



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)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

RESULTS

The directors of CASIL Telecommunications Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		1.1.2006 to 30.6.2006 HK\$'000 (Unaudited)	1.1.2005 to 30.6.2005 HK\$'000 (Unaudited)
Turnover	3	54,280	97,321
Cost of sales		(39,032)	(62,843)
Gross profit		15,248	34,478
Other income		2,025	2,038
Distribution costs		(6,797)	(4,277)
Administrative expenses		(27,360)	(28,719)
Reversal of allowance for amount due from an associate		10,019	—
Finance costs	4	(3,198)	(2,618)
Share of results of associates		(135)	(139)
(Loss) profit before taxation	5	(10,198)	763
Taxation	6	78	(143)
(Loss) profit for the period		(10,120)	620
Attributable to:			
Equity holders of the Company		(9,778)	287
Minority interests		(342)	333
		(10,120)	620
		HK cent	HK cent
(Loss) earnings per share — Basic	7	(0.96)	0.03

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	30.6.2006 HK\$'000 (Unaudited)	31.12.2005 HK\$'000 (Audited)
Non-current assets		
Property, plant and equipment	54,329	54,432
Goodwill	1,607	1,607
Intangible assets	31,296	33,634
Interests in associates	20,415	8,650
	107,647	98,323
Current assets		
Inventories	58,977	48,808
Trade and other receivables	146,856	165,873
Amounts due from related companies	15,291	15,291
Amounts due from associates	12,315	323
Pledged bank deposits	2,095	1,351
Bank balances and cash	17,298	22,387
	252,832	254,033
Current liabilities		
Trade and other payables	98,914	85,385
Amounts due to related companies	4,407	4,407
Amount due to an associate	44	—
Taxation payable	342	65
Borrowings — amount due within one year	99,512	98,998
	203,219	188,855
Net current assets	49,613	65,178
Total assets less current liabilities	157,260	163,501
Non-current liabilities		
Borrowings — amount due after one year	10,981	6,654
Deferred taxation	1,769	2,217
	12,750	8,871
Net assets	144,510	154,630
Capital and reserves		
Share capital	101,714	101,714
Reserves	40,505	50,283
Equity attributable to equity holders of the Company	142,219	151,997
Minority interests	2,291	2,633
Total equity	144,510	154,630

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning either on or after 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the Group's results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) — INT 8	Scope of HKFRS 2 ³
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

3. SEGMENT INFORMATION

Business segments

The Group's primary format for reporting segment information is business segments.

Six months ended 30 June 2006

	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Video Conference System HK\$'000	Broadband Wireless Access HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover						
External sales	24,212	13,859	12,166	4,043	—	54,280
Result						
Segment result	1,935	(3,870)	2,317	(11,595)	—	(11,213)
Unallocated corporate expenses	—	—	—	—	—	(6,651)
Reversal of allowance for amount due from an associate	—	—	—	10,019	—	10,019
Gain on disposal of a subsidiary	—	980	—	—	—	980
Finance costs	—	—	—	—	—	(3,198)
Share of results of associates	—	(135)	—	—	—	(135)
Loss before taxation						(10,198)
Taxation						78
Loss for the period						(10,120)

Six months ended 30 June 2005

	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Video Conference System HK\$'000	Broadband Wireless Access HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover						
External sales	10,645	14,870	6,118	65,688	—	97,321
Inter-segment sales*	—	—	—	535	(535)	—
Total	10,645	14,870	6,118	66,223	(535)	97,321

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

Result						
Segment result	(228)	(2,615)	(5,124)	18,409	—	10,442
Unallocated corporate expenses	—	—	—	—	—	(6,922)
Finance costs	—	—	—	—	—	(2,618)
Share of results of associates	—	(139)	—	—	—	(139)
Profit before taxation						763
Taxation						(143)
Profit for the period						620

4. FINANCE COSTS

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
Interest on:		
Bank borrowings		
— wholly repayable within five years	2,047	1,390
— not wholly repayable within five years	167	244
Other loan wholly repayable within five years	984	984
	3,198	2,618

5. (LOSS) PROFIT BEFORE TAXATION

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
(Loss) profit before taxation has been arrived at after charging and (crediting):		
Allowance for bad and doubtful debts	160	2,360
Allowance for obsolete inventories	5	292
Amortisation of intangible assets (note a)	2,338	2,364
Depreciation of property, plant and equipment	3,944	3,439
Gain on disposal of a subsidiary (included in other income)	(980)	—
Impairment losses recognised in respect of goodwill (note b)	—	2,438
Interest income	(107)	(103)
	<u> </u>	<u> </u>

Notes:

- (a) During the six months ended 30 June 2006, amortisation of intangible assets of approximately HK\$1,752,000 (1.1.2005 to 30.6.2005: HK\$1,988,000) and HK\$586,000 (1.1.2005 to 30.6.2005: HK\$376,000) were included in cost of sales and administrative expenses respectively.
- (b) The amount is included in administrative expenses.

6. TAXATION

	1.1.2006 to 30.6.2006 HK\$'000	1.1.2005 to 30.6.2005 HK\$'000
The tax (credit) charge comprises:		
Current tax:		
Hong Kong Profits Tax		17
— underprovision in prior year	—	
The People's Republic of China (the "PRC") Income Tax		
— current period	370	
— overprovision in prior year	—	(105)
	<u> </u>	<u> </u>
Deferred taxation	370	(88)
	(448)	231
	<u> </u>	<u> </u>
Taxation (credit) charge attributable to the Group	<u> </u>	<u> </u>
	(78)	143

No provision for Hong Kong Profits Tax has been made in the current period as the Company's subsidiaries accrued tax losses for the period.

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

7. (LOSS) BASIC EARNINGS PER SHARE — BASIC

The calculation of the (loss) basic earnings per share is based on the loss for the period attributable to entity holders of the Company of HK\$9,778,000 (2005: profit for the period attributable to entity holders of the Company HK\$287,000) and on 1,017,139,763 in issue during both periods.

8. DISPOSAL OF A SUBSIDIARY

During the six months ended 30 June 2006, CASTEL Qihua Hi-Tech Investments Limited ("CASTEL Qihua"), a subsidiary of the Company, entered into agreements 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") directly and that Spaceinet HK would allot 1,020,000 shares to Concord Pacific and 979,998 shares to CASTEL Qihua respectively. Spaceinet HK became an associate of the Group upon the completion of the transaction. Spaceinet HK was engaged in the development, distribution and installation of Global Positioning System application and related product and a gain on disposal of HK\$980,000 was recognised.

MANAGEMENT DISCUSSION AND ANALYSIS**RESULTS SUMMARY**

As of 30 June 2006, the turnover of the Group for the first half of 2006 was HK\$54.28 million with a loss of HK\$10.12 million. The Group's turnover and profit in the corresponding period of 2005 were HK\$97.32 million and HK\$0.62 million respectively.

BUSINESS REVIEW AND PROSPECTS

The Group continued the sales of communication equipment, the application services of Global Positioning System (GPS) and video conferencing system business in the first half of 2006. At the same time, the Group further increased its investments in wind energy facilities, aiming at exploring new operations and new earning sources for its future development.

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 those operators with communication equipment of high capability/price value. However, due to the reduction of investment in infrastructure by those major operators, the decrease of investment proportion by over 50% in transmission networks, the expectation of 3G business as well as the delay in the marketing of the Group's new developed products, the sales of communication products in the first half of this year recorded a relatively greater decrease as compared with the corresponding period last year. In contrast, the turnover of the overseas communication products recorded a substantial increase as compared with the corresponding period last year. We believe that, with the marketing of new products in the second half of this year, the sales amount will be significantly enhanced in the PRC.

The Group's Global Positioning System (GPS) application business is based on its self-developed GPS new mobile control unit and the new software control system based on internet-related operation centers, providing the total solutions in respect of system integration as well as operation services of mobile information for various vehicles to the public.

The Group's GPS business developed well in Mainland China, with the rapid development of the operation services of mobile information of taxi business in Beijing in particular. The number of vehicles increased by over 19,000 in the first half of this year. With the coming of the 2008 Olympic Games in Beijing, the number of users in such business of the Group is expected to attain a substantial growth. In addition to the active exploration of the markets in Mainland China, Hong Kong and Macau, the Group has successfully promoted its business to other regions in greater china, such as Thailand, Malaysia and Indonesia. The Group will further explore the overseas markets.

The Group's Video Conferencing System Business had launched high-clear MPEG2 video conferencing and image transmission system based on MPEG4 technique, together with existing and marketed similar products, which constituted a product chain of video conferencing systems with MPEG2/MPEG4 dual-mode system that fulfills different requirements of various end-users provided by the Group to the public.

Because of its own achievement of the design in core parts regarding MPEG2/MPEG4 encoder by the Group, the cost of video conferencing and image transmission system hence significantly reduced, which enhanced the competitiveness in consolidating the existing market and expanding other specialized system.

After the signing of contracts relating to the establishment of wind energy plants in Jiangsu and Jilin, PRC and the building, maintenance and operation of the facilities, the Group paid the first installments and completed the capital verification in accordance with the terms of capital injection proportion and time as provided in the above-mentioned contracts.

WIND ENERGY PROJECT

On 30 March 2006, Crownplus International Ltd. ("Crownplus"), 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. The details of the joint venture company, Aerospace Long Yuan (Benxi) Wind Power Co., Ltd., are as follows:

Business scope	: wind power generation; wind field survey and design and construction work
Operation period	: 20 years
Production capacity	: 30 megawatt
Total investment	: RMB 284,230,000 (HK\$273,298,077)
Total registered capital	: RMB 93,800,000 (HK\$90,192,308) (Crownplus' share: 40% HK\$36,076,923)

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.

The Group paid its share of the first installment of capital injection in September 2006.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2006, the Group has 36 employees (2005: 43 employees) in the Hong Kong head office and 618 employees (2005: 387 employees) in the China Mainland offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus and share option schemes are available and are at the discretion of the Directors.

FINANCIAL REVIEW**Liquidity and Financial Resources**

Total borrowings of the Group as at 30 June 2006 were HK\$110,493,000 (31 December 2005: HK\$105,652,000), of which HK\$58,601,000 (31 December 2005: HK\$58,765,000) were fixed rate borrowings and the remaining were floating rate. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings over shareholders' equity) as at 30 June 2006 was 78% (31 December 2005: 70%).

Pledge of Assets

At 30 June 2006, the Group had pledged certain land and buildings with carrying value of HK\$17,129,000 (31.12.2005: HK\$10,280,000) to secure banking facilities granted to the Group. In addition, at 30 June 2006, bank deposits amounted to HK\$2,095,000 (31.12.2005: HK\$1,351,000) have been pledged to banks to secure short term borrowings granted to the Group. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings.

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi and United States dollars. The Group expected that the exposure to exchange rates fluctuation was minimal and therefore has not engaged in any hedging activities.

INTERIM DIVIDEND

The Board of the Company did not recommend any interim dividend for the six months ended 30 June 2006 (2005: Nil).

CORPORATE GOVERNANCE**Code on Corporate Governance Practices**

The Company has adopted Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, save that all of the independent non-executive directors are not appointed for specific term but are subject to retirement and rotation and re-election at the Company's Annual General Meeting. Nevertheless, all of the Directors of the Company including the independent non-executive directors are subject to the retirement provisions under the Articles of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the directors of the Company and in accordance with information provided, all the directors have complied with the provisions under the Model Code.

Independent Non-executive Directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in appointment of a sufficient number of 4 independent non-executive directors of whom Mr. Yiu Ying Wai, Alex ("Mr. Yiu") is a fellow member of the Association of Chartered Certified Accountants, a member of Certified Management Accountants of Canada and also a practicing member of the Hong Kong Institute of Certified Public Accountants in Hong Kong with over 20 years of experience in auditing, accounting and financial management in Hong Kong and overseas.

Audit Committee

The Audit Committee of the Company set up comprises all of the four independent non-executive directors, Mr. Yiu, Mr. Wong Fai, Philip, Mr. Zhu Shixiong and Mr. Moh Kwen Yung. The principal duties of the Audit Committee include the review of the Company's financial reporting procedure, internal controls and results of the Group. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee and Deloitte Touche Tohmatsu, the external auditors of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months period ended 30 June 2006.

By Order of the Board
Wang Xiaodong
Executive Director

Hong Kong, 21 September 2006

As at the date of this announcement, the board of directors of the Company comprises Mr. Han Shuwang, Mr. Wang Xiaodong and Mr. Li Guang as executive directors, Mr. Wu Yansheng, Mr. Liang Xiaohong and Mr. Tang Guohong as non-executive directors, and Mr. Yiu Ying Wai, Mr. Wong Fai, Philip, Mr. Zhu Shixiong and Mr. Moh Kwen Yung as independent non-executive directors.

* the Chinese name of the Company is for reference only