ANNUAL REPORT 2007

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

Stock Code : 31

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr Wu Zhuo *(Chairman)*
Mr Chow Chan Lum, Charles *(Independent)*
Mr Luo Zhenbang *(Independent)*
Mr Wang Junyan *(Independent)*
Mr Li Hongjun
Ms Chan Ching Har, Eliza
Mr Xu Jianhua
Mr Jin Xuesheng
Mr Gong Bo
Mr Wang Yujun

AUDIT COMMITTEE

Mr Chow Chan Lum, Charles *(Chairman)*
Mr Luo Zhenbang
Mr Jin Xuesheng
Mr Wang Yujun

REMUNERATION COMMITTEE

Ms Chan Ching Har, Eliza *(Chairman)*
Mr Li Hongjun
Mr Chow Chan Lum, Charles
Mr Luo Zhenbang
Mr Wang Junyan
Mr Gong Bo

QUALIFIED ACCOUNTANT

Mr Luk Chi Keung

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSELS

Sit, Fung, Kwong & Shum
Richards Butler

PRINCIPAL BANKS

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

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Chairman's Statement

On behalf of the Board of Directors of China Aerospace International Holdings Limited (the "Company"), I am pleased to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

Mr Wu Zhuo
Chairman of the Board

RESULTS

The turnover of the Group for the year ended 31 December 2007 was HK$1,681,854,000 (2006: HK$1,528,101,000), representing an increase of approximately 10.06%. The increase in turnover was mainly due to the steady growth of hi-tech manufacturing business. After taking into account of the non-recurring income in other income, profit attributable to the shareholders was HK$310,037,000, representing a substantial increase of approximately 179.40% as compared with that of HK$110,966,000 in last year.

BUSINESS REVIEW

Hi-tech Manufacturing

In 2007, the turnover of hi-tech manufacturing was HK$1,655,785,000, representing an increase of 9.92% as compared with last year. Its profit decreased by 1.49% to HK$161,365,000 as compared with last year. The Group's hi-tech manufacturing business, with main products comprising plastic injection, intelligent chargers, liquid crystal display and printed circuit boards, had maintained a steady growth through improved client portfolio, continuous technology improvement and enhanced internal control. Among which, plastic products, intelligent chargers and liquid crystal display achieved relatively satisfactory results, with turnover increased by 11.58%, 10.73% and 8.69% respectively as compared with last year.

Affected by the fierce market competition and the impacts of soaring costs of labor, raw materials and energy, the profit margin of the hi-tech manufacturing business had slightly decreased but still could maintain a rather good return on equity of 21.23%.

The Group's new factory extension in Huizhou Industrial Park Phase III was completed in the first half of 2007 and has already been in use, providing a new factory area of approximately 45,000 m^2. The new factory area is expected to provide the hi-tech manufacturing business with further capacity for future growth.

Science and Technology Park Complex Development

With the support of China Aerospace Science & Technology Corporation ("CASC"), the Group is dedicated to the business of the science and technology park complex development in recent years. After entering into the agreement with Shanghai Minhang District Municipal Government in 2006 to establish the Shanghai Aerospace Technology Investment Management Company Limited ("Shanghai Aerospace") for the development, construction, management and operation of the Shanghai Aerospace Technology Industrial Park, the Group also set up a joint venture company with the subsidiaries of CASC in Shenzhen during the year to jointly develop the "Shenzhen Aerospace Technology Building".

Chairman's Statement

In 2007, Shanghai Aerospace Technology Industrial Park was recognised by the National Development and Reform Commission as a "State Civilian Aerospace Industry Base of Shanghai", the construction of the Park was thus taken a great leap forward. The Park will comprise different research, production and operation facilities. Meanwhile, centering on the State's mid and long term aerospace development strategy, the Park will focus on the two major areas of developing civilian aerospace industry and aerospace technology applications so as to form a group of emerging civilian aerospace high-tech applications industry sectors. At the moment, the Park is speeding up its process of the construction and the move in of a number of admitted enterprises.

The opening ceremony of "The State Civilian Aerospace Industry Base of Shanghai" attended by the leaders of Shanghai Municipal Government, the Commission of Science Technology and Industry for National Defense and China Aerospace Science & Technology Corporation

In 2007, CASC and Shenzhen People's Municipal Government have commenced strategic cooperation. One of the major cooperation projects is for CASC to develop the "Shenzhen Aerospace Technology Building" in Shenzhen to serve as an autonomous and innovative aerospace technology transformation platform and the operating headquarter of CASC in southern China for being the research and development centre of aerospace technology applications, centre of international economic and technology cooperations, and operational and management centre.

The Company sought the opportunity of this strategic alliance plan and, after due consideration, decided that CASIL New Century Technology Development (Shenzhen) Company Limited ("New Century"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement in November 2007 with Aerospace Technology Investment Holdings Limited ("ATI") and Shenzhen Science & Technology Institute ("STI"), both are subsidiaries of CASC. Under which, Shenzhen Aerospace Hi-Tech Investment Management Company Limited ("Shenzhen Aerospace") was established for the construction, operation and management of the "Shenzhen Aerospace Technology Building". This joint venture project received the support and approval of independent shareholders at the extraordinary general meeting held in January 2008. The registered capital of Shenzhen Aerospace is RMB700,000,000, in which New Century, ATI and STI holds 60%, 20% and 20% interest respectively.

Given that the prosperous development of property market in Shenzhen in recent years and the keen demand in high quality offices, it is anticipated that the Company would have favourable returns from the investment of the "Shenzhen Aerospace Technology Building". The establishment of Shenzhen Aerospace will further strengthen the development of science and technology park complex of the Company, as well as the Group's property investment portfolio. In the long run, the planning and coordination of different projects in relation to research and development of aerospace technologies, as well as the introduction of related industries in entering the "Shenzhen Aerospace Technology Building" will provide the Group with investment opportunities in hi-tech projects.

The business registration of Shenzhen Aerospace had been completed at the end of January 2008 and Shenzhen Aerospace forthwith started to study and identify the site for the future location of "Shenzhen Aerospace Technology Building" and prepare for the preliminary work of public tender. On 14 March 2008, Shenzhen Aerospace won the bid for the land use right of a parcel of commercial office usage land of 10,458.44 m^2 located at the northern reclamation district of the east of Nanshan Houhai Centre District, Shenzhen through public tender at a consideration of RMB495 million (approximately HK$538 million).

Nanshan District is a newly developed high-tech industrial hub and financial district of Shenzhen. According to Shenzhen Municipal Government's plan in the central commercial and cultural district of Nanshan, Nanshan will be developed into a modern city centre, comprising financial, business, commercial service and public facilities. The "Shenzhen Aerospace Technology Building" will be situated at the prime commercial area of Nanshan Houhai Central District. With the inauguration of the Shenzhen Bay Bridge in July 2007, it is expected that the development of Nanshan District will be accelerated and will become an important link between Guangdong Province and Hong Kong, the largest border checkpoint of the world as well as an international commercial and cultural hub and tourist spot for both Shenzhen and Hong Kong.

Other Major Events

According to the arrangement under the Assets Swap Agreement entered into between the Group and CASC in 2006, the Group acquired all the equity interests of Dongguan Huadun Enterprises Limited ("Dongguan Huadun"). Upon completion of the acquisition, Dongguan Huadun successively disposed of its lands and properties to independent parties. Majority of the relevant transaction was completed in 2007 and resulted in a profit of HK$28,849,000.

To cope with the future development, in June 2007, the Company raised approximately HK$386,000,000 by way of Open Offer of 428,483,980 Offer Shares at a price of HK$0.90 per Offer Share on the basis of one Offer Share for every five Shares held. The Open Offer was well received and supported by shareholders, it succeeded in strengthening the Company's financial position and allowed all shareholders to share an equal opportunity to increase their investment in the Company and participate in the Company's future development.

Chairman's Statement

PROSPECT

In 2008, the Company will enter into a new phase of development milestone. In order to line up the new development strategy and development directions of the Group, the Chinese name of the Company was changed from "航天科技國際集團有限公司" to "中國航天國際控股有限公司" (the Chinese stock short name was changed to "航天控股"). The new name reflects that the future development of the Group will no longer be restricted to the technology domain, and fully demonstrates the Group's development strategies in three main business focuses, namely hi-tech manufacturing, science and technology park complex development and related property investment, and hi-tech industries investment. More importantly, the new Chinese name also encompasses the close relationship between the Company and CASC, the substantial shareholder of the Company, and their future business interaction.

Looking forward, the Group is full of confidence in its future development. The hi-tech manufacturing business of the Group will unavoidably be affected by the austerity measures in the Mainland China, the appreciation of Renminbi and the slowdown in peripheral economies. However, following the completion of the third phase extension work of Huizhou Industrial Park, the Group's overall production capacity is expected to be enhanced. This together with further efforts put in the improvement of management and quality and widening of new products development, the Group has confidence in coping with various challenges. It is anticipated that the hi-tech manufacturing business will maintain a steady growth and continue to be a core and stable profit generator for the Group.

The Group will allocate further resources in developing the science and technology park complex development business and related property investment, and grasp the various business opportunities arising from the prosperous economic development of China. With the support of CASC and the Shanghai Municipal Government, an innovated development and management model will be adopted in the Shanghai Aerospace Technology Industrial Park to establish a platform which is beneficial to aerospace industry and bring reasonable return to the Group in the long run.

Shenzhen Aerospace is to set out an overall construction and development plan for the "Shenzhen Aerospace Technology Building" project based on comprehensive market research. The project is preliminarily planned to commence construction between the end of 2008 and the beginning of 2009. The "Shenzhen Aerospace Technology Building" project is expected to further optimise the asset structure of the Group and bring a new source of long term steady return for the Company.

The Group will continue to strengthen the communications with CASC and fully utilise the leading resources of CASC and the potential of the Group. The Group, having inherited the steady management motto, actively explores other potential projects and investment opportunities so as to raise the Group's profitability, thereby consistently enhancing greater value for the shareholders.

APPRECIATION

The ex-Chairman of the Company, Mr Ma Xingrui resigned as Non-Executive Director and Chairman of the Company in September 2007, due to limited time available to the office of the directorship and Chairman of the Company as the result of his promotion to the President of CASC. Mr Ma Xingrui had contributed significantly to the Group's development during his period of tenure. The Board would like to extend the most highly praised gratitude to Mr Ma Xingrui for his invaluable contributions to the Group's development during his tenure of services. Besides, Mr Lee Hung Sang, due to limited time available to the office of the directorship of Independent Non-Executive Director, and Mr Chen Dingyi, because of his retirement, resigned from directorship in 2007. The Board would also like to extend its heartfelt appreciation to the senior directors, Mr Lee Hung Sang and Mr Chen Dingyi, for their valuable contributions to the Company during their tenure of services and extends a warm welcome to Mr Wang Junyan in joining the Board as Non-Executive Director in 2007.

Upon the Board's approval to the audited financial statements of the Group for the year ended 31 December 2007, Mr Gong Bo, Non-Executive Director of the Company, due to limited time available to the directorship of the Company as a result of work arrangement, resigned as Non-Executive Director and member of Remuneration Committee of the Company, Mr Wang Yujun, Non-Executive Director of the Company, due to limited time available to the directorship of the Company as a result of work arrangement, resigned as Non-Executive Director and member of Audit Committee of the Company, Mr Li Hongjun was appointed as Non-Executive Director and member of Remuneration Committee of the Company, and Mr Jin Xuesheng was appointed as Non-Executive Director and member of Audit Committee of the Company, with effect from 18 March 2008. The Board expresses its sincere appreciation to Mr Gong Bo and Mr Wang Yujun for the valuable contributions to the Company during their tenure of services and extends a warm welcome to Mr Li Hongjun and Mr Jin Xuesheng in joining the Board of the Company.

The Board would like to take this opportunity to extend its sincere appreciation and praise to the management team and all staff of the Company. Their endeavor and efforts are crucial to the Company's success in the year past. Meanwhile, the Board would like to extend its sincerest appreciation to our distinguished customers, business partners and shareholders for their faithfulness and support.

By order of the Board

Wu Zhuo
Chairman

Hong Kong, 18 March 2008

Management Discussion and Analysis

RESULTS PERFORMANCE

The turnover of the Group for the year ended 31 December 2007 was approximately HK$1,681,854,000, representing an increase of approximately 10.06% as compared with that of HK$1,528,101,000 in 2006. Profit for the year was HK$310,394,000, representing a remarkable increase of 169.76% as compared with that of HK$115,062,000 in 2006.

PROFITS ATTRIBUTABLE TO SHAREHOLDERS AND OPERATING PROFITS

In 2007, the profits attributable to shareholders were HK$310,037,000, representing a substantial increase of 179.40% as compared with that of HK$110,966,000 in 2006. The surge on profits as compared with that of 2006 was due to the stable growth in the hi-tech manufacturing business and several non-recurring income being recorded.

Based on the issued share capital of 2,429,162,000 shares after being adjusted for the effect of Open Offer of 428,483,980 Offer Shares, the earnings per share was HK$0.1276, representing an increase of approximately 165.83% as compared with that of HK$0.048 in 2006.

In considering the possible liquidity for the future development of the Company, the Directors resolved not to declare any annual dividend in respect of the year ended 31 December 2007.

SEGMENT INFORMATION AND PROFITS CONTRIBUTION

	2007		2006		**Change (%)**	
(HK$'000)	**Turnover**	**Results**	Turnover	Results	**Turnover**	**Results**
Manufacturing and distribution						
Plastic products	**709,774**	**50,683**	633,564	53,108	+12.03%	-4.57%
Intelligent chargers	**556,296**	**65,831**	502,383	56,572	+10.73%	+16.37%
Printed circuit boards	**215,695**	**31,987**	206,816	46,639	+4.29%	-31.42%
Liquid crystal display	**254,664**	**21,764**	235,773	20,428	+8.01%	+6.54%
Other products	**5,457**	**(8,900)**	3,928	(12,944)	+38.93%	-31.24%
	1,741,886	**161,365**	1,582,464	163,803	+10.07%	-1.49%
Property investments	**25,782**	**25,681**	26,824	30,514	-3.88%	-15.84%
Trading of electronic products	**9,403**	**(1,761)**	5,230	(3,625)	+79.79%	-51.42%
Financial service	**–**	**56,387**	2,078	4,038	-100%	+1,296.41%
Trading of securities	**–**	**46,192**	–	7,190	–	+542.45%
	1,777,071	**287,864**	1,616,596	201,920	+9.93%	+42.56%
Elimination	**(95,217)**	**–**	(88,495)	–	+7.60%	–
	1,681,854	**287,864**	1,528,101	201,920	+10.06%	+42.56%

Management Discussion and Analysis

Phase 3 of Huizhou Industrial Park

Till 31 December 2007, the turnover of the hi-tech manufacturing business was approximately HK$1,655,785,000, representing an increase of approximately 9.92% as compared with last year; the profit margin was 9.75%, representing a slight decrease as compared with that of 10.87% last year. Despite of the fact that the hi-tech manufacturing business was facing unfavorable factors such as fierce market competition, soaring overall costs (including wages, energy, raw materials and environmental protection), as well as Renminbi appreciation, it relied on high proficient management and good market exploring ability and managed to deliver an operating profit of HK$161,365,000, representing a decrease of 1.49% as compared with last year.

The turnover of the plastic injection business was HK$623,673,000, representing an increase of 11.58% as compared with last year; the operating profit was HK$50,683,000, representing a decrease of 4.57% when compared with last year. Relatively outstanding business segments include electroplating, plastic injection and sealed battery.

With the increase of orders from major customers, the business of intelligent chargers grew as expected. The turnover was HK$556,296,000, representing an increase of 10.73% as compared with last year. Operating profit was HK$65,831,000, increased by 16.37% as compared with last year.

The orders from major customers of the liquid crystal display business also grew as expected. The investment in the development of STN-LCD products during the last few years has gradually matured. Newly developed LCD Module (LCM) business has entered the growth cycle. The turnover of liquid crystal display business was HK$254,664,000, representing an increase of 8.69% as compared with last year. An operating profit of HK$21,764,000 was recorded, grew by 6.54% as compared with last year.

The products of printed circuit boards were mainly high quality multi-layers boards, flexible boards and mix of rigid and flexible boards and so forth. Being affected by the reduction in orders from some customers and the fluctuations of the exchange rate of Renminbi, the result was less encouraged. The turnover of HK$215,695,000, increased by 4.29% as compared with last year while the operating profit was HK$31,987,000, being a reduction of 31.42% as compared with last year. The situation had already aroused the attention of the Group. After adopting a series of effective measures, the situation began to improve gradually from the fourth quarter last year.

Management Discussion and Analysis

In view of the blooming capital markets both in China and Hong Kong during the year, the Group, under strict control of investment risks, underwent some financial investments and a provision of an investment consulting service and recorded a revenue of HK$39,607,000 and HK$104,436,000 respectively. In addition, the Group's successful collection of parts of a loan receivable, as well as the increase in the fair value of financial assets and the exchange gain, contributed relatively significant non-recurring incomes to the Group.

OPERATING EXPENSES

The administrative expenses of the Group in 2007 were HK$206,748,000, representing an increase of 3.86% as compared with last year. The increase was due to the rise in human resources costs and management fees dedicated to the development of new business. The Company, as originally planned, settled large parts of liabilities after completion of the Open Offer. This resulted in decrease of the finance costs to HK$7,569,000, representing a substantial decrease of 52.56% as compared with that of HK$15,956,000 in last year. With the amount of liabilities continues to shrink, the finance costs of the Group in 2008 are expected to further decrease.

ASSETS

As of 31 December 2007, the total assets of the Group were HK$3,008,036,000, of which the non-current assets were HK$1,212,880,000, representing an increase of 7.12% as compared with that of HK$1,132,296,000 in last year; the current assets were HK$1,795,156,000, representing an increase of 55.53% as compared with HK$1,154,182,000 in last year. The equity attributable to shareholders of the Company, after minority interests, was HK$2,001,606,000, increased significantly by about 64.01% as compared with that of HK$1,220,412,000 in last year and the net assets per share was HK$0.78, based on the issued share capital of 2,570,904,000 shares.

Certain assets of the Group have been mortgaged to a bank to secure financings with interest calculated at 1.25% per annum and the remaining mortgage term is about 4 years.

LIABILITIES

As of 31 December 2007, the total liabilities of the Group were HK$926,983,000, of which the non-current liabilities were HK$178,744,000, representing a decrease of 5.46% as compared with that of HK$189,061,000 in last year; the current liabilities were HK$748,239,000, representing a decrease of 9.24% as compared with that of HK$824,418,000 in last year.

CONTINGENT LIABILITIES

As of 31 December 2007, the Group did not have any material contingent liabilities.

FINANCIAL RATIOS

Financial ratios	**2007**	**2006**
Profit Margin	21.15%	23.38%
Return on equity ratio	15.49%	9.09%
Debt to equity ratio	30.82%	44.32%
Current ratio	2.40	1.40
Quick ratio	2.21	1.24

In 2007, the Group's gross profit margin was 21.15%, slightly decreased as compared with that of 23.38% in 2006. The return on equity ratio was 15.49%, representing a substantial decrease as compared with that of 44.32% at the end of 2006. The debt to equity ratio was 30.82%, recording a plummet of 44.32% as compared with that of the end of 2006. The current ratio and quick ratio were 2.40 and 2.21 respectively, representing a significant improvement as compared with 1.40 and 1.24 respectively of the end of 2006. The improvement of various financial ratios were resulted from the Group's policies of continuous assets modifications, strengthened management and business development.

LIQUIDITY

The source of funding of the Group mainly relies on internal resources and banking facilities. The Group's cash and bank balance as at 31 December 2007 was HK$1,144,957,000, most of which was in Hong Kong Dollars and Renminbi.

In respect of the shareholders' funds generated from the Open Offer during 2007, the Company has utilised a sum of HK$141,860,000 to repay its debts, a sum of HK$82,820,000 as the registered capital of Shanghai Aerospace and partly as working capital. The remaining balance is still placed with banks.

CAPITAL EXPENDITURE

As of 31 December 2007, the Group's capital undertaking was HK$8,047,000 (2006: HK$1,954,000). With the successful acquisition of a parcel of commercial office usage land located in Shenzhen by Shenzhen Aerospace under a public tender and the intended construction of the "Shenzhen Aerospace Technology Building" thereon, it is expected that the Group will make related adjustments on the future capital expenditures after obtaining approvals of relevant authorities for the development plan.

FINANCIAL RISKS

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

HUMAN RESOURCES AND REMUNERATION POLICY

The Group's remuneration policy is based on the employee's qualifications, experience and performance as well as by reference to market trends. The Group will continue to strengthen the level of human resources management, strictly implement the performance-based appraisal system to encourage employees to have continuous improvement in their performance and contributions to the Group.

As at 31 December 2007, the Group has a total of about 6,000 staff mainly based in the Mainland and Hong Kong.

By order of the Board

Zhao Liqiang
Executive Director & President

Hong Kong, 18 March 2008

Corporate Governance Report

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

BOARD OF DIRECTORS

In 2007, the Board of Directors of the Company comprises the Executive Directors, namely, Mr Zhao Liqiang (President), Mr Zhou Qingquan, Mr Zhao Yuanchang, Mr Wu Hongju and Mr Guo Xianpeng; the Non-Executive Directors, namely, Mr Wu Zhuo, (Chairman) (appointed in September 2007), Mr Ma Xingrui (Chairman) (resigned in September 2007), Mr Gong Bo, Mr Chen Dingyi (resigned in March 2007), Ms Chan Ching Har, Eliza, Mr Wang Yujun and Mr Xu Jianhua; and the Independent Non-Executive Directors, namely, Mr Lee Hung Sang (resigned in March 2007), Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan (appointed in March 2007).

Mr Wu Zhuo (Chairman) (appointed in September 2007) and Mr Ma Xingrui (Chairman) (resigned in September 2007) had been appointed as Chairman of the Company consecutively, and Mr Zhao Liqiang as President of the Company. Each of Mr Wu Zhuo and Mr Ma Xingrui are not related to Mr Zhao Liqiang in financial, business or family aspects. The roles of Chairman and President have been divided according to respective written Terms of Reference. The Board is responsible for determining the Group's objectives, strategies, policies and principal business plans, delegating to the management the responsibilities of running the Company's business, making day-to-day decisions concerning business operations and the implementation of the approved strategies in achieving the overall development strategies of the Company.

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 of the Listing Rules, as the required standard for the Directors of the Company to trade the securities of the Company. The Company had enquired with all the Directors as to whether they had complied with Appendix 10 of the Listing Rules while trading the securities of the Company during 2007. So far as was known to the Company, all Directors had complied with Appendix 10 during the year. The Company had also established written guidelines for relevant employees in respect of their dealings in the securities of the Company.

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

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2007, namely, Mr Lee Hung Sang (resigned in March 2007), Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan (appointed in March 2007). Among those Independent Non-executive Directors, both Mr Chow Chan Lum, Charles and Mr Luo Zhenbang have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Company had received a letter from each of the Independent Non-Executive Directors confirming his independence in compliance with Rule 3.13 of the Listing Rules. As such, the Company confirmed that all Independent Non-Executive Directors are independent. The Directors of the Company are unrelated to each other in every aspect, including financial, business or family.

Both Mr Wu Zhuo and Mr Wang Junyan had received a comprehensive, formal and tailored induction on the first occasion of their respective appointment, to ensure that they have a proper understanding of the operations and business of the Company and are fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

BOARD MEETINGS

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

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

DIRECTORS

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

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

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

Corporate Governance Report

The attendance records of individual Director during 2007 are set out below:

	Annual General Meeting		Directors' Meeting	
Number of meetings held	**1**		**5**	
Directors	**Number of meetings entitled to attend**	**Number of attendance**	**Number of meetings entitled to attend**	**Number of attendance**
Zhao Liqiang	1	1	5	5
Zhou Qingquan	1	1	5	5
Zhao Yuanchang	1	1	5	5
Wu Hongju	1	0	5	5
Guo Xianpeng	1	0	5	5
Ma Xingrui	1	0	4	3
Wu Zhuo	N/A	N/A	2	2
Gong Bo	1	0	5	4
Chen Dingyi	N/A	N/A	1	0
Chan Ching Har, Eliza	1	1	5	2
Wang Yujun	1	1	5	5
Xu Jianhua	1	0	5	5
Lee Hung Sang	N/A	N/A	1	1
Chow Chan Lum, Charles	1	0	5	4
Luo Zhenbang	1	0	5	5
Wang Junyan	1	0	5	5

Note: In 2007, both Mr Ma Xingrui (Chairman) and Mr Chow Chan Lum, Charles (Chairman of Audit Committee) were unable to attend the annual general meeting due to business reasons.

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

In 2007, the Audit Committee met two times, and both the external auditors and the Company Secretary also attended the meetings for the purpose of assessing and reviewing the internal control system, the financial statements and corporate governance practices and so on. The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2007.

The attendance records of individual Audit Committee member during 2007 are set out below:

	Number of meeting eligible to attend	Number of attendance
Chow Chan Lum, Charles	2	1
Luo Zhenbang	2	2
Wang Yujun	2	2

Note: In 2007, Mr Chow Chan Lum, Charles (Chairman of Audit Committee) was unable to attend the meeting of Audit Committee once due to business reason.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Ms Chan Ching Har, Eliza (Chairman) and Mr Gong Bo, both being Non-executive Directors, and Mr Lee Hung Sang (resigned in March 2007), Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan (appointed in March 2007), all being Independent Non-executive Directors. The functions of the Remuneration Committee are to formulate remuneration policy and to determine the remuneration of the Directors.

The Remuneration Committee met once during 2007 to review the Directors' remuneration. Both the President and the Company Secretary of the Company also attended the meeting. Performance and results-based evaluation mechanism was adopted by the Remuneration Committee as the Company's emolument policy in determining the Directors' remuneration. During the year, no Director was involved in deciding his/her remuneration.

The attendance records of individual Remuneration Committee member during 2007 are set out below:

	Number of meetings eligible to attend	Number of attendance
Chan Ching Har, Eliza	1	1
Gong Bo	1	1
Lee Hung Sang	N/A	N/A
Chow Chan Lum, Charles	1	1
Luo Zhenbang	1	1
Wang Junyan	1	1

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

INTERNAL CONTROL

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

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

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs, the results and the cash flows of the Group for that period. In preparing the accounts for the year ended 31 December 2007, the Directors have selected suitable accounting policies and adopted Hong Kong Financial Reporting Standards and applied them consistently. Based on judgments and estimates that are prudent, the Directors prepared the accounts on the going concern basis. Auditors' reporting responsibilities are set out on the financial statements by the auditors.

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

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

SHAREHOLDERS' RIGHTS

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

(i) by the Chairman of the meeting; or

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

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

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

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

INVESTORS' RELATIONSHIP

The Company did not amend its Memorandum and Articles of Association during 2007.

In November 2007, the Company announced the change of its Chinese name from "航天科技國際集團有限公司" to "中國航天國際控股有限公司". Shareholders' approval was obtained in the Extraordinary General Meeting held in January 2008. Upon the issue of the Certificate on Change of Name on 23 January 2008 by the Companies Registry of Hong Kong, the change of the Company's Chinese name became effective. Details of which are referred to the Company's announcements dated 30 November 2007, 18 December 2007, 10 January 2008 and 25 January 2008 and also the Circular dated 18 December 2007.

In December 2007, the Company announced the change of its board lot size from 1,800 shares to 2,000 shares per board lot, with effect from 18 February 2008. Details of which are referred to the Company's announcement dated 14 December 2007.

As of 31 December 2007, the authorised share capital of the Company was 100,000,000,000 shares at HK$0.10 each, the issued share capital was 2,570,903,882 shares and the market capitalisation was about HK$3 billion.

SUFFICIENCY OF PUBLIC FLOAT

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

Biographical Details of Directors

Mr Wu Zhuo, aged 58, is a Research Fellow with graduate qualification, is a Non-Executive Director and Chairman of the Company. Mr Wu started his career in Heilongjiang Production and Construction Corps from December 1967 and studied chief design of spacecrafts in Hunan Changsha Technical College from October 1973. In addition, Mr Wu served as Technician in Nanjing Chenguang Machinery Factory from December 1976, Assistant Engineer of the Second Research Academy of the Ministry of Space Industry of China from February 1980, Engineer of Aerospace System Engineering Bureau of the Ministry of Space Industry of China from October 1983, Supervisor and Deputy Division Director of System Engineering Bureau of the Ministry of Aerospace Industry of China from 1988. Through his career in China Aerospace Corporation from June 1993, he had held such positions as Division Director and Deputy Director General of Research & Production Department, Deputy Director General of Human Resources & Training Department and the Head of General Office. From June 1999 onwards, he served as Deputy General Manager of China Aerospace Science & Technology Corporation. Mr Wu was invited to Columbia University as senior visiting scholar for one year in 1988. He was assessed as Research Fellow in 1998 and obtained the Government Subsidy awarded by the State Council in 1999. Mr Wu has been managing in the field of aerospace for a number of years and has extensive capability and experience in the management of system engineering and human resources. He was appointed as an Non-Executive Director and Chairman of the Company in September 2007.

Mr Zhao Liqiang, aged 46, a Research Fellow, is an Executive Director of the Company and President of the Group. He graduated from Beijing Aviation College in 1984, and from China Academy of Launch Vehicle Technology ("CALT") in 1987 with a master degree in Meter & Testing of Aerospace Vehicles. He joined the 704 Research Institute of CALT since 1987 and held such posts as Deputy Team Head of the Second Office, Deputy Officer of Research Centre of Tracking & Navigating Equipment, Vice President, President, President and Assistant to Chairman, and Vice Chairman, as well as General Manager of Beijing Satellite Technology & Navigation Limited, Deputy General Manager of China Aerospace Shidai Electronics Company, Director & President of Long March Launch Vehicle Technology Company Limited. He was appointed as an Executive Director of the Company and President of the Group in September 2004.

Mr Zhou Qingquan, aged 56, is an Executive Director of the Company and Vice President of the Group. He graduated from Northwest Industrial University. From 1976, he held such posts as Deputy Director, Director, Senior Engineer, Deputy General Factory Manager, and General Factory Manager and President in the 801 Research Institute of Shanghai Aerospace Administration and the Research Office of Shanghai Xinxin Machinery Factory respectively. From 1995, he held such posts as Vice President, then President of Shanghai Aerospace Corporation, as well as Deputy Director General of Shanghai Aerospace Administration. He was appointed as an Executive Director of the Company and Vice President of the Group in September 1999.

Mr Zhao Yuanchang, aged 59, a Senior Engineer, is an Executive Director of the Company and Vice President of the Group. He graduated from Nanjing Aerospace College of Managers in 1986. Through his career in Shanghai Aerospace Administration, he held such posts as Deputy General Manager of its subsidiary, Xinyue Meter Factory, Deputy Director of the Eighth Institute of Design, and then its Deputy Director – General in June 1993, and concurrently President of Shanghai Aerospace Corporation and Chairman of Shanghai Aerospace Automotive Mechanical & Electronic Holdings Limited since February 1998. He has attained extensive experience in marketing, business operations, corporate restructuring and management. He was appointed as an Executive Director of the Company and Vice President of the Group in September 2002.

Biographical Details of Directors

Mr Wu Hongju, aged 46, a Senior Engineer, is an Executive Director of the Company and Vice President of the Group. After graduation with the major in radio technology from Beijing Polytechnic University in 1984, he started his career in R&D in the 502 Research Institute of the then Ministry of Aerospace Industry of China. From 1991, he held such posts as Office Assistant of the Aerospace Foreign Trade Coordination Team of the former Ministry of Aviation & Aerospace of China, Assistant of General Planning & Development Bureau of the former China Aerospace Corporation, Vice President of China APMT Company, Vice President of Singapore APMT Company, Division Director of Investment Management Division of Business Investment Bureau of China Aerospace Science & Technology Corporation, and Vice President of Beijing Aerospace Satellite Application Company. He has attained extensive experience in trading, capital operation and radio technology through his career. He was appointed as an Executive Director of the Company and Vice President of the Group in September 2002.

Mr Guo Xianpeng, aged 41, a Senior Engineer, is an Executive Director and Vice President of the Company. He studied at the Department of Automotive Engineering of Tsinghua University from 1983 to 1991 and obtained a bachelor's degree in engineering and a master's degree in engineering. Since 1991, he served as an Engineer in China Aerospace Ground Equipment Corporation. Since 1993, he served as Deputy Director of the Business Development Bureau, Division Director of Project Division and Senior Engineer of China Aerospace Corporation. Since 1999, he served as Director of the Project Management Division of the Planning and Business Department, Director of the Project Management Division of the Business Department and Director of the Civil Products Management Division of the Business Investment Department of China Aerospace Science & Technology Corporation. Since November 2002, he served as Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation. He has experience in development planning, planning and project management of civil products in aerospace industries. He was appointed as an Executive Director and Vice President of the Company in January 2004.

Mr Chow Chan Lum, Charles, aged 57, is an Independent Non-Executive Director of the Company and a Partner of Wong Brothers & Company, Certified Public Accountants. Mr Chow carries duties in a variety of functional and social organizations. He is a past President of the Taxation Institute of Hong Kong and has served on a number of committees of the Hong Kong Institute of Certified Public Accountants including the Deputy Chairman of Auditing & Assurance Standards Committee, the members of PRC Accounting and Auditing Sub-Committee, Practice Review Committee, Investigation Panel, Examination Panel, Compliants Panel, Taxation Committee and Professional Standards Monitoring Committee. He is currently a member of Foreign Experts Consultative Committee on China Independent Auditing Standards, Finance Ministry, the PRC, a member of People's Political Consultative Committee, Guangdong Province, the PRC, a council member of the Hong Kong Academy for Performing Arts, deputy chairman of the Chinese Entrepreneurs Organization, and an Independent Non-Executive Director of Pak Tak International Limited (stock code: 2668), a company listed on the Stock Exchange of Hong Kong Limited, since October 2002. He was appointed as an Independent Non-Executive Director of the Company in April 2000.

Biographical Details of Directors

Mr Luo Zhenbang, aged 41, is an Independent Non-Executive Director of the Company and a Senior Partner of Baker Tilly China Certified Public Accountants. Mr Luo graduated from the School of Business of Lanzhou in 1991 majoring in Enterprise Management. He was an expert supervisor of Xinda Asset Management Corporation and has been managing the audit works for several listed companies since 1994. He is an expert supervisor of China Great Wall Asset Management Corporation, an independent director of Long March Vehicle Technology Company Limited, Ningxia Orient Tantalum Industry Company Limited and Wuzhong Instrument Company Limited, the shares of those companies are listed in the People's Republic of China, as well as an internal audit expert of Northeast Securities Company Limited. Mr Luo possesses several professional qualifications, such as Chinese certified public accountant, certified accountant in securities and futures industry, Chinese certified assets valuer and Chinese certified tax accountant and has in-depth experience in accounting, auditing and financial management. He is familiar with the audit of listed companies from various sectors and extensively participates in the preliminary work in corporate restructuring and strategic planning for initial public offer, assets and debts restructuring, and other business consultation services. He was appointed as an Independent Non-Executive Director of the Company in December 2004.

Mr Wang Junyan, aged 37, is an Independent Non-Executive Director of the Company and the Chairman and Chief Investment Officer of China Alpha Investment Management Limited. Mr Wang holds a master's degree in finance from the Faculty of Business and Economics of the University of Hong Kong and a bachelor's degree with a major in International Trade from the School of Economics of the Zhongshan University. Since 1997, he served as the Managing Director of First Shanghai Capital Limited, the Managing Director of First Shanghai Financial Holding Limited, an immediate subsidiary of the financial service division of the First Shanghai Group and an executive director of China Assets (Holdings) Limited (stock code: 170), the shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr Wang has more than 12 years' experience in investment banking and securities industry. He was appointed as an Independent Non-Executive Director of the Company in March 2007.

Mr Li Hongjun, aged 42, a Senior Engineer, is a Non-Executive Director of the Company. He started his career in China Academy of Aerospace Propulsion Technology in September 1985 and held such posts as Technician, Vice President and President of Academy of Metrology, Director General of Civilian Products Department of China Academy of Aerospace Propulsion Technology, Deputy General Manager and General Manager of Shaanxi Aerospace Power High-tech Company Limited (stock code: 600343), a company listed in the Shanghai Stock Exchange. In the meantime, he studied in the Party School of the Central Committee majoring in Economic Management by correspondence, the Northwest University majoring in Administrative Management and obtained a master degree of Public Administration, and the Nanyang Technological University, Singapore majoring in Business Administration and obtained a degree of EMBA. He was the Vice President of China Spacesat Company Limited (stock code: 600118), a company listed in the Shanghai Stock Exchange, from May 2004 to June 2005. He was the Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation from June 2005 and was promoted to Director General from December 2007. He has been involved in the senior posts in listed companies for years and has extensive experience in corporate management, market exploration and capital operation. He was appointed as Non-Executive Director of the Company in March 2008.

Biographical Details of Directors

Ms Chan Ching Har, Eliza, aged 51, is a Non-Executive Director of the Company. Ms Chan is a Senior Partner of Jewkes Chan & Partners, Solicitors. She is a Member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a Standing Committee Member of the Tianjin Committee of the Chinese People's Political Consultative Conference, the Foreign Economic Affairs Legal Counsel to the Tianjin Municipal People's Government, an arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC), and a China-Appointed Attesting Officer appointed by the Ministry of Justice. She also serves as Chairman of Kowloon Hospital, Chairman of Hong Kong Eye Hospital, Council Member of the Hong Kong University of Science and Technology, Member of the Administrative Appeals Board, a Disciplinary Panel Member of the Hong Kong Institute of Certified Public Accountants and the Legal Advisor to The Hong Kong Chinese Enterprises Association. She is the Chairman of the University of Victoria Foundation (Hong Kong) Limited, Vice-Chairman of the Hong Kong CPPCC (Provincial) Members Association Limited and a Governor of The Canadian Chamber of Commerce in Hong Kong. She was formerly a Board Member of the Hong Kong Hospital Authority, Board of Education and Hong Kong Examination and Assessment Authority. Ms Chan has been conferred Justice of the Peace (J.P.) and Bronze Bauhinia Star (B.B.S.) awards by the Chief Executive of the Hong Kong SAR. She was appointed as Independent Non-Executive Director of the Company in January 1997 and was re-designated as Non-Executive Director of the Company in December 2004.

Mr Xu Jianhua, aged 40, a Senior Economist, is a Non-Executive Director of the Company and Vice President of the Group. Mr Xu obtained a bachelor's degree in Laws from the China University of Political Science and Law, a master degree in Business Administration from Beijing University of Aeronautics & Astronautics and a Master of Laws degree from the City University of Hong Kong and was qualified as a lawyer in the PRC in 1994. He joined the 707 Research Institute of the former Ministry of Aeronautics & Aerospace Industry of China, serving successively as Deputy Director of Payroll & Benefits Division and the Head of the Administration Division of Human Resources Department of China Aerospace Corporation, the Division Director and Deputy Director General of Human Resources Department of China Aerospace Science & Technology Corporation, and Director of China Spacesat Company Limited (stock code: 600118), a company listed in the Shanghai Stock Exchange. He was appointed as Director and Deputy General Manager of CASIL Telecommunications Holdings Limited (stock code: 1185), a company listed in the Stock Exchange of Hong Kong Limited and was appointed as Non-Executive Director of the Company and Vice President of the Group in July 2006.

Mr Jin Xuesheng, aged 45, a Senior Engineer, is a Non-Executive Director of the Company. He graduated from Harbin Institute of Technology with an engineering bachelor degree and the University of Lancaster in the United Kingdom with a MBA degree. From 1984, he held such positions as Deputy Division Director and Division Director of the Planning and Operation Division, Engineer and Deputy Factory Director at Capital Engineering Factory under China Academy of Launch Vehicle Technology, as well as Managing Director of Langfang Hangxing Packaging Machinery Company Limited, Partner of Beijing Haiwen Investment Consulting Limited, the Vice President and Financial Controller of China Spacesat Company Limited (stock code: 600118), a company listed on the Shanghai Stock Exchange, Deputy General Manager of Beijing Aerospace Satellite Applications Company and Deputy General Manager of Aerospace Technology Investment Holdings Limited. Among which, he was the Executive Director and Vice President of the Company from June 1999 to March 2001, the Director, Deputy General Manager and Financial Controller of Shanghai Aerospace Technology Investment Management Company Limited, a subsidiary of the Company, from November 2006. Mr Jin possesses extensive corporate management experience, especially the experience in financial management. He was appointed as Non-Executive Director of the Company in March 2007.

Biographical Details of Directors

Mr Gong Bo, aged 42, a Research Fellow, is a Non-Executive Director of the Company. He graduated from the Beijing Polytechnic University and joined the China Academy of Launch Vehicle Technology in 1987, serving as Deputy Division Director, Deputy Director General of Quality & Technology Department, Deputy Director General and Director General of Quality Control & Supervision Department, Director General of Aerospace System Engineering Department of China Aerospace Science & Technology Corporation. Since 2004, Mr Gong has been serving the Director General of Business Investment Department of China Aerospace Science & Technology Corporation. Mr Gong is a graduate of Executive MBA of the business school of the University of Texas at Arlington. He, due to limited time available to the directorship of the Company as a result of work arrangement, resigned as Non-Executive Director and member of Remuneration Committee of the Company on 18 March 2008.

Mr Wang Yujun, aged 45, a Senior Accountant, is a Non-Executive Director of the Company. Mr Wang is a master graduate in Accounting at Northeastern University of Finance and Accounting. He joined the Ministry of Aerospace Industry of China and Aviation & Aerospace Department in 1985, serving as Section Supervisor in the Finance Bureau, then Deputy Division Director of Foreign Economic & Finance Division of the Financial Bureau of China Aerospace Corporation, Division Director of State-owned Assets Management Division of Finance Department of China Aerospace Science & Technology Corporation. In July 2001, he joined the Company serving as General Manager of the Finance Department of the Company and was appointed as Financial Controller of the Company in June 2005. Throughout the years, he has attained extensive experience in corporate financial management. He, due to limited time available to the directorship of the Company as a result of work arrangement, resigned as Non-Executive Director and member of Audit Committee of the Company on 18 March 2008.

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2007.

CHANGE OF COMPANY NAME

The shareholders of the Company approved the change of name from "航天科技國際集團有限公司" to "中國航天國際控股有限公司" at the extraordinary general meeting held on 10 January 2008. A Certificate of Change of Name was issued on 23 January 2008 by the Registrar of Companies in Hong Kong confirming the registration of the new Chinese name "中國航天國際控股有限公司" under the Companies Ordinance.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 40, 41 and 42 to the consolidated financial statements, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 31.

The Board resolved not to declare any dividend in respect of the financial year ended 31 December 2007 (2006: nil).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and equipment and motor vehicles, furniture and other equipment of HK$35,435,000 and HK$24,397,000 respectively to cope with the expansion of the Group. Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

Directors' Report

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

During the year, the Company raise approximately HK$386 million, before expenses, by way of open offer of 428,483,980 offer shares ("Offer Shares") at a price of HK$0.90 per Offer Share, on the basis of one Offer Share for every five existing Shares held by the qualifying shareholders of the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2007 comprised the retained profits of approximately HK$380,491,000 (2006: nil).

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 32 to the consolidated financial statements.

The share option scheme of the Company adopted pursuant to the resolution passed on 8 July 1997 has been expired on 8 July 2007. No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2007.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive

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

Non-Executive

Wu Zhuo *(Chairman)*	(appointed on 28 September 2007)
Chow Chan Lum, Charles *(Independent)*	
Luo Zhenbang *(Independent)*	
Wang Junyan *(Independent)*	(appointed on 30 March 2007)
Li Hongjun	(appointed on 18 March 2008)
Chan Ching Har, Eliza	
Xu Jianhua	
Jin Xuesheng	(appointed on 18 March 2008)
Ma Xingrui	(resigned on 28 September 2007)
Lee Hung Sang *(Independent)*	(resigned on 30 March 2007)
Gong Bo	(resigned on 18 March 2008)
Wang Yujun	(resigned on 18 March 2008)
Chen Dingyi	(resigned on 30 March 2007)

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

Messrs. Guo Xianpeng, Chow Chan Lum, Charles and Chan Ching Har, Eliza retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Messrs. Wu Zhuo, Li Hongjun and Jin Xuesheng retire in accordance with Article 94 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2007, none of the Directors, Chief Executive or their associates have any beneficial, non-beneficial interests or short positions in the share capital, warrants and options of the Company, its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

CONNECTED TRANSACTIONS

航科新世紀科技發展(深圳)有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited), a wholly-owned subsidiary of the Company, had entered into a promoters' agreement on 30 November 2007 with Aerospace Technology Investment Holdings Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation ("CASC") and Shenzhen Science & Technology Institute, a 60% interest owned subsidiary of CASC, in respect of the establishment of 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-Tech Investment Management Company Limited). The registered capital of the joint venture is RMB700,000,000, 60% of which will be contributed by CASIL New Century Technology Development (Shenzhen) Company Limited and 20% each will be contributed by Aerospace Technology Investment Holdings Limited and Shenzhen Science & Technology Institute respectively. The shareholders of the Company, excluding the Company's controlling shareholder, CASC, and its associates, had approved the establishment of the joint venture at the extraordinary general meeting held on 10 January 2008.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Part XV of the Securities & Futures Ordinance discloses the following companies as having 5% or more of the issued capital of the Company:

Name	Capacity	Number of shares interested (Long Position)	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interests in controlled corporation (Note 1)	1,093,330,636	42.53%
Jetcote Investments Limited	Beneficial owner	131,837,011	5.13%
	Interests in controlled corporation (Note 2)	961,493,625	37.40%
		1,093,330,636	42.53%
Burhill Company Limited	Beneficial owner (Note 2)	489,566,136	19.04%
Sin King Enterprises Company Limited	Beneficial owner (Note 2)	471,927,489	18.36%
Montpelier Asset Management Limited	Investment manager (Note 3)	232,099,506	9.03%
Montpelier Global Funds Limited – The Montpelier Fund	Beneficial owner (Note 3)	191,757,966	7.46%

Notes:

(1) These 1,093,330,636 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, and its subsidiaries.

(2) Both Burhill Company Limited and Sin King Enterprises Company Limited are wholly-owned subsidiaries of Jetcote Investments Limited. The Shares held by them form part of the total number of Shares held by Jetcote Investments Limited.

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital or underlying shares of the Company as at 31 December 2007.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

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

CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, made an advance in the past to Chinluck Properties Limited ("Chinluck"), an independent third party. The loan was secured by a piece of land and guaranteed personally by Mr Cheng Zhen Shu, the substantial shareholder and chairman of Chinluck. CASIL Clearing was alleged a breach of the loan agreement in failing to advance the full amount of HK$330,000,000 to Chinluck. CASIL Clearing resisted the claim and counterclaimed against Chinluck and sued against Mr Cheng Zhen Shu upon default on, including but not limited to, interest and payment of the loan amount advanced under the loan agreement and the mortgage. A Court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 2004. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, it was held by the Court in December 2006 that, inter alia, CASIL Clearing is required to pay a nominal damages of HK$100 to Chinluck for its breach of agreement to advance the remaining portion of the loan and Chinluck is required to pay the outstanding principal and the accrued interest under the loan agreement and the mortgage for its breach of the repayment obligations. The nominal damage of HK$100 payable by CASIL Clearing to Chinluck is to be set off against the amount of the judgement to be calculated and agreed between the parties. As the calculation of the judgement sum had not been agreed by both parties, the amount of the judgement sum was hence confirmed by the Court in June 2007 (the "Judgement").

In September 2007, CASIL Clearing had entered into a settlement agreement with Chinluck and Mr Cheng Zhen Shu so as to solve the litigation completely. Pursuant to the settlement agreement, both Chinluck and Mr Cheng Zhen Shu agreed to repay a sum of HK$280,000,000 to CASIL Clearing by instalments and there shall be an interim stay of execution of the Judgement by CASIL Clearing, otherwise, the execution will be lifted. Upon full payment by Chinluck and Mr Cheng Zhen Shu of the money payable on the due dates, CASIL Clearing shall accept the said payments in full and final settlement of the liabilities of Chinluck and Mr Cheng Zhen Shu and the parties shall sign and file a consent order to provide for a permanent stay of execution of the Judgement.

As of the date of this Annual Report, both Chinluck and Mr Cheng Zhen Shu have repaid a sum in equivalent to HK$76,560,000 and are continuing to repay the liabilities. At present, CASIL Clearing will strengthen its effort to chase the debts from both Chinluck and Mr Cheng Zhen Shu given that it has all the rights conferred upon under the Judgement.

At 31 December 2007, the carrying value of the amount advanced to Chinluck was HK$93,849,000.

EMOLUMENT POLICY

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

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

POST BALANCE SHEET EVENT

Details of post balance sheet event are set out in note 39 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

Wu Zhuo
Chairman

Hong Kong, 18 March 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
中國航天國際控股有限公司
（前稱航天科技國際集團有限公司）
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 90, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 18 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

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

Consolidated Balance Sheet

At 31 December 2007

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

Consolidated Balance Sheet

At 31 December 2007

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

The consolidated financial statements on pages 31 to 90 were approved and authorised for issue by the Board of Directors on 18 March 2008 and are signed on its behalf by:

Zhao Liqiang
Director

Zhou Qingquan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
			(Note 32(c))	(Note)									
At 1 January 2006	214,242	–	14,044	23,916	(24,759)	10,503	–	–	1,080	822,161	1,061,187	19,137	1,080,324
Increase in fair value of available-for-sale investments	–	–	–	–	–	10,504	–	–	–	–	10,504	–	10,504
Increase in fair value of land and buildings transferred to investment properties	–	–	–	–	–	–	4,188	–	–	–	4,188	–	4,188
Capital contribution from a major shareholder arising from acquisition of subsidiaries	–	–	–	–	–	–	–	21,570	–	–	21,570	–	21,570
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	–	(289)	–	–	–	(289)	–	(289)
Exchange differences arising on translation of foreign operations	–	–	–	–	12,248	–	–	–	–	–	12,248	597	12,845
Net income recognised directly in equity	–	–	–	–	12,248	10,504	3,899	21,570	–	–	48,221	597	48,818
Reserves realised upon disposal of associates	–	–	–	–	38	–	–	–	–	–	38	–	38
Profit for the year	–	–	–	–	–	–	–	–	–	110,966	110,966	4,096	115,062
Total recognised income for the year	–	–	–	–	12,286	10,504	3,899	21,570	–	110,966	159,225	4,693	163,918
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	20,000	20,000
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	8,757	8,757
At 31 December 2006 and at 1 January 2007	**214,242**	**–**	**14,044**	**23,916**	**(12,473)**	**21,007**	**3,899**	**21,570**	**1,080**	**933,127**	**1,220,412**	**52,587**	**1,272,999**
Increase in fair value of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**26,568**	**–**	**–**	**–**	**–**	**26,568**	**–**	**26,568**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**57,709**	**–**	**–**	**–**	**–**	**–**	**57,709**	**5,067**	**62,776**
Share of exchange reserve of jointly controlled entities	**–**	**–**	**–**	**–**	**7,746**	**–**	**–**	**–**	**–**	**–**	**7,746**	**–**	**7,746**
Net income recognised directly in equity	**–**	**–**	**–**	**–**	**65,455**	**26,568**	**–**	**–**	**–**	**–**	**92,023**	**5,067**	**97,090**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**310,037**	**310,037**	**357**	**310,394**
Total recognised income for the year	**–**	**–**	**–**	**–**	**65,455**	**26,568**	**–**	**–**	**–**	**310,037**	**402,060**	**5,424**	**407,484**
Issue of shares in allotment of shares	**42,848**	**342,787**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**385,635**	**–**	**385,635**
Expenses incurred in connection with issue of shares	**–**	**(6,501)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,501)**	**–**	**(6,501)**
Capital contribution from a minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**21,436**	**21,436**
At 31 December 2007	**257,090**	**336,286**	**14,044**	**23,916**	**52,982**	**47,575**	**3,899**	**21,570**	**1,080**	**1,243,164**	**2,001,606**	**79,447**	**2,081,053**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**356,380**	141,846
Adjustments for:		
Depreciation	**54,613**	45,657
Amortisation of prepaid lease payments	**2,188**	2,116
Interest income	**(18,294)**	(11,143)
Interest expense	**7,436**	15,499
Finance lease charges	**133**	457
(Gain) loss on disposal of property, plant and equipment	**(424)**	7,165
Gain on disposal of assets classified as held for sale	**(4,566)**	–
Fair value changes of investment properties	**(11,387)**	(23,414)
Reversal of impairment loss recognised in respect of loans receivable	**(54,860)**	–
(Reversal of) allowance for doubtful debts	**(844)**	4,235
Impairment loss recognised in respect of property, plant and equipment	**11,131**	937
Share of results of jointly controlled entities	**14,845**	5,579
Allowance (reversal of allowance) for obsolete inventories	**4,490**	(1,408)
Loss on disposal of associates	**–**	201
Operating cash flows before movements in working capital	**360,841**	187,727
Increase in inventories	**(11,322)**	(3,686)
(Increase) decrease in trade and other receivables	**(79,731)**	26,698
Increase in trade and other payables	**53,668**	134
Increase in financial assets at fair value through profit or loss	**(30,832)**	–
Cash generated from operations	**292,624**	210,873
Hong Kong Profits Tax (paid) refunded	**(10,359)**	231
PRC Enterprise Income Tax paid	**(20,264)**	(4,323)
NET CASH FROM OPERATING ACTIVITIES	**262,001**	206,781
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(90,850)**	(94,506)
Interest received	**18,294**	11,143
Proceeds from disposal of property, plant and equipment	**3,840**	2,368
Proceeds from disposal of investment properties	**25,196**	–
Repayment of loans receivable	**31,280**	–
Proceeds from disposal of associates	**–**	7,864
Net cash inflows in respect of acquisition of subsidiaries	**–**	16,940
Purchase of investment properties	**–**	(3,950)
NET CASH USED IN INVESTING ACTIVITIES	**(12,240)**	(60,141)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	**385,635**	–
Issue share expenses	**(6,501)**	–
Capital contribution from a minority shareholder of a subsidiary	**21,436**	20,000
Repayment to a major shareholder	**(119,989)**	–
Repayment of loans	**(65,172)**	(27,832)
Repayment of obligations under finance leases	**(2,634)**	(9,001)
Interest paid	**(3,608)**	(4,037)
Finance lease charges	**(133)**	(457)
New loans raised	**–**	50,700
Advance from a major shareholder	**–**	106
NET CASH FROM FINANCING ACTIVITIES	**209,034**	29,479
NET INCREASE IN CASH AND CASH EQUIVALENTS	**458,795**	176,119
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**658,756**	474,767
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**27,406**	7,870
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**1,144,957**	658,756

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries, associates and jointly controlled entities are set out in notes 40, 41 and 42, respectively.

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

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

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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2008.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

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

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

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

Jointly controlled entities

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

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

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loans receivable, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated equity securities held for an identified long term strategic purpose as available-for-sale investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

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

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

Non-current assets held for sale

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

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

Revenue recognition

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

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

Service income is recognised when services are provided.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

Research and development expenses

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Retirement benefits scheme

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

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary difference arising on investments in subsidiaries, associates and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Allowances for inventories

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

5. TURNOVER AND COST OF SALES

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

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

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

(a) Business segments:

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

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

Inter-segment sales are charged at prevailing market prices.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

OTHER INFORMATION – 2007

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000
TURNOVER			
Manufacturing and distribution			
Plastic products	558,956	74,608	633,564
Liquid crystal display	234,305	1,468	235,773
Printed circuit boards	206,816	–	206,816
Intelligent chargers	502,383	–	502,383
Other products	3,928	–	3,928
	1,506,388	76,076	1,582,464
Property investment	16,483	10,341	26,824
Trading of electronic products	5,230	–	5,230
Financial service	–	2,078	2,078
	1,528,101	88,495	1,616,596
Elimination	–	(88,495)	(88,495)
Consolidated total	1,528,101	–	1,528,101

Inter-segment sales are charged at prevailing market prices.

Notes to the Consolidated Financial Statements

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6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

	Segment results
	HK$'000
RESULTS	
Manufacturing and distribution	
Plastic products	53,108
Liquid crystal display	20,428
Printed circuit boards	46,639
Intelligent chargers	56,572
Other products	(12,944)
	163,803
Property investment	30,514
Trading of electronic products	(3,625)
Financial service	4,038
Trading of securities	7,190
Total segment results	201,920
Unallocated corporate income	657
Unallocated corporate expenses	(38,995)
	163,582
Finance costs	(15,956)
Share of results of jointly controlled entities	(5,579)
Loss on disposal of associates	(201)
Profit before taxation	141,846
Taxation	(26,784)
Profit for the year	115,062

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

OTHER INFORMATION – 2006

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments:

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

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

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

	Carrying amount of segment assets		**Additions to property, plant, equipment and investment properties**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**718,665**	822,590	**16,825**	29,067
The PRC	**765,182**	478,407	**73,973**	109,352
Overseas	**106,655**	90,866	**52**	70,499
	1,590,502	1,391,863	**90,850**	208,918

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

7. OTHER INCOME

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

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

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8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

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

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

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

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

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

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8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(continued)

(b) Highest paid individuals' emoluments

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

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

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

The emoluments of these individuals were within the following bands:

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

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

9. FINANCE COSTS

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

10. PROFIT BEFORE TAXATION

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

Note: The amounts are included in cost of sales.

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For the year ended 31 December 2007

11. TAXATION

The tax charge for the year comprises:

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

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

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

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

11. TAXATION (continued)

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

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

12. EARNINGS PER SHARE

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

13. DIVIDENDS

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

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14. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in Hong Kong	Long term leasehold land and buildings in the PRC	Medium term leasehold land and buildings in the PRC	Properties under development	Plant and equipment	Motor vehicles, furniture and other equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 January 2006	67,754	12,394	403,388	12,894	375,882	104,248	976,560
Exchange adjustments	–	478	13,903	6	9,158	1,883	25,428
Additions	–	–	554	22,974	54,070	16,908	94,506
Acquisition of subsidiaries	–	–	–	–	–	460	460
Revaluation of land and buildings upon transfer to investment properties	4,188	–	–	–	–	–	4,188
Transfer to investment properties	(17,157)	–	–	–	–	–	(17,157)
Reclassifications	–	–	–	–	2,979	(2,979)	–
Disposals	–	(864)	–	–	(72,506)	(34,589)	(107,959)
At 31 December 2006	54,785	12,008	417,845	35,874	369,583	85,931	976,026
Exchange adjustments	–	862	28,646	384	19,802	4,389	54,083
Additions	–	–	6,061	24,957	35,435	24,397	90,850
Reclassifications	–	–	48,296	(48,296)	–	–	–
Disposals	–	–	–	–	(6,594)	(9,372)	(15,966)
At 31 December 2007	54,785	12,870	500,848	12,919	418,226	105,345	1,104,993
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	24,984	295	87,138	–	205,982	67,810	386,209
Exchange adjustments	–	13	2,807	–	4,348	964	8,132
Charged for the year	768	187	10,094	–	26,056	8,552	45,657
Eliminated on revaluation of land and buildings upon transfer to investment properties	(607)	–	–	–	–	–	(607)
Impairment loss recognised (note d)	–	–	–	–	–	937	937
Eliminated on disposals	–	(117)	–	–	(68,921)	(29,388)	(98,426)
At 31 December 2006	25,145	378	100,039	–	167,465	48,875	341,902
Exchange adjustments	–	45	6,258	–	9,188	1,942	17,433
Charged for the year	549	319	13,201	–	30,572	9,972	54,613
Impairment loss recognised (note d)	–	–	–	–	6,625	4,506	11,131
Eliminated on disposals	–	–	–	–	(3,701)	(8,849)	(12,550)
At 31 December 2007	25,694	742	119,498	–	210,149	56,446	412,529
CARRYING VALUES							
At 31 December 2007	29,091	12,128	381,350	12,919	208,077	48,899	692,464
At 31 December 2006	29,640	11,630	317,806	35,874	202,118	37,056	634,124

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

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

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

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

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

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

15. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	HK$'000
The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under medium term leases and are analysed for reporting purposes as:		
Current portion	**2,308**	2,153
Non-current portion	**65,493**	61,888
	67,801	64,041

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16. INVESTMENT PROPERTIES/ASSET CLASSIFIED AS HELD FOR SALE

	Medium term leasehold investment properties in Hong Kong HK$'000	Medium term leasehold investment properties in the PRC HK$'000	Freehold investment properties overseas HK$'000	Total HK$'000
FAIR VALUE				
At 1 January 2006	27,110	–	–	27,110
Transfer from leasehold land and buildings in Hong Kong	16,550	–	–	16,550
Acquisition of subsidiaries	–	40,002	70,000	110,002
Exchange adjustment	–	1,071	(1,235)	(164)
Additions	–	3,950	–	3,950
Increase (decrease) in fair value during the year	4,880	(2,923)	21,457	23,414
Reclassifications to assets held for sale	–	(20,300)	–	(20,300)
At 31 December 2006	48,540	21,800	90,222	160,562
Exchange adjustment	–	1,975	16,140	18,115
Increase in fair value during the year	4,830	6,557	–	11,387
Reclassifications to assets held for sale	–	(30,332)	–	(30,332)
At 31 December 2007	53,370	–	106,362	159,732

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

The fair values of the Group's investment properties at 31 December 2007 and 2006 have been arrived at on the basis of valuations carried out on that date by Dudley Surveyors Limited ("Dudley") for properties situated in Hong Kong, Knight Frank Hong Kong Limited ("Knight Frank") for properties situated in the PRC and Atkinson Appraisal Consultants Limited ("Atkinson") for properties situated overseas. Dudley, Knight Frank and Atkinson are independent qualified professional valuers not connected with the Group and members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

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

17. INTERESTS IN ASSOCIATES

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

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

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

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

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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For the year ended 31 December 2007

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

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

19. AVAILABLE-FOR-SALE INVESTMENTS

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

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

20. PLEDGED BANK DEPOSITS

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

The deposits carry fixed interest rate between 3.6% and 4.5% (2006: 4.27% and 4.35%) per annum and will be released upon repayment of certain secured bank loans. The fair value of bank deposits at 31 December 2007 approximates to the corresponding carrying amount.

21. INVENTORIES

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

22. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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22. TRADE AND OTHER RECEIVABLES (continued)

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

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

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

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

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

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

23. LOANS RECEIVABLE

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

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

23. LOANS RECEIVABLE (continued)

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

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

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

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

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

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

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

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25. TRADE AND OTHER PAYABLES

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

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

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

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

26. AMOUNTS DUE TO ASSOCIATES

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

27. AMOUNT DUE TO A MAJOR SHAREHOLDER

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

28. OBLIGATIONS UNDER FINANCE LEASES

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

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2007, the average effective borrowing rate was 5% (2006: 5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payment.

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

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29. SECURED BANK LOANS

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

The secured bank loans carry interest at 1.25% (2006: ranging from 1.25% to 8%) per annum.

The Group's certain investment properties, property, plant and equipment, bank deposits and available-for-sale investments with aggregate carrying value of HK$44,100,000 (2006: HK$42,180,000), HK$18,032,000 (2006: HK$18,502,000), HK$110,560,000 (2006: HK$110,560,000) and HK$64,584,000 (2006: HK$51,168,000), respectively, were pledged to banks for the above banking facilities.

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

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

30. OTHER LOAN

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

31. DEFERRED TAXATION

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

	Accelerated tax depreciation	**Others**	**Revaluation of investment properties**	**Total**
	HK$'000	HK$'000 (Note)	HK$'000	HK$'000
At 1 January 2006	10,620	(2,666)	–	7,954
Acquisition of subsidiaries	–	–	9,990	9,990
Charge (credit) to income for the year	1,963	(140)	2,538	4,361
Charge to property revaluation reserve	–	–	289	289
Exchange differences	–	–	22	22
At 31 December 2006	12,583	(2,806)	12,839	22,616
(Credit) charge to income for the year	(402)	2,717	2,736	5,051
Exchange differences	–	63	2,113	2,176
At 31 December 2007	**12,181**	**(26)**	**17,688**	**29,843**

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

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

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

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

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32. SHARE CAPITAL

(a) Authorised, issued and fully paid share capital

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

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

32. SHARE CAPITAL (continued)

(b) Share option scheme

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

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

(c) Share premium

Under the terms of the court order in the reduction of the share premium on 11 July 1994 and 1 November 2005 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and 1 November 2005 and any write back of the total provisions which have been made against at the effective date the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

32. SHARE CAPITAL (continued)

(c) Share premium (continued)

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

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

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

32. SHARE CAPITAL (continued)

(c) Share premium (continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

33. CAPITAL RISK MANAGEMENT

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

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

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

34. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

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

b. Financial risk management objectives and policies

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

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

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

Other price risk

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

Sensitivity analysis

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

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

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

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

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

Foreign currency risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

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

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

Sensitivity analysis

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

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

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

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

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

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

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

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

Other than concentration of credit risk on loans receivable and liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has no significant concentration of credit risk in trade receivable, with exposure spread over a number of counterparties and customers. In respect of loans receivable, the management closely monitors the settlement of it and reviews its recoverability and value of collateral assets (Note 23) to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation.

Liquidity risk

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

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

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

34. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

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

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

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

35. CAPITAL COMMITMENTS

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

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36. OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

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

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for an average term of thirty years.

The Group as lessor

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

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

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

37. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

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

The total cost charged to the consolidated income statement HK$2,153,000 (2006: HK$1,504,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

38. RELATED PARTY TRANSACTIONS

(a) Save as disclosed in notes 26 and 27 in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2007 HK$'000	2006 HK$'000
CASC	Major shareholder	Interest expenses paid	**3,828**	11,462

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

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CASC which is controlled by the PRC government. Apart from the transactions with CASC disclosed in notes 26 and 27 and section (a) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

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

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

39. POST BALANCE SHEET EVENT

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

Notes to the Consolidated Financial Statements

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:					
CASIL Clearing Limited	HK$10,000,000	100	–	100	Provision of treasury services
CASIL Development Limited	HK$1,000,000	–	100	100	Property investment
CASIL Electronic Products Limited	HK$15,000,000	100	–	100	Distribution of electronic products
CASIL Optoelectronic Product Development Limited	HK$3,000,000	–	100	100	Distribution of LCD modules
CASIL Satellite Holdings Limited	HK$88,106,563 (2 ordinary shares of HK$1 each and 11,295,713 ordinary shares of US$1 each)	–	100	100	Investment holding
CASIL Semiconductor Limited	HK$15,000,000	100	–	100	Distribution of liquid crystal displays
Chee Yuen Industrial Company Limited	HK$20,000,000	100	–	100	Distribution of plastic and metal products and moulds
Hong Yuen Electronics Limited	HK$5,000,000	100	–	100	Manufacturing and selling of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	100	–	100	Distribution of intelligent battery chargers and electronic components
Worldwide Polyfoam & Engineering Limited	HK$3,000,000	100	–	100	Distribution of packaging materials
Incorporated and operating in Canada:					
Vanbao Development (Canada) Limited	CAD1,080,000	–	79	79	Property investment
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Sinolike Investments Limited	US$1	100	–	100	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	held by subsidiaries %	attributable to the Group %	Principal activities
Registered and operating in the PRC:					
Aerospace Technology (China) Company Limited #	US$5,000,000	100	–	100	Trading of electronic products
Chee Yuen Plastic Products (Huizhou) Company Limited #	RMB26,761,000	–	100	100	Manufacturing of plastic and metal products and moulds
China Aerospace (Huizhou) Industrial Garden Limited ##	US$12,000,000	90	–	90	Property investment
Conhui (Huizhou) Electronics Company Limited #	RMB131,831,747	–	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited #	RMB31,229,651	–	100	100	Manufacturing and distribution of liquid crystal displays and LCD modules
Conhui (Huizhou) Worldwide Polyfoam Limited #	RMB3,728,813	–	100	100	Manufacturing and distribution of packaging materials
Dongguan Huadun Enterprises Limited #	RMB3,000,000	–	100	100	Property investment
Huizhou Jeckson Electric Company Limited ##	US$1,000,000	–	90	90	Manufacturing of intelligent battery chargers and electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited ##	US$400,000	–	90	90	Electroplating of metals
Shanghai Aerospace Technology Investment Management Company Limited ##	RMB200,000,000	–	80	80	Property investment
Shenzhen Chee Yuen Plastics Company Limited ##	RMB22,000,000	–	80	80	Manufacturing and distribution of plastic products
航科新世紀科技發展(深圳)有限公司 #	US$30,000,000	100	–	100	Investment holding

\# Wholly foreign-owned enterprises registered in the PRC
\## Sino-foreign joint equity enterprises registered in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

41. PARTICULARS OF PRINCIPAL ASSOCIATES

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

42. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entity	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:			
China Aerospace New World Technology Limited	HK$30,000,000	50	Investment holding
Incorporated and operating in the PRC:			
Aerospace New World (China) Technology Company Limited	RMB120,000,000	50	Digital TV broadcasting and application development

Appendix I Financial Summary

RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,681,854**	1,528,101	1,780,938	1,410,240	1,239,633
Profit (loss) before taxation	**356,380**	141,846	287,381	(137,910)	32,144
Taxation	**(45,986)**	(26,784)	(1,506)	397	(5,432)
Profit (loss) for the year	**310,394**	115,062	285,875	(137,513)	26,712
Attributable to:					
Equity holders of the Company	**310,037**	110,966	286,403	(137,740)	30,196
Minority interests	**357**	4,096	(528)	227	(3,484)
	310,394	115,062	285,875	(137,513)	26,712

ASSETS AND LIABILITIES

	At 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,212,880**	1,132,296	957,080	1,470,341	1,268,052
Current assets	**1,795,156**	1,154,182	1,141,325	1,071,337	1,463,148
Current liabilities	**(748,239)**	(824,418)	(814,360)	(983,678)	(1,417,527)
Non-current liabilities	**(178,744)**	(189,061)	(203,721)	(780,786)	(410,182)
Shareholders' funds	**2,081,053**	1,272,999	1,080,324	777,214	903,491
Attributable to:					
Equity holders of the Company	**2,001,606**	1,220,412	1,061,187	757,780	884,334
Minority interests	**79,447**	52,587	19,137	19,434	19,157
	2,081,053	1,272,999	1,080,324	777,214	903,491

Appendix II Investment Properties

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