–	–	–	(64,562)	(64,562)	(663)	(65,225)
Total recognised income (expense) for the year	–	–	–	2,839	–	(64,562)	(61,723)	(621)	(62,344)
At 31 December 2006	101,714	117,554	473,093	4,900	3,430	(610,417)	90,274	2,012	92,286

Note: The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital of the subsidiaries acquired by the Company and the aggregate amount of HK$116,025,000 transferred from other reserves pursuant to the Group's reorganisation on 11 August 1997.

Notes to the financial statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate substantial shareholder is Astrotech Group Limited ("Astrotech"), a company incorporated in the Cayman Islands which holds 44.17% of equity interest in the Company with controlling interest. Astrotech is wholly owned by China Academy of Launch Vehicle Technology ("CALT"). China Aerospace Science & Technology Corporation ("CASC") is a substantial shareholder of the Company via the immediate shareholding of CALT. Both CASC and CALT are companies established in the People's Republic of China (the "PRC").

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

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in note 36.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application 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 not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

All significant intercompany transactions and balances within the Group 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.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of subsidiaries for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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.

Revenue recognition

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

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

Service income is recognised when services are rendered.

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 though the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight line method.

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.

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

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 recoverable 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.

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Impairment (other than goodwill)

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 income immediately.

Inventories

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

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.

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 or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. Current tax liabilities are measured using tax rates that have been enacted 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 base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Taxation *(Continued)*

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases when 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 lessee

Rental 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.

Retirement benefit schemes

Payments to the defined contribution retirement schemes are charged as an expense as they fall due.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Loans and receivables

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowings costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies and amounts due to associates are subsequently measured at amortised cost, using the effective interest rate 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 contractual rights to receive cash flows from the assets expire or the 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 any cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

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 its 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (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.

Goodwill and fair value adjustments arising on acquisition of foreign operations prior to 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange difference arising are recognised in the translation reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

Estimated impairment of trade receivables, amounts due from related companies and amounts due from associates

When there is objective evidence of impairment loss, the Group assesses impairment loss by taking into consideration the estimation of future cash flows and the latest available information of the financial position of the debtors. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated impairment of intangibles

The Group's net carrying amount of technology license right as at 31 December 2006 was approximately HK$9,800,000. The management estimates the recoverable amount of the intangibles by estimation of the future cash flows expected to arise and a suitable discount rate in order to calculate the present value. Change in the estimation may have a material impact on the recoverable amount of the intangibles.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, amounts due from related companies, amounts due from associates, bank balances and cash, trade and other payables, amounts due to related companies, amounts due to associates and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Credit risk

The Group's major financial assets are trade receivables, amounts due from associates, and amounts due from related companies, bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, amounts due from associates, and amounts due from related companies, the management of the Group reviews the recoverable amount of each individual trade debt, amounts due from associates and amounts due from related companies 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.

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

Interest rate risk

The Group's interest rate risk relates primarily to fixed-rate borrowings. The Group currently does not have policy to against its interest risk. However, the management monitors interest rate risk exposure and will consider implementing appropriate measures when significant interest rate exposure is anticipated.

6. TURNOVER

Turnover represents the gross invoiced value of goods sold less discounts and sales related taxes and revenue from service contracts. An analysis of the Group's revenue for the year from continuing and discontinued operation is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Continuing operations		
Sales of goods	134,690	165,713
Revenue from service contracts	6,585	7,765
	141,275	173,478
Discontinued operation		
Sales of goods	14,924	12,306
	156,199	185,784

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

For management purposes, the Group has been organised into the following divisions:

Communication Products, Intelligent Transportation Systems ("ITS"), Video Conference System, Broadband Wireless Access and Wind Energy Facilities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Communication Products	—	manufacture and distribution of telecommunication products
ITS	—	development, manufacture, distribution and installation of global positioning system application products
Video Conference System (Note)	—	development, manufacture, distribution and installation of video conference system
Broadband Wireless Access	—	development, distribution and installation of broadband system, equipment and accessories
Wind Energy Facilities	—	maintenance and operation of wind energy plants and facilities

Note: During the year, the Group has discontinued its operation in video conference system (see note 10).

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

(i) Segment information about these businesses for the year ended 31 December 2006 is presented below:

Income statement

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER									
External sales	55,506	32,073	53,696	–	–	–	141,275	14,924	156,199
RESULT									
Segment result	4,503	(1,115)	(62,892)	(520)	(117)	–	(60,141)	582	(59,559)
Unallocated corporate expenses							(13,851)	–	(13,851)
Unallocated corporate income							14,585	–	14,585
Gain (loss) on disposal and deemed disposal of subsidiaries							3,325	(684)	2,641
Finance costs							(9,370)	(77)	(9,447)
Share of results of associate	540	(671)	(723)	(446)	–	–	(1,300)	–	(1,300)
Loss before taxation							(66,752)	(179)	(66,931)
Taxation							1,751	(45)	1,706
Loss for the year							(65,001)	(224)	(65,225)

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) **Business segments** *(Continued)*

(i) Segment information about these businesses for the year ended 31 December 2006 is presented below: *(Continued)*

Balance sheet

	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	52,033	35,709	195,588	2,828	167	286,325
Interest in associates	530	1,320	3,423	73,675	5,916	84,864
Unallocated corporate assets						46,453
Consolidated total assets						417,642
LIABILITIES						
Segment liabilities	11,746	18,957	7,379	5	47	38,134
Unallocated corporate liabilities						287,222
Consolidated total liabilities						325,356

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) **Business segments** *(Continued)*

(i) Segment information about these businesses for the year ended 31 December 2006 is presented below: *(Continued)*

Other information

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions									
– Property, plant and equipment	–	4,758	4,817	–	–	25	9,600	187	9,787
Depreciation and amortisation									
– Property, plant and equipment	163	1,608	5,190	–	3	403	7,367	347	7,714
– Development costs	–	856	2,619	–	–	–	3,475	–	3,475
– Technology license right	–	–	9,425	–	–	–	9,425	–	9,425
Allowance for doubtful debts	–	–	22,170	–	–	–	22,170	–	22,170
Allowance for obsolete inventories	5	–	1,911	–	–	–	1,916	–	1,916
Loss on disposal of property, plant and equipment	–	48	–	–	–	–	48	–	48
Impairment loss recognised in respect of:									
– Development costs	–	207	146	–	–	–	353	–	353
– Technology license right	–	–	9,050	–	–	–	9,050	–	9,050
Impairment loss recognised in respect of goodwill	–	–	542	–	–	–	542	–	542
Gain (loss) on disposal of subsidiaries	–	980	2,345	–	–	–	3,325	(684)	2,641

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below:

Income statement

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER									
External sales	39,284	35,399	98,795	–	–	–	173,478	12,306	185,784
Inter-segment sales*	–	469	11,156	–	–	(11,625)	–	–	–
Total	39,284	35,868	109,951	–	–	(11,625)	173,478	12,306	185,784
RESULT									
Segment result	(904)	(893)	23,209	–	(1,533)	–	19,879	(4,680)	15,199
Unallocated corporate expenses							(38,925)	–	(38,925)
Finance costs							(5,803)	(86)	(5,889)
Share of results of associates	–	(259)	–	–	–	–	(259)	–	(259)
Loss before taxation							(25,108)	(4,766)	(29,874)
Taxation							439	71	510
Loss for the year							(24,669)	(4,695)	(29,364)

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

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) Business segments *(Continued)*

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below: *(Continued)*

Balance sheet

	Communication Products	**ITS**	**Video Conference System**	**Broadband Wireless Access**	**Wind Energy Facilities**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	14,849	39,607	19,134	251,562	—	372	325,524
Interest in associates	—	1,010	—	—	7,640	—	8,650
Unallocated corporate assets							18,182
Consolidated total assets							352,356
LIABILITIES							
Segment liabilities	16,356	17,790	3,175	41,511	—	594	79,426
Unallocated corporate liabilities							118,300
Consolidated total liabilities							197,726

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below: *(Continued)*

Other information

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions									
– Property, plant and equipment	493	1,995	10,508	–	787	–	13,783	63	13,846
– Development costs	–	–	2,418	–	–	–	2,418	–	2,418
Depreciation and amortisation									
– Property, plant and equipment	119	1,334	4,902	–	13	410	6,778	425	7,203
– Development costs	–	944	1,560	–	–	–	2,504	250	2,754
– Technology license right	–	–	2,262	–	–	–	2,262	–	2,262
(Reversal of) allowance for doubtful debts	–	(48)	3,561	–	–	–	3,513	1,665	5,178
Allowance for amount due from an associate	–	–	–	–	–	27,633	27,633	–	27,633
Allowance for obsolete inventories	–	274	–	–	–	–	274	–	274
Loss on disposal of property, plant and equipment	–	35	10	–	–	–	45	–	45
Impairment loss recognised in respect of goodwill	–	–	–	–	–	–	–	2,668	2,668
Write-off of development costs	–	228	–	–	–	–	228	–	228

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)***

(B) Geographical segments

The Group's operations are located in Hong Kong and other parts of the PRC.

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

	Turnover	
	2006	**2005**
	HK$'000	*HK$'000*
PRC	71,715	141,775
Hong Kong	14,100	15,919
United States of America	69,191	25,783
Others	1,193	2,307
	156,199	185,784

(ii) The following is an analysis of the carrying amount of the segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		**Additions to property, plant and equipment and intangible assets**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	186,514	269,905	7,860	15,739
Hong Kong	99,811	55,619	1,927	525
	286,325	325,524	9,787	16,264

8. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on:						
Bank borrowings						
— wholly repayable within five years	2,367	3,161	77	86	2,444	3,247
— not wholly repayable within five years	—	494	—	—	—	494
Other loans						
— wholly repayable within five years	7,003	—	—	—	7,003	—
— not wholly repayable within five years	—	2,148	—	—	—	2,148
	9,370	5,803	77	86	9,447	5,889

9. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tax credit (charge) for the year comprises:						
Current tax:						
Hong Kong	(330)	—	—	—	(330)	—
Other regions in the PRC	(104)	—	—	—	(104)	—
	(434)	—	—	—	(434)	—
(Under)overprovision in prior years:						
Hong Kong	(13)	(19)	—	—	(13)	(19)
Other regions in the PRC	(19)	—	(45)	71	(64)	71
	(32)	(19)	(45)	71	(77)	52
Deferred tax credit (note 27)	2,217	458	—	—	2,217	458
	1,751	439	(45)	71	1,706	510

9. **TAXATION** *(Continued)*

The reconciliation of tax credit for the year to the loss before taxation is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Loss before taxation		
Continuing operations	(66,752)	(25,108)
Discontinued operation	(179)	(4,766)
	(66,931)	(29,874)
Tax credit at Hong Kong Profits Tax of 17.5% (2005: 17.5%)	11,713	5,228
Share of results of associates	(228)	(45)
Tax effect of expenses not deductible for tax purpose	(977)	(1,243)
Tax effect of temporary differences not recognised	(823)	—
Tax effect of income not taxable for tax purpose	889	497
Tax effect of losses not recognised	(10,317)	(11,561)
Utilisation of tax losses previously not recognised	2,319	366
Effect of different tax rates of subsidiaries operating in other regions in the PRC	(739)	(320)
(Under)over provision in prior year	(77)	52
Tax effect of tax exemption granted to a PRC subsidiary	—	7,530
Others	(54)	6
Tax credit for the year	1,706	510

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

9. TAXATION *(Continued)*

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

10. DISCONTINUED OPERATION

On 22 November 2006, the Group entered into a sale and purchase agreement in respect of the disposal of a subsidiary, CASTEL Videotech (Hong Kong) Limited ("CASTEL Videotech"), which carried out all of the Group's development, manufacture, distribution and installation of video conference system. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was effective in November 2006, in which the control of the disposal group passed to the acquirer.

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

	2006	**2005**
	HK$'000	*HK$'000*
Profit (loss) of video conference system operation for the year	460	(4,695)
Loss on disposal of video conference system operation *(see note 30)*	(684)	—
	(224)	(4,695)

10. DISCONTINUED OPERATION *(Continued)*

The results of the video conference system operation for the year up to the date of disposal, which have been included in the consolidated income statement, were as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover	14,924	12,306
Cost of sales	(9,625)	(8,922)
Other income	460	189
Distribution costs	(1,530)	(888)
Administrative expenses	(3,647)	(7,365)
Finance costs	(77)	(86)
Profit (loss) before taxation	505	(4,766)
Taxation	(45)	71
Profit (loss) for the year	460	(4,695)
Loss on disposal of video conference system operation	(684)	—
	(224)	(4,695)

During the year, the video conference system operation paid HK$5,771,000 (2005: HK$1,145,000) to the Group's net operating cash flows, paid HK$205,000 (2005: HK$54,000) in respect of investing activities and contributed HK$5,000,000 (2005: nil) in respect of financing activities.

The carrying amounts of the assets and liabilities of the discontinued operation at the date of disposal are disclosed in note 30.

11. LOSS FOR THE YEAR

	Continuing operations		Discontinued operation		Total	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the year has been arrived at after charging:						
Directors' emoluments	1,164	3,774	—	—	1,164	3,774
Other staff costs	23,672	18,282	2,718	2,017	26,390	20,299
Other staff's retirement benefits scheme contributions	1,338	860	64	47	1,402	907
	26,174	22,916	2,782	2,064	28,956	24,980
Amortisation of intangible assets *(Note)*	12,900	4,766	—	250	12,900	5,016
Auditors' remuneration	1,629	1,195	—	5	1,629	1,200
Cost of inventories recognised as an expense	118,832	100,964	7,784	8,921	126,616	109,885
Depreciation of property, plant and equipment	7,367	6,778	347	425	7,714	7,203
Loss on disposal of property, plant and equipment	48	45	—	—	48	45
Loss on disposal and deemed disposal of subsidiaries	—	—	684	—	684	—
Impairment loss recognised in respect of goodwill (included in administration expenses)	542	—	—	2,668	542	2,668
Minimum lease payments paid under operating leases in respect of land and buildings	3,725	3,352	89	97	3,814	3,449
Research and development expenses	1,620	696	—	—	1,620	696
Allowance for doubtful debts	22,170	3,513	—	1,665	22,170	5,178
Allowance for obsolete inventories	1,916	274	—	—	1,916	274
Write-off of development costs	—	228	—	—	—	228
Exchange loss recognised	1,247	248	—	—	1,247	248
and crediting:						
Interest income	559	145	8	9	567	154
Write-back of interest payable *(see note 26)*	14,585	—	—	—	14,585	—
Gain on disposal and deemed disposal of subsidiaries	3,325	—	—	—	3,325	—

11. **LOSS FOR THE YEAR** *(Continued)*

Note: During the year, amortisation of intangible assets of approximately HK$12,900,000 (2005: HK$4,264,000) and nil (2005: HK$752,000) were included in cost of sales and administrative expenses respectively.

12. **DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

(a) **Directors**

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

	2006				2005			
		Other emoluments				Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Total	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wang Xiaodong	—	814	12	826	—	1,053	12	1,065
Han Jiang*	—	67	2	69	—	755	12	767
Zhou Xiaoyun*	—	67	2	69	—	747	12	759
Xu Jian Hua*	—	—	—	—	—	711	12	723
Ma Yucheng*	—	—	—	—	—	260	—	260
Liang Xiaohong	—	—	—	—	—	—	—	—
Wu Yansheng	—	—	—	—	—	—	—	—
Li Guang	—	—	—	—	—	—	—	—
Han Shuwang	—	—	—	—	—	—	—	—
Tang Guohong	—	—	—	—	—	—	—	—
Moh Kwen Yung	50	—	—	50	50	—	—	50
Zhu Shixiong	50	—	—	50	50	—	—	50
Wong Fai, Philip	50	—	—	50	50	—	—	50
Yiu Ying Wai	50	—	—	50	50	—	—	50
Total	200	948	16	1,164	200	3,526	48	3,774

* These directors were resigned during the year ended 31 December 2006. The amount shown above represents the directors' emoluments paid during their period of services as directors.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals included three (2005: four) directors, two (2005: nil) of whom resigned during the year and became employees of the Group.

The emoluments of the five highest paid individuals were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	3,227	3,939
Retirement benefits scheme contribution	60	60
	3,287	3,999

The aggregate emoluments paid to each of the highest paid individuals during the year did not exceed HK$1,000,000.

13. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2006, nor has any dividend been proposed since the balance sheet date (2005: nil).

14. LOSS PER SHARE — BASIC

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data.

	2006	**2005**
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share	(64,562)	(29,781)
Less: Loss for the year from discontinued operations	224	4,695
Loss for the purpose of basic loss per share from continuing operations	(64,338)	(25,086)

	Number of shares	
	2006	**2005**
Weighted average number of shares for the purpose of basic loss per share	1,017,139,763	1,017,139,763

From discontinued operation

Basic loss per share for the discontinued operation is HK0.02 cents per share (2005: HK0.46 cents per share), based on the loss for the year from the discontinued operation of HK$224,000 (2005: HK$4,695,000) and the denominators detailed above for basic loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Plant, equipment and machinery *HK$'000*	Moulds and tools *HK$'000*	Furniture and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST						
At 1 January 2005	15,075	31,732	1,007	18,872	3,696	70,382
Exchange adjustment	290	616	12	102	40	1,060
Additions	7,133	2,890	144	3,015	664	13,846
Reclassifications	—	(2,087)	2,052	5	30	—
Disposals	—	(199)	(146)	(357)	—	(702)
At 31 December 2005	22,498	32,952	3,069	21,637	4,430	84,586
Exchange adjustments	668	972	79	239	63	2,021
Additions	1,161	3,469	25	4,007	1,125	9,787
Disposed of on disposal and deemed disposal of subsidiaries	(8,388)	(2,939)	(129)	(6,958)	(1,023)	(19,437)
Disposals	(3,758)	(323)	—	(308)	(288)	(4,677)
At 31 December 2006	12,181	34,131	3,044	18,617	4,307	72,280
DEPRECIATION						
At 1 January 2005	2,713	5,669	310	12,630	1,858	23,180
Exchange adjustment	53	121	5	55	10	244
Provided for the year	684	3,501	595	1,937	486	7,203
Reclassifications	—	(163)	132	29	2	—
Eliminated on disposals	—	(164)	(47)	(262)	—	(473)
At 31 December 2005	3,450	8,964	995	14,389	2,356	30,154
Exchange adjustment	103	260	23	105	22	513
Provided for the year	616	3,927	592	2,067	512	7,714
Eliminated on disposal and deemed disposal of subsidiaries	(51)	(1,068)	(45)	(3,089)	(556)	(4,809)
Eliminated on disposals	(3,758)	(69)	—	(242)	(102)	(4,171)
At 31 December 2006	360	12,014	1,565	13,230	2,232	29,401
NET BOOK VALUES						
At 31 December 2006	11,821	22,117	1,479	5,387	2,075	42,879
At 31 December 2005	19,048	23,988	2,074	7,248	2,074	54,432

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold land and buildings	4 – 5% or over the unexpired lease terms
Plant, equipment and machinery	9 – 15%
Moulds and tools	25%
Furniture and office equipment	10 – 25%
Motor vehicles	18 – 25%

At 31 December 2005, the Group has pledged land and buildings having a net book value of approximately HK$10,280,000 (2006: nil) to secure general banking facilities granted to the Group.

The Group's property interests shown above were held under medium term leases in the PRC.

16. GOODWILL

	HK$'000
COST	
At 1 January 2005 and 31 December 2005	4,275
Elimination on disposal and deemed disposal of subsidiaries	(1,065)
At 31 December 2006	3,210
IMPAIRMENT	
At 1 January 2005	—
Impairment loss recognised for the year	2,668
At 31 December 2005	2,668
Impairment loss recognised for the year	542
At 31 December 2006	3,210
CARRYING VALUES	
At 31 December 2006	—
At 31 December 2005	1,607

17. INTANGIBLE ASSETS

	Development costs	Technology license right	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2005	14,444	35,100	49,544
Exchange adjustment	122	—	122
Additions	2,418	—	2,418
Write-off	(457)	—	(457)
At 31 December 2005	16,527	35,100	51,627
Exchange adjustment	139	—	139
Disposed of on disposal and deemed disposal of subsidiaries	(8,048)	—	(8,048)
At 31 December 2006	8,618	35,100	43,718
AMORTISATION AND IMPAIRMENT			
At 1 January 2005	8,590	4,563	13,153
Exchange adjustment	53	—	53
Amortised for the year	2,754	2,262	5,016
Eliminated on write-off	(229)	—	(229)
At 31 December 2005	11,168	6,825	17,993
Exchange adjustment	62	—	62
Amortised for the year	3,475	9,425	12,900
Disposed of on disposal and deemed disposal of subsidiaries	(6,440)	—	(6,440)
Impairment loss recognised	353	9,050	9,403
At 31 December 2006	8,618	25,300	33,918
NET BOOK VALUES			
At 31 December 2006	—	9,800	9,800
At 31 December 2005	5,359	28,275	33,634

17. INTANGIBLE ASSETS *(Continued)*

Intangible assets are amortised on a straight line basis over the following periods:

Development costs	3 – 5 years
Technology license right	3 years

Development costs are internally generated. Technology license right, which included the right of distribution of broadband products, was acquired from third party. During the year, the directors reconsidered the useful life of the technology license right and changed the estimate from 15 years to 3 years based on the expected years of benefit to be generated. The change in estimate has resulted in an increase in loss of HK$7,085,000 per annum in current year and future years.

During the year, the directors conducted a review of the Group's intangible assets and determined that certain intangible assets were impaired due to cessation of certain self-development activities of the broadband products. Accordingly, impairment losses of HK$353,000 and HK$9,050,000 respectively have been recognised in respect of the development costs and technology license right. The remaining intangible assets after such cessation represents the Group's right of distribution of broadband products, the recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use is 11%.

18. INTEREST IN ASSOCIATES

	2006	**2005**
	HK$'000	*HK$'000*
Cost of unlisted investments	86,572	9,058
Share of post-acquisition losses	(1,708)	(408)
Share of net assets	84,864	8,650

18. INTEREST IN ASSOCIATES *(Continued)*

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

	2006	**2005**
	HK$'000	*HK$'000*
Unrecognised share of profit of associates for the year	530	576
Accumulated unrecognised share of losses of associates	(78,492)	(79,022)

The summarised financial information in respect of the Group's associates is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Total assets	1,513,265	67,144
Total liabilities	1,221,662	122,306
Net assets (liabilities)	291,603	(55,162)
Revenue	15,207	38,578
(Loss) profit for the year	(5,101)	547

Details of the principal associates of the Group at 31 December 2006 are set out in note 36.

19. INVENTORIES

	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	2,019	9,814
Work-in-progress	11,091	15,878
Finished goods	49,800	23,116
	62,910	48,808

20. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$82,615,000 (2005: HK$155,577,000). The Group allows credit periods ranging from 45 days to 180 days to its customers for sales of goods. At the discretion of the directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The average credit period of one year will be given to customers for revenue from service contracts. The following is an aged analysis of trade receivables at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Within 30 days	44,039	37,642
Between 31 — 90 days	2,682	21,741
Between 91 — 180 days	649	77,649
Between 181 — 365 days	832	7,647
Over 1 year	34,413	10,898
	82,615	155,577

The fair values of the Group's trade and other receivables at the balance sheet date approximate to the corresponding carrying amounts.

21. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts represent amounts due from/to China Aerospace International Holdings Limited ("CASIL") and its subsidiaries. CASIL is an associate of CASC.

The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company are of the opinion that their fair values at the balance sheet date approximate to the carrying amounts.

22. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company are of the opinion that their fair values at the balance sheet date approximate to the carrying amounts.

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks for general banking facilities granted to the Group. The deposits carried fixed interest rate at 3.15% (2005: 3.1%) per annum. The fair values of bank deposits at balance sheet date approximate to the carrying amounts.

24. BANK BALANCES AND CASH

Bank balances and cash comprise demand deposits at an average rate of 3.2%. The directors of the Company are of the opinion that the fair values at the balance sheet date approximate to the carrying amounts.

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$19,844,000 (2005: HK$31,023,000). The following is an aged analysis of trade payables at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Within 30 days	14,576	14,641
Between 31 – 90 days	1,167	8,651
Between 91 –180 days	901	1,753
Between 181 – 365 days	84	1,120
Over 1 year	3,116	4,858
	19,844	31,023

The fair values of the Group's trade and other payables at the balance sheet date approximate to the corresponding carrying amount.

26. BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loans – secured	—	7,157
Bank loans – unsecured	—	24,387
Bank overdrafts – unsecured	—	14,528
Total bank borrowings	—	46,072
Other loans *(note a)*	56,756	59,580
Short term shareholder's loan *(note b)*	40,594	—
Long term shareholder's loan *(note c)*	168,317	—
Total other loans	265,667	59,580
Total borrowings	265,667	105,652
Less: Amount due within one year included under current liabilities	(97,350)	(98,998)
Amount due after one year	168,317	6,654

The maturity of the Group's borrowings is as follows:

	2006	2005
On demand or within one year	97,350	98,998
Between one to two years	—	536
Between two to five years	168,317	1,837
Over five years	—	4,281
	265,667	105,652

26. BORROWINGS *(Continued)*

On 26 October 2006, the Group entered into an agreement with a bank in respect of the Group's outstanding bank borrowings (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Group has discharged all the liabilities in respect of the outstanding loans (including interest payable) by the repayment of HK$39,000,000. Accordingly, the interest payable brought forward amounting to approximately HK$14,585,000 has been written-back in the consolidated income statement during the year.

Notes:

(a) The amount in 2006 (2005: HK$54,773,000) represents advance from China Great Wall Industry Corporation, a wholly-owned subsidiary of CASC, and the respective interests accrued. Such advances are unsecured, bears interest at 4.25% (2005: 4.25%) per annum and are repayable on demand. The interests accrued of HK$9,957,000 (2005: HK$7,973,000) is unsecured, non-interest bearing and repayable on demand. The remaining balance of other loans in 2005 represented advance from an independent third party with interest rate at 5.8% per annum.

(b) The amount represents loan advanced from CALT through 航天科技財務有限責任公司 ("CASIL Finance") as the trustee. The amount is unsecured, bears interest at 5.10% per annum and repayable in full on 29 August 2007. CASIL Finance is a subsidiary of CASC.

(c) The amount represents loan advanced from CALT through CASIL Finance as the trustee. The amount is unsecured, bears interest at 5.04% per annum and repayable in full on 29 August 2011.

The Group had variable-rate borrowings at 31 December 2005 which carried interest at 2% to 3% above prime rate.

In the opinion of the directors of the Company, the fair value of the Group's borrowings at the balance sheet date approximates to the corresponding carrying amount.

27. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group:

	Accelerated tax depreciation	Development costs	Technology license right	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	477	104	5,344	(3,250)	2,675
(Credit) charge for the year	(134)	(34)	(396)	106	(458)
At 31 December 2005	343	70	4,948	(3,144)	2,217
(Credit) charge for the year	(191)	(70)	(3,233)	1,277	(2,217)
At 31 December 2006	152	—	1,715	(1,867)	—

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

At 31 December 2006, the Group has unused tax losses of approximately HK$247,758,000 (2005: HK$231,436,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$10,669,000 (2005: HK$17,970,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$237,089,000 (2005: HK$213,466,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$67,937,000 (2005: HK$55,000,000) that may be carried forward indefinitely. The remaining unrecognised tax losses will be expired within five years.

At the balance sheet date, the Group has deductible temporary difference of HK$4,705,000 (2005: nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

28. SHARE CAPITAL

	Number of shares 2006 & 2005	Amount 2006 & 2005 *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At beginning and end of the year	10,000,000,000	1,000,000
Issued and fully paid:		
At beginning of the year and at end of the year	1,017,139,763	101,714

29. SHARE OPTION SCHEMES

Under the terms of the share option scheme of the Company (the "CASTEL Scheme") which became effective on 23 July 1997 and shall be valid until 23 July 2007, the board of directors may offer to any full time employees, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company at a price which is not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. Pursuant to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") with which the Company must comply, the exercise price of options under an option scheme must be at least the higher of: (i) the closing price of the shares on the Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of options to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the company in issue. The options granted must be accepted within 28 days from date of grant. Upon acceptance of an offer of options, an amount of HK$1 by way of consideration is payable by the employee. Options may be exercised at any time for a period to be determined by the directors of the Company, which shall not exceed ten years from the adoption of the CASTEL Scheme. Unless otherwise terminated or altered, the CASTEL Scheme will remain in force for a period of ten years from the date of adoption.

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

No share option under the CASTEL Scheme was granted to the directors or employees of the Company or its subsidiaries at 31 December 2005 and 31 December 2006.

30. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES

On 30 June 2006, CASTEL Qihua Hi-Tech Investments Limited ("CASTEL Qihua"), a subsidiary of the Company, entered into an agreement with Concord Pacific Satellite Technologies Limited ("Concord Pacific"), an independent third party, under which Concord Pacific agreed to invest HK$2,000,000 directly in CASTEL Spaceinet (Hong Kong) Communications Limited ("Spaceinet HK") and that Spaceinet HK would allot 1,020,000 shares to Concord Pacific and 979,998 shares to CASTEL Qihua respectively. Upon the completion of the transaction, Concord Pacific owned as to 51% of the total issued shares of Spaceinet HK. Spaceinet HK was engaged in the development, distribution and installation of Global Position System application and related product and a gain on disposal of HK$980,000 was recognised.

On 30 September 2006, CASTEL Broadband Holdings Limited and 航天科技通信(深圳)有限公司, wholly-owned subsidiaries of the Company, entered into an agreement with Hao Hsin Trading and Investment Company Limited ("Hao Hsin"), an independent third party, under which Hao Hsin agreed to invest HK$15,000,000 in 航天無線通信技術開發(深圳)有限公司 ("CASTEL Wireless"). Upon completion of the transaction, the share capital of CASTEL Wireless was increased from HK$5,006,781 to HK$20,006,781, and Hao Hsin owned as to 75% of the total enlarged issued shares of CASTEL Wireless. Accordingly, CASTEL Wireless and its subsidiaries (collectively referred to as "CASTEL Wireless Group"), became an associate of the Group. CASTEL Wireless Group was principally engaged in the development, distribution and installation of broadband system, equipment and accessories. A gain on disposal of HK$2,345,000 was recognised from this transaction.

On 22 November 2006, the Company, entered into an agreement with Brightness International Holding Limited ("Brightness"), an independent third party, under which Brightness agreed to acquire 40% equity interests of CASTEL Videotech at a consideration of HK$4,100,000 from the Company. Brightness further agreed to subscribe 2,505,000 new shares for a consideration of HK$4,000,000, representing 20% of the total issued shares of CASTEL Videotech after completion of the transaction. CASTEL Videotech became an associate of the Group upon completion of the above transactions. CASTEL Videotech was principally engaged in the development, manufacture, distribution and installation of video conference system and a loss on disposal of HK$684,000 was recognised. The above disposal of CASTEL Videotech constituted a discontinued operation of the Group as CASTEL Videotech and its subsidiary contributed to the Group's development, manufacture, distribution and installation of video conference system before the disposal *(see note 10).*

30. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

	Spaceinet HK	CASTEL Wireless	CASTEL Videotech	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NET ASSETS DISPOSED OF				
Property, plant and equipment	1,906	11,775	947	14,628
Intangible assets	—	1,608	—	1,608
Inventories	172	1,328	9,724	11,224
Trade and other receivables	279	7,765	6,101	14,145
Bank balances and cash	153	1,254	494	1,901
Trade and other payables	(2,510)	(15,692)	(7,421)	(25,623)
Bank borrowings	—	(6,453)	—	(6,453)
Taxation	—	—	(130)	(130)
	—	1,585	9,715	11,300
Attributable goodwill	—	—	1,065	1,065
Exchange reserve realised	—	216	(84)	132
	—	1,801	10,696	12,497
Gain (loss) on disposal	980	2,345	(684)	2,641
Total consideration	980	4,146	10,012	15,138
Satisfied by:				
Interest in associates	980	4,146	5,912	11,038
Cash	—	—	2,100	2,100
Other receivables	—	—	2,000	2,000
	980	4,146	10,012	15,138
Net cash (outflow) inflow arising on disposals:				
Cash consideration received	—	—	2,100	2,100
Bank balances and cash disposed of	(153)	(1,254)	(494)	(1,901)
	(153)	(1,254)	1,606	199

30. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

There was no significant impact on the Group's results and cash flows in the current year in respect of the disposal of Spaceinet HK.

During the year, CASTEL Wireless paid HK$6,355,000 to the Group's net operating cash flows, contributed HK$10,906,000 in respect of investing activities and paid HK$5,511,000 in respect of financing activities. CASTEL Wireless contributed turnover of HK$6,273,000 and profit for the year of HK$1,630,000 to the Group.

31. CAPITAL COMMITMENTS

At 31 December 2006, the Group was committed to capital expenditure of approximately HK$54 million (2005: HK$108 million) for the investment of two sino-foreign joint ventures of the Group. The sino-foreign joint ventures are engaged in the operation of wind energy plants and facilities power in the Jiangsu and Jilin Province of the PRC respectively and are owned as to 25% by the Group.

In addition, the Group was also committed to capital expenditure of approximately HK$25 million (2005: nil) for the investment of a joint venture of the Group. The joint venture is engaged in the operation of wind energy plants and facilities in the Liaoning Province of the PRC. The joint venture is owned as to 40% by the Group.

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments payable under operating leases in respect of land and buildings as set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,498	3,118
In the second to fifth years inclusive	440	1,477
	1,938	4,595

Leases are generally negotiated for an average term of two years and rentals are fixed for the lease period.

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "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 contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

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

34. RELATED PARTY TRANSACTIONS/BALANCES

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

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods to associates	444	1,794
Purchase of goods from associates	9,853	15,158

Other than the above, the Group also has balances with related parties disclosed in note 21 and note 22.

(b) Compensation of key management personnel

The remuneration of key management during the year was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	3,427	4,399
Post-employment benefits	60	60
	3,487	4,459

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

34. RELATED PARTY TRANSACTIONS/BALANCES *(Continued)*

(c) 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 disclosure in (a) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities independent third parties so far as the Group's business with them are concerned:

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

(ii) The Group also has certain sales and purchases transactions with certain customers and suppliers in which the directors are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled entities.

Except as disclosed above, the directors are of the opinion that the transactions with other state-controlled entities are not significant to the Group's operations.

(d) On 30 August 2006, 航天科技通信(深圳)有限公司 ("CATSZ"), a wholly-owned subsidiary of the Company, entered into two loan agreements for a sum of RMB41,000,000 (approximately HK$40,594,000) and RMB170,000,000 (equivalent to approximately HK$168,317,000) with CALT through CASIL Finance as the trustee. These loans are unsecured, bear interest at 5.10% and 5.04% per annum and are repayable on 29 August 2007 and 29 August 2011 respectively.

35. POST BALANCE SHEET EVENT

On 15 February 2007 and 27 March 2007, the Company, Astrotech and Advanced Grade Holdings Limited ("Advanced Grade") entered into a sale and purchase agreement and a supplemental agreement pursuant to which the Company conditionally agreed to acquire, and Astrotech agreed to sell the entire issued share capital of Advanced Grade for a consideration of HK$900,000,000. The consideration is to be satisfied by (i) HK$130,000,000 in cash and (ii) the allotment and issue of 2,200,000,000 consideration shares to Astrotech. The cash consideration will be financed by the proceeds from an open offer of shares. The transaction was not yet completed as at the date of this report.

Advanced Grade is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Astrotech. It is an investment holding company and will hold the entire equity interest in Beijing Wan Yuan Industry Corporation ("Beijing Wan Yuan") after completion of the transaction. Beijing Wan Yuan is an investment holding company which, upon completion of restructuring, will hold a 49% equity interest in Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd., a 40% equity interest in Beijing Wanyuan GDX Automotive Sealing Products Co., Ltd., a 29% equity interest in Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd., a 45% equity interest in Nantong CASC Wanyuan Accoina Wind Turbine Manufacture Corporation Ltd., and a 45% interest in Beijing CASC Wanyuan Accoina Renewable Energy Corporation Ltd. (collectively referred to as the "Target Associates").

The Target Associates are mainly engaged in automotive engine management systems and components manufacturing, automotive sealing products manufacturing, elevator motor manufacturing, wind turbine manufacturing and renewable energy projects.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the principal subsidiaries and associates of the Group at 31 December 2006 are as follows:

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity attributable to the Group %	Principal activities
Subsidiaries				
Incorporated and operating in Hong Kong:				
China Aerospace Telecommunications Limited	HK$10,000	100	—	Distribution of broadband business
CASTEL Intelligent Transportation System Limited	HK$11,600,000	—	70	Distribution of ITS business
China Aerospace Telecommunications (Hong Kong) Limited	HK$10,000	—	100	Distribution of broadband business
CASTEL Qihua Hi-Tech Investments Limited	HK$8,000,000	—	70	Investment holding
Hung Nien Electronics Limited	HK$30,001,000	—	100	Distribution of telecommunication products

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(Continued)*

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company	Percentage of equity attributable to the Group	Principal activities
		%	%	
Subsidiaries *(Continued)*				
Registered and operating in the PRC:				
Beijing Qihua Communications Co., Ltd.#	US$1,239,000	—	55	Distribution of ITS business
CASTEL Intelligent Transportation System (Beijing) Ltd.##	HK$8,000,000	—	70	Distribution of ITS business
航天航通科技(北京)有限公司##	RMB15,000,000	—	100	Distribution of broadband business
航天科技通信(深圳)有限公司##	HK$20,000,000	—	100	Distribution of broadband business
成都航天星網通訊有限公司##	RMB3,000,000	—	36	Distribution of ITS business

Sino-foreign joint equity enterprise registered in the PRC

Wholly foreign-owned enterprise registered in the PRC

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(Continued)*

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity attributable to the Group %	Principal activities
Associates				
Registered and operating in the PRC:				
航天無線通信技術開發(深圳)有限公司#	HK$20,000,000	—	25	Distribution of broadband business
CASTEL Intelligent Transportation System (Shenzhen) Ltd. #	RMB5,000,000	—	25	Distribution of ITS business
CASTEL Spaceinet (Shenzhen) Co. Ltd. #	RMB1,071,000	—	25	Distribution of broadband business
CASIL Telecommunications (Shenzhen) Co., Ltd.##	HK$10,000,000	—	40	Manufacture and distribution of telecommunication products
Southern Telecommunication Development Company Limited#	US$8,400,000	—	41	Manufacture and distribution of telecommunication products

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(Continued)*

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company	Percentage of equity attributable to the Group	Principal activities
		%	%	
Associates *(Continued)*				
上海航天信網通訊有限公司 #	RMB5,000,000	—	21	Distribution of ITS business
江蘇龍源風力發電有限公司 #	RMB211,610,000	—	25	Maintenance and operation of wind energy plants and facilities
吉林龍源風力發電有限公司 #	RMB269,020,000	—	25	Construction of wind energy plants and facilities in progress
航天龍源(本溪)風力發電有限公司 #	RMB93,800,000	—	40	Construction of wind energy plants and facilities in progress

\# Sino-foreign joint equity enterprise registered in the PRC

\## Wholly foreign-owned enterprises registered in the PRC

Except for the companies established in the PRC, the classes of shares held by the Group in the above companies are ordinary shares issued by those companies.

The above table lists the subsidiaries and associates of the Company which, in the opinion of the directors, principally affected the results or assets or form a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates 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.

37. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	2006	2005
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	1,011	1,389
Interest in subsidiaries	20	30
Interest in associates	3,604	—
	4,635	1,419
Current assets		
Trade and other receivables	3,023	801
Amounts due from subsidiaries	77,885	159,567
Amounts due from associates	30,710	—
Amounts due from related companies	41	41
Bank balances and cash	2,163	701
	113,822	161,110
Current liabilities Trade and other payables	3,546	8,148
Amounts due to subsidiaries	13,029	8,047
Amounts due to related companies	7,647	7,647
Borrowings	—	20,945
	24,222	44,787
Net current assets	89,600	116,323
Total assets	94,235	117,742
Capital and reserves		
Share capital	101,714	101,714
(Deficit) reserves	(7,479)	16,028
Total equity	94,235	117,472

Loss of the Company for the year ended 31 December 2006 amounted to HK$23,507,000 (2005: HK$48,007,000).

3. ACCOUNTANTS' REPORT ON ADVANCED GRADE AND WAN YUAN INDUSTRY

Pursuant to the Sale and Purchase Agreements, the Company conditionally agreed to acquire, and Astrotech agreed to sell, the entire issued share capital of Advanced Grade for a consideration of HK$900,000,000. The Consideration will be satisfied by (i) HK$130,000,000 in cash; and (ii) the allotment and issue of 2,200,000,000 Consideration Shares by the Company.

After the completion of the Restructuring, Advanced Grade will hold the entire equity interest in Wan Yuan Industry, and Wan Yuan Industry will not carry on any business or have any materials assets, other than the holding of the Acquired Businesses.

The following are extracted from Moores Rowland's reports (a) on the financial information of Advanced Grade for the period from 13 December 2006 (date of incorporation) to 31 December 2006; and (b) on the financial information relating to Wan Yuan Industry for the three years ended 31 December 2006 (the "Relevant Periods") as if the Restructuring had taken place and Wan Yuan Industry has been in operation on a stand alone basis as of the earliest date presented and had been in existence throughout the Relevant Periods.

There was no qualification in the respective accountants' reports on Advanced Grade and Wan Yuan Industry. There were no extraordinary items or exceptional items for these period/years. Please refer to Appendix II and Appendix III to the Circular for the accountants' reports on Advanced Grade and Wan Yuan Industry from Moores Rowland.

(a) Financial information of Advanced Grade

A. Income Statement

Period from 13 December 2006 (date of incorporation) to 31 December 2006

	Note	**2006** *HK$*
Turnover	*2*	—
Other expenses		—
Result before taxation		—
Taxation	*4*	—
Result for the period		—

B. Balance Sheet

At 31 December 2006

	Note	**2006** *HK$*
Current assets		
Cash and bank balances		8
NET ASSETS		8
Capital and reserves		
Share capital	*5*	8
		8

C. Statement of changes in equity

Period from 13 December 2006 (date of incorporation) to 31 December 2006

	HK$
At beginning of period	—
Issue of share capital	8
At end of period	8

D. Cash flow statement

No cash flow statements of Advanced Grade for the Relevant Period have been presented as Advanced Grade did not have any other cash flow activity apart from the issue of share capital during the Relevant Period.

E. Notes to the Financial Information

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong.

Basis of measurement

The measurement basis used in the preparation of these Financial Information is historical cost.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

E. Notes to the Financial Information *(Continued)*

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Future changes in HKFRS

At the date of authorisation of these Financial Information, Advanced Grade has not early adopted the new/revised standards and interpretations issued by HKICPA that are not yet effective for the current period. The directors anticipate that the adoption of these HKFRS in the future periods will have no material impact on the result of Advanced Grade.

2. TURNOVER

Advanced Grade has been dormant since its incorporation and therefore no revenue was generated during the Relevant Period.

3. DIRECTOR'S EMOLUMENTS

None of the director of Advanced Grade receives or will receive any fees or emoluments in respect of his service to Advanced Grade during the Relevant Period.

E. Notes to the Financial Information *(Continued)*

4. TAXATION

Hong Kong Profits Tax has not been provided as Advanced Grade had no assessable profit for the period.

5. SHARE CAPITAL

	2006	
	No. of shares	*HK$*
Authorised		
50,000 ordinary shares of US$1 each	50,000	400,000
Issued		
1 ordinary share of US$1 each	1	8
At balance sheet date	1	8

Advanced Grade was incorporated in British Virgin Islands with limited liability on 13 December 2006 with US$50,000 authorised share capital of 50,000 ordinary shares of US$1 each. On incorporation, 1 ordinary share of US$1 each was issued at par for cash consideration to provide initial working capital for Advanced Grade.

6. POST BALANCE SHEET EVENTS

On 15 February 2007, China Academy of Launch Vehicle Technology ("CALT") entered into a deed of assignment to assign its 100% direct shareholdings in Beijing Wan Yuan Industry Corporation ("Wan Yuan Industry") to Advanced Grade. The assignment has yet to complete as at the date of this report. CALT estimated that the assignment to be completed on or before 30 June 2007.

The Company and Astrotech Group Limited ("Astrotech") entered into a sale and purchase agreement and a supplemental agreement on 15 February 2007 and 27 March 2007 respectively. Pursuant to which Astrotech conditionally agreed to sell the entire issued share capital of Advanced Grade to the Company for a consideration of HK$900,000,000.

(b) Financial information of Wan Yuan Industry

A. Income Statements

The following are the results of Wan Yuan Industry for the Relevant Periods, which are prepared on the basis set out in Section E below:

	Note	2004 RMB'000	2005 RMB'000	2006 RMB'000
Turnover	5	—	—	—
Other income		204	721	—
Share of results of:				
— Associate		(860)	(1,028)	(1,876)
— Jointly-controlled entities		112,296	84,301	98,580
Profit before taxation		111,640	83,994	96,704
Taxation	7	—	—	—
Profit for the year		111,640	83,994	96,704

B. Balance Sheets

The following are the balance sheets of Wan Yuan Industry as at the end of each of the Relevant Periods, which are prepared on the basis set out in Section E below:

	Note	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Interest in an associate	*9*	1,950	9,243	8,572
Interest in jointly controlled entities	*10*	337,737	341,544	423,593
		339,687	350,787	432,165
Current asset				
Cash and cash equivalents		—	—	4,500
NET ASSETS		339,687	350,787	436,665
CAPITAL AND RESERVES				
Owner's equity		339,687	350,787	436,665

C. Statements of changes in equity

	Owner's equity
	RMB'000
As at 1 January 2004	286,594
Net profit for the year	111,640
Distributions to equity holder	(58,547)
As at 31 December 2004	339,687
Net profit for the year	83,994
Distributions to equity holder	(127,394)
Contributions from equity holder	54,500
As at 31 December 2005	350,787
Net profit for the year	96,704
Distributions to equity holder	(16,560)
Contributions from equity holder	5,734
As at 31 December 2006	436,665

D. Cash flow statements

	Note	2004 RMB'000	2005 RMB'000	2006 RMB'000
OPERATING ACTIVITIES				
Cash from operations	11	—	—	—
Net cash from operating activities		—	—	—
INVESTING ACTIVITIES				
Payment for additional investment in an associate		—	(5,000)	—
Acquisition of investment in jointly controlled entities		—	(49,500)	—
Advance to an associate		—	(2,600)	—
Dividends received from jointly controlled entities		58,547	129,994	16,560
Net cash from investing activities		58,547	72,894	16,560
FINANCING ACTIVITIES				
Contributions from equity holder		—	54,500	4,500
Distributions to equity holder		(58,547)	(127,394)	(16,560)
Net cash used in financing activities		(58,547)	(72,894)	(12,060)
Net increase in cash and cash equivalents		—	—	4,500
Cash and cash equivalents at beginning of year		—	—	—
Cash and cash equivalents at end of year		—	—	4,500

E. Notes to the financial information

1. CORPORATE INFORMATION

Wan Yuan Industry is a state-owned enterprise incorporated in PRC on 26 December 1984. The parent of Wan Yuan Industry is China Academy of Launch Vehicle Technology ("CALT"). The principal activity of Wan Yuan Industry is investment holding. Prior to the group restructure, Wan Yuan Industry has more than twenty investments which activities ranged from the manufacturing of wind turbine, electronic and automation control systems and equipment, mechanical equipment, medical equipment, and automotive parts, and the operation of wind energy plant.

2. RESTRUCTURING

On 28 December 2006, CALT, Wan Yuan Industry, Beijing Wan Yuan Sealing Device Factory, Beijing CASC Wan Yuan Science & Technology Corporation ("Wan Yuan Science & Technology") and a subsidiary of CALT entered into a set of deeds of assignment for the purpose of effecting a restructuring exercise (the "Restructuring") whereby:

(a) apart from the equity interests in one associate, namely Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co. Ltd. ("Hangzhou REPM") and four jointly controlled entities, namely Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd. ("Beijing Delphi"), Wanyuan GDX Automotive Sealing Products Co., Ltd. ("Wanyuan GDX "), Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corporation Ltd. ("Nantong Acciona"), and Beijing CASC Wanyuan Acciona Renewable Energy Corporation Ltd. ("Beijing Acciona") ("Acquired businesses"), all of Wan Yuan Industry's investments and businesses (the "Non-acquired Businesses") were assigned to Wan Yuan Science & Technology;

(b) a further 3% equity interest in Hangzhou REPM was assigned from a subsidiary of CALT to Wan Yuan Industry;

(c) CALT's entire equity interest in Beijing Wan Yuan Sealing Device Factory was assigned to Wan Yuan Science & Technology (note); and

(d) the 40% equity interest in Wanyuan GDX was previously held by Beijing Wan Yuan Sealing Device Factory, was assigned to Wan Yuan Industry (note).

The above mentioned assignments are expected to be completed on or before 30 June 2007.

E. Notes to the financial information *(Continued)*

2. RESTRUCTURING *(Continued)*

Note:

In 1998, CALT issued a notice (the "Notice") to assign certain businesses/investments, including its interest in Beijing Wan Yuan Sealing Device Factory, to Wan Yuan Industry. Although Wan Yuan Industry has not taken appropriate actions to complete the legal procedures for the assignment of interest in Beijing Wan Yuan Sealing Device Factory, the corresponding risk and rewards were transferred to and taken up by Wan Yuan Industry in accordance with the Notice. Accordingly, Wan Yuan Industry had become the ultimate beneficial owner of 100% equity interest in Beijing Wan Yuan Sealing Device Factory which principal assets was a 40% equity interest in Wanyuan GDX. During the Restructuring, the 40% equity interest in Wanyuan GDX previously held by Beijing Wan Yuan Sealing Device Factory was assigned to Wan Yuan Industry.

CALT had undertaken to indemnify the Company for any debts or claims arising from the Non-acquired Businesses before completion of the Restructuring for a period of five years commencing from completion of the sale and purchase agreements. Also as part of the restructuring exercise, on 15 February 2007, CALT entered into a deed of assignment to assign its 100% direct shareholdings in Wan Yuan Industry to Advanced Grade Holdings Limited ("Advanced Grade"). The Restructuring is yet to be completed as at the date of this report. CALT estimates the Restructuring to be completed on or before 30 June 2007.

Upon completion of the Restructuring, Wan Yuan Industry will not carry on any business or have any material assets, other than the holding of a 49% equity interest in Beijing Delphi, a 40% equity interest in Wanyuan GDX, a 29% equity interest in Hangzhou REPM, a 45% equity interest in Nantong Acciona and a 45% equity interest in Beijing Acciona.

Advanced Grade is a limited liability company incorporated in the British Virgin Islands on 13 December 2006 and does not carry on any business or have any material assets. After the completion of the Restructuring, Advanced Grade will hold the entire equity interest in Wan Yuan Industry.

After Completion, Advanced Grade and Wan Yuan Industry will become the wholly-owned subsidiaries of the Company and their results will be consolidated into the accounts of the Company and its subsidiaries (the "Group"). Also, the Group will hold less than 50% equity interests in the respective companies which will become either associate or jointly controlled entities of the Company and their results will be equity accounted for in the accounts of the Group.

E. Notes to the financial information *(Continued)*

3. BASIS OF PRESENTATION

The Financial Information for each of the years ended 31 December 2004, 31 December 2005 and 31 December 2006 presents the results of Wan Yuan Industry as if the Restructuring had taken place and Wan Yuan Industry had been in operation on a stand alone basis as of the earliest date presented and had been in existence throughout the Relevant Periods.

4. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the principal accounting policies adopted by Wan Yuan Industry is set out below:

The measurement basis used in the preparation of the Financial Information is historical cost.

Impairment loss

At each balance sheet date, a review of internal and external sources of information to determine whether the carrying amounts of the investment in associate and jointly controlled entities have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication of impairment exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit) is estimated.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

E. Notes to the financial information *(Continued)*

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associate

An associate is an entity in which Wan Yuan Industry has significant influence and which is neither a subsidiary nor a joint venture.

Wan Yuan Industry's investment in associate is accounted for under the equity method of accounting. The income statement includes Wan Yuan Industry's share of the post-acquisition results of the associate for the year. The balance sheet includes Wan Yuan Industry's share of the net assets of the associates and also goodwill. Unless Wan Yuan Industry has incurred obligations or guaranteed obligations in respect of the associates, equity accounting is discontinued when Wan Yuan Industry's share of losses of associates equals or exceeds the carrying amount.

Jointly controlled entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangement which involves the establishment of a separate entity in which each venturer has an interest is referred to as jointly controlled entity.

Wan Yuan Industry's interest in jointly controlled entity is accounted for under the equity method of accounting. The income statement includes Wan Yuan Industry's share of the post-acquisition results of the jointly controlled entity for the year. The balance sheet includes Wan Yuan Industry's share of the net assets of the jointly controlled entities and also goodwill on acquisition of the jointly controlled entities.

Goodwill

Goodwill on acquisition of associate or jointly controlled entities is initially measured at cost, being the excess of the cost of the acquisition over Wan Yuan Industry's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity acquired. Goodwill on acquisitions of associate or jointly controlled entities is included in interests in associate or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss on goodwill is not reversed.

E. Notes to the financial information *(Continued)*

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

On acquisition of associate or jointly controlled entity, if the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities being acquired recognised at the date of acquisition exceeds the cost of acquisition, the acquirer reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities being acquired and the measurement of the cost of acquisition, and recognised immediately in income statement any excess remaining after that reassessment.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Cash equivalents

For the purpose the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

E. Notes to the financial information *(Continued)*

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRS

At the date of authorisation of these Financial Information, the HKICPA has issued a number of new/revised HKFRS that are not yet effective. Wan Yuan Industry has not early adopted these HKFRS and the Management anticipates that the adoption of these HKFRS in the future accounting periods will have no material impact on the result of Wan Yuan Industry.

5. TURNOVER AND REVENUE

Wan Yuan Industry did not earn any income during the Relevant Periods.

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

During the Relevant Periods, none of the directors and senior management received any emoluments from Wan Yuan Industry.

7. TAXATION

Provision for Hong Kong profits tax has not been made as Wan Yuan Industry did not generate any assessable profits in Hong Kong during the Relevant Periods. All the income of Wan Yuan Industry is dividend generated in the PRC which is exempted from PRC income tax.

E. Notes to the financial information *(Continued)*

8. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

9. INTEREST IN AN ASSOCIATE

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	6,950	11,643	10,972
Due to associate	(5,000)	(2,400)	(2,400)
	1,950	9,243	8,572

The amount due to associate is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

Investment in an associate represents 29% (2005: 26%, 2004: 30%) of the registered capital of Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd., a company incorporated in the PRC and engaged in the development and manufacture of rare-earth-permanent magnet motors for elevator.

Summary of financial information of the associate is as follows:

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	5,076	6,861	10,906
Current assets	18,491	39,877	43,043
Non-current liabilities	—	—	—
Current liabilities	(403)	(1,957)	(16,115)

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Revenue	511	3,019	12,668
Loss for the year	(2,517)	(3,716)	(6,947)

E. Notes to the financial information *(Continued)*

10. INTEREST IN JOINTLY CONTROLLED ENTITIES

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	330,591	334,398	416,447
Goodwill	7,146	7,146	7,146
	337,737	341,544	423,593

Details of the jointly controlled entities at the balance sheet date are as follows:

Name of jointly controlled entities	Principal place of operation/ place of incorporation	Proportion of registered capital held by Wan Yuan Industry	Principal activities
Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd	PRC	49%	Manufacture of automotive engine, management systems (EMS) and components, after-sale services and technical consultancy
Beijing Wanyuan GDX Automotive Sealing Products Co., Ltd	PRC	40%	Development and manufacture of car body sealing system, vessel sealing system and accessories, technical consultancy and training
Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corporation Ltd.	PRC	45%	Sale and manufacture of wind turbine
Beijing CASC Wanyuan Acciona Renewable Energy Corporation Ltd.	PRC	45%	Development of renewable energy projects, research and development of related technologies and equipment, especially those of wind power marketing, blades, biomass and biofuel for the market of PRC, management, human resource training.

E. Notes to the financial information *(Continued)*

10. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Summary of financial information of Wan Yuan Industry's interest in jointly controlled entities.

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of jointly controlled entities' assets and liabilities:			
Non-current assets	85,066	91,088	125,336
Current assets	449,362	589,855	810,567
Non-current liabilities	—	—	—
Current liabilities	(203,837)	(346,545)	(519,585)

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of jointly controlled entities' revenue and profit:			
Revenue	748,682	660,032	1,043,435
Profit for the year	112,296	84,302	98,580

Goodwill of RMB7,146,000 is attributable to one of the jointly controlled entities, Beijing Delphi.

During the years, the Management determines that there was no impairment of the goodwill.

For the purpose of assessing whether there was any impairment of goodwill, the recoverable amounts of Beijing Delphi was firstly determined based on value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected dividend income from Beijing Delphi.

E. Notes to the financial information *(Continued)*

11. CASH FROM OPERATIONS

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	111,640	83,994	96,704
Other income	(204)	(721)	—
Share of results of associate	860	1,028	1,876
Share of results of jointly-controlled entities	(112,296)	(84,301)	(98,580)
Cash from operations	—	—	—

12. COMMITMENTS

Wan Yuan Industry's share of capital expenditure commitments of jointly controlled entities

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for, net of deposit paid	6,887	4,239	387
Authorised but not contracted for	—	7,517	—

Capital contribution commitments of Wan Yuan Industry

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for	—	18,000	18,000

E. Notes to the financial information *(Continued)*

13 FINANCIAL GUARANTEE

At the balance sheet dates, Wan Yuan Industry had the following outstanding guarantee:

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Guarantee given by Wan Yuan Industry to a bank in respect of banking facilities utilised by a jointly controlled entity	5,000	—	—

14. SEGMENT INFORMATION

No segment information has been disclosed as all the revenue and assets were related to investments in associates and jointly controlled entities.

No geographical segment information has been disclosed as all income was derived in the PRC.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Wan Yuan Industry is exposed to fair value risk in respect of its equity investments in associate and jointly controlled entities. The Management continues to monitor the operation of investment in associate and the jointly controlled entities.

4. INDEBTEDNESS

(a) The Group

At the close of business on 31 July 2007, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining information in respect of the indebtedness of the Group, apart from the unsecured loans of approximately HK$261,000,000 from CALT and HK$57,908,000 from a wholly-owned subsidiary of CASC, the Group had outstanding bank borrowings in terms of trust receipt loans of approximately HK$7,568,000, HK$5,576,000 of which was secured by a pledged bank deposit of approximately HK$1,056,000.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 July 2007.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have 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 purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 July 2007.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of the Group since 31 July 2007.

(b) Advanced Grade and its subsidiaries

At the close of business on 31 July 2007, Advanced Grade and its subsidiaries (as if completion of the Restructuring had already taken place) did not have 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 purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of Advanced Grade and its subsidiaries (as if completion of the Restructuring had already taken place) since 31 July 2007.

5. WORKING CAPITAL

(a) The Group

Pursuant to the Sale and Purchase Agreements, the Company conditionally agreed to acquire, and Astrotech agreed to sell, the entire issued share capital of Advanced Grade for a consideration of HK$900,000,000. At Completion, the Consideration is to be satisfied by (1) HK$130,000,000 in cash and (2) the allotment and issue of 2,200,000,000 Consideration Shares to Astrotech at the Issue Price of HK$0.35 each. The cash consideration will be financed by the proceeds from the Open Offer.

Pursuant to the Sale and Purchase Agreements, the time for fulfillment of the conditions precedent of the Sale and Purchase Agreements is no later than 31 October 2007.

The Directors are of the opinion that after taking into account:

(1) the net proceeds from the Open Offer of approximately HK$136 million out of which HK$130 million will be utilized for the cash consideration of the Proposed Acquisition; and the remaining balance for the general working capital of the Group;

(2) the continuous provision of long term loans to the Group from CALT catering for the working capital required for the Group;

(3) the internal resources of the Group; and

(4) the existing available banking facilities of the Group;

the Group has sufficient working capital for its present requirements in respect of the next 12 months from the date of this Prospectus.

(b) Advanced Grade and its subsidiaries

After due and careful enquiry and taking into account of the financial resources available to Advanced Grade and its subsidiaries (as if completion of the Restructuring had already taken place), the Directors are of the opinion that, in the absence of unforeseen circumstances, the working capital available to Advanced Grade and its subsidiaries is sufficient for its present requirements.

Furthermore, after due and careful enquiry and taking into account the financial resources available to the Group, Advanced Grade and its subsidiaries, the Directors are of the opinion that the Enlarged Group will, following Completion and in the absence of unforeseen circumstances, have sufficient working capital for its requirements.

6. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up.

7. BUSINESS REVIEW AND PROSPECTS

While the Group continued the sales of communication equipment and the application services of Global Positioning System (GPS) for the year 2006, the Group also continued increasing its investments in wind energy plant intensively, in order to broaden its business scope and earning base. In addition to continuation of increasing the investments in wind energy plant project with the total accumulated investments to date of HK$100 million, the Group on 15 February 2007 and 27 March 2007 entered into agreements whereby the Group will further acquire from its parent company, China Academy of Launch Vehicle Technology ("CALT"), its businesses comprising research and development and production of wind energy facilities, automotive engine management systems and components manufacturing, automotive sealing products manufacturing, rare-earth-permanent magnetic motors manufacturing, at the purchase consideration of HK$900 million. The details of the proposed acquisition were set out in an announcement made by the Company on 2 April 2007.

Telecommunication Business

The major customers of the Group's communication business are operators in the PRC such as China Mobile, China Unicom, China Telecom, China Netcom and China Railcom. We provide these operators as well as those in the markets of Europe and America with communication equipment of high capability/price value. However, due to the reduction of investment in infrastructure of 5.8GHz wireless access network by those major operators and the drop in profit margin in consequence of the keen competition, the sales of communication products for the year recorded a decrease as compared with last year.

On 22 November 2006, the Company entered into an agreement with Brightness International Holdings Ltd. whereby it disposed of 60% of the entire equity interests in CASTEL Videotech (Hong Kong) Ltd. in disposing its 60% interest of its video conferencing business in effect in the course of introduction of new capital injection in the business and acquiring the experience of the said purchaser in the PRC distribution network with a view to extending the sales in PRC market.

Wind Energy Projects

On 30 March 2006, Crownplus International Ltd., a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Longyuan Electric Group Corporation and Beijing Wan Yuan Industry Corporation in respect of building, maintenance and operation of wind energy plants and facilities in the Liaoning Province of the PRC. This is the third wind energy plant project following those in Jiangsu and Jilin, PRC.

The Group will benefit from the joint venture in strengthening the Group's investment in wind energy power plants given the shortage of electricity supplies in the PRC and the global trend towards renewable energy for environmental reasons assuring the tremendous demands in the future.

Others

The Group has made an announcement on 2 April 2007 that the Group entered into acquisition agreement with its parent company, CALT, in diversifying its investments in wind energy projects, new materials and automotive component.

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

The unaudited pro forma statement of adjusted consolidated net tangible assets ("Unaudited Pro Forma Consolidated Net Tangible Assets") of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer and the Proposed Acquisition on the consolidated net tangible assets of the Group as if the Open Offer and Proposed Acquisition had taken place on 31 December 2006.

The Unaudited Pro Forma Consolidated Net Tangible Assets of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Open Offer and the Proposed Acquisition.

The following Unaudited Pro Forma Consolidated Net Tangible Assets of the Group is based on the audited consolidated net tangible assets of the Group as at 31 December 2006 and adjusted to reflect the effect of the Open Offer and the Proposed Acquisition:

	Audited consolidated net assets attributable to the equity holders of the Company as at 31 December 2006	Intangible assets	Audited consolidated net tangible assets attributable to the equity holders of the Company before acquisition as at 31 December 2006	Estimated net proceeds from the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company immediately after completion of Open Offer	Audited net tangible assets of Advanced Grade/ Wan Yuan Industry acquired	Pro forma adjustment	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company immediately after Completion
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	
Net assets	90,274	(9,800)	80,474	136,000	216,474	429,519	(139,000)	506,993

	HK$
Audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006 per share before completion of the Open Offer *(Note 5)*	0.08
Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company per share immediately after completion of the Open Offer *(Note 6)*	0.15
Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company per share immediately after Completion *(Note 7)*	0.14

Notes:

(1) The figure is extracted from the published annual report of the Company for the year ended 31 December 2006.

(2) The estimated net proceeds from the Open Offer are based on 406,855,905 Open Offer Shares to be issued at the Subscription Price of HK$0.35 per Offer Share after deduction of the estimated related expenses of approximately HK$6.4 million.

(3) The figure is extracted from the Accountant's report on Wan Yuan Industry translated at the exchange rate of HK$1.00 = RMB1.00 after deduction of goodwill of HK$7,146,000 arising from interest in jointly controlled entities.

(4) The pro forma adjustment represents deduction of cash consideration of HK$130 million and professional service fees of HK$9 million for the Proposed Acquisition.

(5) Based on 1,017,139,763 Shares in issue as at 31 December 2006.

(6) The unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer is arrived at after the adjustment referred to in note (2) and on the basis of 1,017,139,763 Shares in issue as at 31 December 2006 and 406,855,905 Offer Shares to be issued.

(7) The unaudited pro forma adjusted consolidated net tangible assets per Share immediately after Completion is arrived at after the adjustment referred to in notes (2), (3) and (4) and on the basis of 1,017,139,763 Shares in issue as at 31 December 2006 and 406,855,905 Offer Shares and 2.2 billion Consideration Shares to be issued.

2. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of the letter, prepared for the sole purpose of incorporation in this prospectus received from the independent reporting accountants, Moores Rowland, Chartered Accountants, Certified Public Accountants, Hong Kong, in connection with the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group set out in this appendix:

Moores Rowland
摩斯倫會計師事務所

20 September 2007

The Directors
CASIL Telecommunications Holdings Limited
Suite 4701, 47th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Consolidated Net Tangible Assets") of CASIL Telecommunications Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed open offer of 406,855,905 open offer shares at HK$0.35 per open offer share on the basis of four open offer shares for every ten shares held on record date payable in full on application (the "Proposed Open Offer") might have affected the financial information presented, for inclusion in Section 1 of Appendix II to the prospectus dated 20 September 2007 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Consolidated Net Tangible Assets is set out in the accompanying introduction and notes in Section 1 of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Consolidated Net Tangible Assets in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Consolidated Net Tangible Assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Consolidated Net Tangible Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Unaudited Pro Forma Consolidated Net Tangible Assets has been properly complied by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Consolidated Net Tangible Assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Consolidated Net Tangible Assets.

The Unaudited Pro Forma Consolidated Net Tangible Assets is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2006 had the Proposed Open Offer and the Proposed Acquisition actually been completed on that date or at any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Consolidated Net Tangible Assets has been properly compiled by the directors of the Company on the basis stated;

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

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Consolidated Net Tangible Assets as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issue share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Open Offer and Completion are expected to be, as follows:

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.10 each	1,000,000,000
Issued and fully paid:		*HK$*
1,017,139,763	Shares of HK$0.10 each	101,713,976
406,855,905	Offer Shares of HK$0.10 each to be issued pursuant to the Open Offer	40,685,591
2,200,000,000	Consideration Shares of HK$0.10 each to be issued pursuant to the Sale and Purchase Agreements	220,000,000
3,623,995,668	Shares in issue immediately following Completion *(Note)*	362,399,567

Note: — This assumes no Shares are issued other than the Offer Shares and the Consideration Shares to be issued pursuant to the Open Offer and the Sale and Purchase Agreements.

— No Share has been issued by the Company from 31 December 2006, the date to which the latest audited accounts were made up, to the date of this Prospectus.

All Shares in issue rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

All Offer Shares and Consideration Shares shall rank pari passu with all the Shares in issue in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of issue.

The Company did not have any other options (except the share option scheme adopted by the Company on 23 July 1997), warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

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

3. DISCLOSURE OF INTERESTS

(A) Interests of Directors and chief executive

(a) As at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had 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 Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or to be recorded in the register required to be maintained pursuant to Section 352 of the SFO, or otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies in the Listing Rules.

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since the date to which the latest published audited accounts of the Company was made up, acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of by or leased to the Enlarged Group.

(c) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the date of this Prospectus which is significant in relation to the business of the Enlarged Group.

(B) Substantial Shareholders

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

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

Notes:

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

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

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

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

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with the Company or any member of the Group (except those expiring or determinable by the Company within a year without payment of compensation other than statutory compensation).

5. CORPORATE INFORMATION

Registered office	Ugland House, South Church Street P.O. Box 309, George Town Grand Cayman, Cayman Islands British West Indies
Head office and principal place of Business in Hong Kong	Suite 4701, 47/F Floor Central Plaza 18 Harbour Road Wanchai, Hong Kong
Legal adviser to the Company in relation to the Open Offer	Sidley Austin Level 39 Two International Finance Centre 8 Finance Street Central, Hong Kong
Legal adviser to the Company as to Cayman Islands law	Maples and Calder 1504 One International Finance Centre 1 Harbour View Street Hong Kong
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants 35/F One Pacific Place 88 Queensway Hong Kong
	Moores Rowland Certified Public Accountants 34/F The Lee Gardens 33 Hysan Avenue Causeway Bay, Hong Kong

Principal bankers	Bank of China (Hong Kong) Limited 14/F Bank of China Tower 1 Garden Road, Hong Kong
	The Hongkong and Shanghai Banking Corporations Limited Level 6, HSBC Main Building 1 Queen's Road Central, Hong Kong
	DBS Bank (Hong Kong) Limited G/F The Center 99 Queen's Road Central, Hong Kong
Principal share registrar in the Cayman Islands	Butterfield Fund Services (Cayman) Limited Butterfield House, 68 Fort Street P.O. Box 705, George Town Grand Cayman, Cayman Islands
Share sub-registrar in Hong Kong	Tricor Standard Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Company secretary	Mr. Au-Yeung Keung, Steve FCMA, FCPA, LLB, LLM
Qualified accountant	Mr. Han Jiang AICPA
Authorised representatives	Mr. Au-Yeung Keung, Steve Mr. Han Jiang

Note: FCMA and FCPA stand for Fellow Member of Chartered Institute of Management Accountants and Hong Kong Institute of Certified Public Accountants respectively. AICPA stands for Certified Public Accountant of American Institute of Certified Public Accountants.

6. EXPERT AND CONSENT

(a) The qualification of the expert who has given opinion in this Prospectus is as follows:

Moores Rowland	Certified Public Accountants

(b) As at the Latest Practicable Date, Moores Rowland had not any shareholding in the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Enlarged Group, and it has no any interest, direct or indirect, in any assets which had been since the date to which the latest published audited financial statements of the Company was made up, acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of by or leased to the Enlarged Group.

(c) Moores Rowland has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its letter or report and references to its name in the form and context in which they appear.

7. MATERIAL CONTRACTS

In addition to the Sale and Purchase Agreements for the Proposed Acquisition, deeds of assignment for the Restructuring and the Underwriting Agreement for the Open Offer, the following contracts have been entered into by members of the Enlarged Group (otherwise than in the ordinary course of business) within the two years immediately preceding the date of this Prospectus and are or may be material:

(a) a joint venture agreement dated 30 March 2006 entered into between Crownplus International Limited (a wholly-owned subsidiary of the Company), Longyuan Electric Group Corporation and Wan Yuan Industry in respect of building, maintenance and operation of wind energy plants and facilities in the Liaoning Province of the PRC, in relation to which Crownplus International Limited's 40% share of investment in share capital of the joint venture company amounts to RMB37,520,000 out of the total capital of RMB93,800,000;

(b) a trust loan contract entered into on 30 August 2006 of RMB41 million from CALT through the trustee, 航天科技財務有限責任公司 ("CASIL Finance") to 航天科技通信(深圳)有限公司 ("CTSZ") (a wholly-owned subsidiary of the Company), being unsecured and bearing interest at 5.10% per annum;

(c) a settlement agreement dated 26 October 2006 between the Bank of China (Hong Kong) Ltd., Hung Nien Electronics Limited (a wholly-owned subsidiary of the Company) and the Company in relation to the complete settlement of all of the indebtednesses due to the Bank of China (Hong Kong) Ltd. by the Company and Hung Nien Electronics Limited by payment of HK$39 million;

(d) an agreement of 22 November 2006 between the Company and Brightness International Holdings Ltd ("Brightness") in relation to Brightness' acquisition of 40% equity interest of CASTEL Videotech (Hong Kong) Ltd ("CASTEL Videotech") at a consideration of HK$4.2 million and Brightness' subscription of 2,505,000 new shares for a consideration of HK$4 million, representing 20% of the total issued shares of CASTEL Videotech after completion of the transaction;

(e) a long term trust loan contract entered into on 28 November 2006 of RMB170 million from CALT through the trustee, CASIL Finance to CTSZ, being unsecured and bearing interest at 5.04% per annum; and

(f) a trust loan contract entered into on 11 June 2007 of RMB50 million from CALT through the trustee, CASIL Finance to CTSZ, being unsecured and bearing interest at 5.04% per annum.

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

8. BINDING EFFECT

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

9. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents and the written consent of Moores Rowland referred to in the paragraph headed "Expert and consent" in this appendix have been delivered to the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.

10. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company from the date of this Prospectus up to and including Friday, 5 October 2007:

(a) this Prospectus;

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

(c) the annual reports of the Company for the two years ended 31 December 2006;

(d) the Circular;

(e) the report from Moores Rowland on the Pro forma financial information of the Group as set out in Appendix II to this Prospectus;

(f) the letter of consent referred to under the paragraph headed "Expert and consent" in this Appendix;

(g) the Sale and Purchase Agreements; and

(h) the material contracts referred to the paragraph headed "Material Contracts" in this Appendix.