2010 ANNUAL REPORT

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Li Hongjun *(President)*
Mr Jin Xuesheng

Non-Executive Directors

Mr Rui Xiaowu *(Chairman)*
Mr Wu Zhuo *(Vice Chairman)*
Mr Chow Chan Lum, Charles *(Independent)*
Mr Luo Zhenbang *(Independent)*
Mr Wang Junyan *(Independent)*
Mr Chen Xuechuan
Mr Shi Weiguo
Dr Chan Ching Har, Eliza
Mr Zhou Qingquan

AUDIT COMMITTEE

Mr Chow Chan Lum, Charles *(Chairman)*
Mr Luo Zhenbang
Mr Zhou Qingquan

REMUNERATION COMMITTEE

Dr Chan Ching Har, Eliza *(Chairman)*
Mr Chen Xuechuan
Mr Chow Chan Lum, Charles
Mr Luo Zhenbang
Mr Wang Junyan

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSEL

Reed Smith Richards Butler

PRINCIPAL BANKS & FINANCIAL INSTITUTIONS

Bank of China (Hong Kong)
Aerospace Science & Technology Finance Company Limited*
（航天科技財務有限責任公司）
Industrial and Commercial Bank of China, Shenzhen Shenzhen Bay Sub-branch
Bank of China, Shenzhen Nantou Sub-branch

REGISTERED OFFICE

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

CHAIRMAN'S STATEMENT

Rui Xiaowu
Chairman of the Board

CHAIRMAN'S STATEMENT

RESULTS

For the year ended 31 December 2010, the Company and its subsidiaries reported a turnover of HK$1,879,745,000 (2009: HK$1,361,045,000), representing an increase of approximately 38.11%. Profit attributable to shareholders was HK$292,478,000, representing a decrease of approximately 25.76% when compared with that of HK$393,940,000 in last year. The decrease in profit was primarily due to the fact that the extent of increase in the fair value of the investment properties held by the subsidiaries of the Company was lower than that of the same period last year. Hi-tech manufacturing business recovered from the financial tsunami at a rate which was better than anticipated.

The Board of Directors recommends the payment of a final dividend of HK1 cent per share as a return to the shareholders.

BUSINESS REVIEW

In 2010, the Company attained promising performance in its main business operations. The key development projects were in smooth progress. In addition to the steady development of the hi-tech manufacturing business, the projects of both Shenzhen Aerospace Science & Technology Plaza and the Complex Zone of the Launching Site in Hainan Province had been proceeded to construction stage.

On 4 February 2010, the Company successfully placed a total of 514,118,000 shares to institutional investors by way of placing and subscription at a price of HK$1.13 per share, raising total proceeds of approximately HK$580,953,000.

Hi-Tech Manufacturing

Benefited from a favorable recovery of the global economy, pivoting on timely reinforcement of internal management and market exploration, as well as the mitigation of adverse factors such as the rise in labor and material costs and the appreciation of Renminbi, the Company's business in the arena of the hi-tech manufacturing business reported favorable operating results. In 2010, the hi-tech manufacturing business reached a historical high in terms of both revenue and earnings. The business recorded a turnover of HK$1,878,521,000 (2009: HK$1,360,932,000), representing an increase of approximately 38.03% compared with last year. Profit amounted to HK$215,831,000, which was a growth of approximately 36.97% when compared with HK$157,579,000 in last year.

Shenzhen Aerospace Science & Technology Plaza

The project of Shenzhen Aerospace Science & Technology Plaza is being developed by a subsidiary of the Company, Shenzhen Aerospace Technology Investment Company Limited* ("Shenzhen Aerospace", "深圳市航天高科投資管理有限公司"). The project involves a total investment of approximately RMB2,100,000,000 (including land cost of approximately RMB507,000,000). It covers a land area of 12,619 square meters, with a total construction area of 196,405 square meters. The project is expected to generate long-term stable recurring income for the Company upon completion.

The project of Shenzhen Aerospace Science & Technology Plaza has been progressed well since its inception. According to the development plan of Shenzhen, the region in which the project is situated, being Nanshan Houhai Central District, is planned to develop into an international financial and business district. In addition, the Shenzhen Aerospace Science & Technology Plaza is located surrounding the Western Corridor at the intersection of Shenzhen and Hong Kong and is directly connected to the Shenzhen Metro. In 2010, Shenzhen Aerospace retained a professional project development consultant to conduct an in-depth research of the future market positioning of the project. With reference to the recommendations from the professional project development consultant, the project has been re-positioned as international standard Grade A office buildings and is targeted to become a high-end business services platform in Nanshan Houhai Central District.

CHAIRMAN'S STATEMENT

In early 2011, Aerospace Science & Technology Finance Company Limited* ("航天科技財務有限責任公司"), a subsidiary of China Aerospace Science & Technology Corporation ("CASC"), formed a syndicate with the Bank of China and the Industrial and Commercial Bank in respect of the provision of a loan facility in the amount of RMB1,500,000,000 to finance the construction of Shenzhen Aerospace Science & Technology Plaza. In considering the trend of tightening bank credit in the entire credit market in China, the syndicated loan ensures sufficient funds for the project development of Shenzhen Aerospace Science & Technology Plaza in a timely manner, thus greatly easing the project financing pressure under the bank credit tightening environment. The syndicated loan and the related mortgage on land constitutes a connected transaction of the Company, which is subject to approval by independent shareholders of the Company at the Extraordinary General Meeting by way of poll (for further details, please refer to the announcements of the Company dated 14 January 2011 and 23 January 2011, and the circular dated 25 January 2011).

Shenzhen Aerospace has already engaged China State Construction Engineering Corporation Limited as the main contractor through an open tender, so as to fully gear up for the commencement of the construction. The project is expected to be completed in 2013. As at 31 December 2010, the construction-in-progress together with the land use rights of the Shenzhen Aerospace Science & Technology Plaza are valued at approximately RMB1,206,000,000.

Perspective view of Shenzhen Aerospace Science & Technology Plaza

CHAIRMAN'S STATEMENT

The Complex Zone of the Launching Site in Hainan Province

Since the Wenchang City Government announced the commencement of land expropriation of the Complex Zone in March 2010, the land expropriation has been conducted in full swing. In June 2010, the project was regarded as a key development project under the "Development Plan for the Hainan International Tourism Island", and was highly valued by the governments at provincial and municipal levels. During the year, the core team of Hainan Aerospace Investment Management Company Limited* ("Hainan Aerospace", "海南航天投資管理有限公司"), the project company set up for the construction of this project, had already rooted in Wenchang City to promote the government in advancing the land expropriation for the project. At the end of 2010, the Wenchang City Government had entered into land expropriation agreements with the majority of the local residents. At the same time, the planning and construction of the resettlement zone was gradually carrying out.

In August 2010, the Company acquired a 35% equity interest in Hainan Aerospace from Aerospace Times Properties Development Limited* ("航天時代置業發展有限公司"), a subsidiary of CASC, by way of open tender, through which the interest of the whole project of Complex Zone of the Launching Site in Hainan Province was consolidated to the Company. It is believed that this acquisition will enable the Company to adopt more flexible strategies in developing the project. The relevant connected transaction had been approved by independent shareholders of the Company at the Extraordinary General Meeting held in September 2010 by way of poll (for further details, please refer to the announcements of the Company dated 4 August 2010, 24 August 2010 and 10 September 2010 and the circular dated 24 August 2010).

In November 2010, the detail control plan relating to the Complex Zone of the Launching Site in Hainan Province was granted an official approval from the Wenchang City Government. The conceptual plan and design of the Hainan Space Park was also reviewed and approved by the Hainan Provincial Tourism Planning Commission and relevant experts. On 5 December 2010, a groundbreaking ceremony was held for the Hainan Space Park under the witness of the principal leaders of the Hainan Provincial Government and CASC.

The groundbreaking ceremony of Hainan Space Park

CHAIRMAN'S STATEMENT

DEVELOPMENT PLAN

The 11th Five-Year marked a record-breaking era which highlighted the rapid development and brilliant achievements of the business of CASC. While successfully launching a number of large scale aerospace projects such as the "Shenzhou" manned spacecrafts aerospace project and "Chang'e" moon exploration project, CASC has boosted its economy of scale and beneficial results significantly. During the period, the aerospace civilian industry, which mainly comprises the aerospace technology applications industry and the aerospace services industry, has reaped notable success. During the 12th Five-Year, CASC will continue to focus on the development of four main industries including aerospace systems, defense systems, aerospace technology applications and aerospace services, so as to maintain a speedy growth.

The aerospace technology applications industry produces products through aerospace technology transfer, as well as the extension and expansion of relevant industrial chains, which comprises six business segments, namely satellite applications equipment and products, information technology products, new materials and new energy products, special application products of aerospace technology, special vehicles and auto parts, as well as space bio-products. The aerospace services provide services for industries including the aerospace systems and aerospace technology applications based on utilization of existing resources, which can be divided into five business segments, namely satellite and ground operations services, financial services (industrial investment), internationalized services, information and software services, as well as industrial bases accommodation services ("Hi-Tech Property").

The Company is the only international financing platform that under the direct shareholding of CASC. The Company has solid and strong fundamentals, and carved out certain foundation in the arena of aerospace services. In recent years, China encourages the integration of central enterprises to advance the listing process, and actively adopt a strategy of "extending a foothold" into the international markets. In addition, China has put forward a policy for the development of seven strategic emerging industries. On the other hand, CASC is heading towards a direction that vigorously hastens the development of two major industrial sectors including aerospace technology applications and aerospace services. All these initiatives would open exciting development opportunities for the Company.

While formulating the medium-term development plan for the next five years, the Company will focus on the development of two main business segments including the hi-tech manufacturing and the aerospace services. It is believed that the Company is set to fully capitalize on its own strengths and features, and is well positioned to blossom into a leading beneficial resulted overseas capital operation platform for CASC.

The hi-tech manufacturing business is cored on production of electronic products and generates stable cash flow for the Company. While the business is upgrading and transforming, it will enhance the proportion of domestic sales, improve the technical know-how, and develop products with high profit margin.

Hi-Tech Property business is one of the major business segments of aerospace services. Through co-ordination of internal land resources and revitalization of land assets, CASC creates a professional and unique hi-tech property platform with distinctive features. Over the past few years, under the support of CASC, the Company carried out the projects of Shenzhen Aerospace Science & Technology Plaza and the Complex Zone of the Launching Site in Hainan Province, thus establishing a foundation for the development of the Hi-Tech Property business. The Company will continue to closely collaborate with CASC and seek for larger room for development in the arena of Hi-Tech Property business. It is believed that with the future expansion of the eight major industrial bases of CASC, the Hi-Tech Property business will be blessed with more advantages.

CHAIRMAN'S STATEMENT

The Hainan Space Park derived from the Complex Zone of the Launching Site in Hainan Province is expected to become the momentum for driving the development of the aerospace cultural industry for the Company. The aerospace industry in China has posted astounding business growth and attained fascinating achievements in aerospace science and technology for a history of more than half of a century, thus tapping into plenty of aerospace and cultural resources. The Company will take full advantage of these unique resources and the Hainan Space Park project to develop a creative cultural industry with aerospace features. Such development will extend to surrounding projects of Hainan Space Park such as China space camp, space botanical garden, as well as aerospace technology convention and Hainan Space Park exhibition centre.

While capturing the opportunities arising from the development of seven emerging strategic industries in China, the Company will closely communicate with CASC regarding development opportunities in relation to the aerospace technology applications industry and the aerospace services industry, through which different kinds of cooperation and ways of capital operation will be explored. The Company will also take careful measures in assessing the possibility of investing in new business opportunities that are embedded with competitive advantages and are yet to be securitized, in order to develop new business segments of high potentials.

PROSPECT

Hi-tech manufacturing business will continue to encounter rising costs, appreciation of Renminbi and fluctuations in overseas markets. The Company will continue to strengthen its management, improve productivity and control costs so as to ensure the stable growth of the hi-tech manufacturing business. The Company will also pay special attention to the effect arising from the recent international events such as the earthquake and tsunami catastrophe in Japan. Meanwhile, the hi-tech manufacturing business will increase investment in technical enhancement and step up efforts on expanding domestic and foreign markets, as well as improve the fringe benefits of the employees in order to further promote workforce stability.

The Hi-Tech Property business is being affected by inflation and a series of tightening and controlling policies in China. This may increase the pressure on cost control and financing for project development in the short run. While the Company is speeding up the construction of the two key projects in Shenzhen and Hainan, constant assess of cost fluctuations and strict control of short-term risk brought about by the real estate policy will be adopted. Yet the Company believes that under the thorough support of CASC, the two developing projects, which are relating to the provision of accommodation services for industrial and operation bases, will be blessed with long-term positive development.

Shenzhen Aerospace will closely coordinate with the main contractor on the construction of the Shenzhen Aerospace Science & Technology Plaza. The design, tendering, construction and building report and approval processes of the project will be completed on schedule. Shenzhen Aerospace will strictly carry out all the cost budget, quality control and management, as well as project settlement and auditing. Meanwhile, Shenzhen Aerospace will retain professional project development consultants, as well as sales and leasing agents, in order to frame specific programs and plans for the future marketing of the project.

The land expropriation for the project of Complex Zone of the Launching Site in Hainan Province is expected to be generally completed in 2011. Hainan Aerospace will formulate a plan for the primary land development. Meanwhile, it will timely commence the construction preparation of infrastructure of the Hainan Space Park upon completion of an improved project business model and will try to introduce strategic partners for joint cooperation in the development of the project.

CHAIRMAN'S STATEMENT

To strengthen corporate governance and to cope with future development, the composition of the Board of Directors and the management team of the Company had been adjusted during the year. The Company will continue to strengthen its management capabilities in the horizons including capital operation, mechanism innovation, planning and investment, risk control and public relations. The Company will also improve the management system in the aspects of finance, human resources and corporate governance. It believed that the strengthening of the management capabilities in various areas will better support the Company's future development.

Looking forward, the Board of Directors is confident about the future development of the Company. The Company will ride on the prompt development of CASC in two major aerospace civilian industry sectors including the aerospace technology applications industry and the aerospace services industry. Based on innovation-driven mechanism and by means of capital operation and support of scientific management system, the Company will promote the development of new business segments. A solid foundation will also be established so that the Company is set to act as an overseas capital operation platform for CASC. Over the next five years, the Company will unwaveringly commit to developing itself into a leading beneficial resulted overseas listed company of CASC, thereby creating greater returns for shareholders.

APPRECIATION

First of all, on behalf of the Board of Directors, I would like to extend my most heartfelt appreciation to Mr Wu Zhuo for his outstanding contribution to the Board in his capacity as the Chairman of the Company over the past years. We look forward to Mr Wu's continuous support the Company's development in his new position in the Board. Meanwhile, I would like to thank the former President Mr Zhao Liqiang for his contributions to the Company during his term of service. I would also like to express my gratitude to the current Vice Presidents Mr Wu Hongju, Mr Guo Xianpeng and Mr Xu Jianhua who resigned from the directorships due to the adjustment in the composition of the Board of Directors. In addition, on behalf of the Board of Directors, I would like to express appreciation to the management team and staff for their untiring endeavour and contribution to the development of the Company; I would like to thank investors for their patronage to the Company and recognition of the direction of our business development; and I would like to express my sincere gratitude to our valued customers, banks, professional institutions and partners for their long-term trust and support. Finally, I would like to extend my cordial gratitude to the members of the Board for their devoted efforts for the Company in the past years, and for their valuable and professional advice.

By order of the Board

Rui Xiaowu
Chairman

Hong Kong, 24 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The audited turnover of the Company and the subsidiaries for the year ended 31 December 2010 was approximately HK$1,879,745,000, representing an increase of approximately 38.11% as compared with that of HK$1,361,045,000 for 2009. The profit for the year was HK$344,129,000, representing a decrease of 36.25% as compared with that of HK$539,838,000 for 2009.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY AND OPERATING PROFIT

In 2010, the profit attributable to owners of the Company was HK$292,478,000, representing a decrease of 25.76% as compared with that of HK$393,940,000 for 2009. The decrease in profit was mainly due to the lower fair value gain of investment properties than that of last year and the increase in administrative expenses. Besides, the hi-tech manufacturing business had performed the best results ever made in its history, which had exceeded the management's expectation.

Based on the weighted average issued share capital of 3,017,412,000 shares in the period, the earnings per share in 2010 was HK$0.0969, representing a decrease of 36.75% as compared with that of HK$0.1532 for 2009.

The Board has recommended the distribution of a final dividend of HK1 cent per share.

RESULTS OF EACH CORE BUSINESS

Core businesses of the Company and the subsidiaries are hi-tech manufacturing and aerospace services.

HI-TECH MANUFACTURING

After the Company's internal reorganization, China Aerospace Industrial Limited has commenced operations. Relying on high proficient management, strict cost control and good market exploring ability, the turnover of the hi-tech manufacturing business in 2010 was approximately HK$1,878,521,000, representing an increase of approximately 38.03% as compared with last year; the operating profit was approximately HK$215,831,000, representing an increase of 36.97% as compared with last year.

The turnover of the plastic injection business was HK$650,770,000, representing an increase of 21.17% as compared with last year; the operating profit was HK$65,310,000, representing an increase of 7.96% as compared with last year. The business of printed circuit boards had made a historical record again in its results. The turnover of printed circuit boards was HK$395,616,000, increased by 44.90% as compared with last year; the operating profit was HK$95,116,000, increased by 116.26% as compared with last year. The turnover of intelligent chargers was HK$476,919,000, representing an increase of 62.02% as compared with last year; the operating profit was HK$35,348,000, increased by 22.61% as compared with last year. The turnover of liquid crystal display was HK$343,391,000, representing an increase of 40.35% as compared with last year; the operating profit was HK$11,717,000, increased by 20.38% as compared with last year.

The rental income of industrial property investments was HK$11,825,000, being more or less the same as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

AEROSPACE SERVICES BUSINESS

The Complex Zone of the Launching Site in Hainan Province

The comprehensive development of the Complex Zone of the Launching Site in Hainan Province was still in a preparatory stage. Hainan Aerospace recorded a loss of HK$14,800,000 during the year, which was mainly due to the payment of the cost of preparatory works, administrative expenses and professional fees, etc..

In addition, the Company acquired the 35% interests in the equity capital of Hainan Aerospace through a tender in August 2010. Upon completion of the transaction, Hainan Aerospace became an indirect wholly-owned subsidiary of the Company. The Company will make investments in Hainan Aerospace by stages while Hainan Aerospace will be responsible in implementing the land development of the Complex Zone of the Launching Site in Hainan Province.

Shenzhen Aerospace Science & Technology Plaza

The investment property under construction, Shenzhen Aerospace Science & Technology Plaza, measured at fair value in accordance with the Hong Kong Accounting Standards, recorded a fair value gain of HK$183,644,000.

In addition, Shenzhen Aerospace had entered into a main contractor contract and a syndication loan agreement of RMB1,500,000,000 for a period of 5 years in January 2011. The construction works of Shenzhen Aerospace Science & Technology Plaza commences comprehensively in 2011.

ASSETS

As at 31 December 2010, the audited total assets of the Company and the subsidiaries were HK$5,074,543,000, of which the non-current assets were HK$2,869,896,000, representing an increase of 25.14% as compared with that of HK$2,293,318,000 as at 31 December 2009. The current assets were HK$2,204,647,000, representing an increase of 20.36% as compared with that of HK$1,831,762,000 as at 31 December 2009. The significant increase in non-current assets was mainly due to an increase in the fair value of the investment properties, the increase in prepayment for land development of the Hainan project and the increase in land development expenditure. The equity attributable to owners of the Company, after minority interests, was HK$3,550,532,000, representing a significant increase of 31.97% as compared with that of HK$2,690,430,000 as at 31 December 2009. Based on the weighted average issued share capital of 3,017,412,000 shares in the period, the net assets per share and the net assets per share attributable to owners of the Company was HK$1.37 and HK$1.18 respectively.

As at 31 December 2010, the Company and the subsidiaries' cash deposit of about HK$43,529,000 have been pledged to banks to secure trade financings.

LIABILITIES

As at 31 December 2010, the total liabilities of the Company and the subsidiaries were HK$951,779,000, of which the non-current liabilities were HK$187,837,000, representing an increase of 41.66% as compared with that of HK$132,595,000 as at 31 December 2009, the current liabilities were HK$763,942,000, being more or less the same as compared with that of HK$760,601,000 as at 31 December 2009. The change in non-current liabilities was mainly due to the increase in deferred tax. As at 31 December 2010, the Company and the subsidiaries did not have any bank loan.

Shenzhen Aerospace, the Company's subsidiary, entered into a syndication loan agreement in January 2011 of RMB1,500,000,000 for a period of 5 years with a syndicate of financial institutions in financing the construction of the Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction works, the construction expenses will increase significantly. Shenzhen Aerospace will then drawdown the loan for the construction costs. It is expected that starting from 2011, related bank debt will be gradually increased.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING EXPENSES

The administrative expenses of the Company and the subsidiaries in 2010 were HK$248,823,000, representing an increase of 15.73% as compared with last year. This was mainly due to the increase in human resources expense, research and development expense and public donation. The finance costs were HK$747,000, representing a decrease of 60.64% as compared with that of HK$1,898,000 for last year. This was mainly due to the reduction in bank loan.

CONTINGENT LIABILITIES

As at 31 December 2010, the Company and the subsidiaries did not have any material contingent liabilities.

FINANCIAL RATIOS

	2010	2009
Gross Profit Margin	**21.62%**	24.94%
Return on Equity	**8.35%**	16.70%
Liabilities/Assets Ratio	**18.76%**	21.65%
Current Ratio	**2.89**	2.41
Quick Ratio	**2.63**	2.24

The existing financial ratios of the Company and the subsidiaries were in satisfactory level. This was resulted from the Company and the subsidiaries' policies of continuous assets optimisation, strengthened management and business development in recent years.

LIQUIDITY

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities. The Company and the subsidiaries' free cash and bank balance as at 31 December 2010 was HK$1,489,728,000, most of which were in Hong Kong Dollars and Renminbi.

The Company had placed a total of 514,118,000 shares in February 2010, net proceeds amounted to HK$560,000,000, of which HK$359,000,000 had been invested in purpose specified. As at the date of this Announcement, the balance of HK$201,000,000 was being deposited in bank accounts.

CAPITAL EXPENDITURE AND INVESTMENT COMMITMENT

As at 31 December 2010, the capital commitments of the Company and the subsidiaries contracted for but not provided in the consolidated financial statements was HK$62,837,000, of which the purchase of property, plant and equipment amounted to HK$14,281,000 and the rest of HK$48,556,000 was the capital expenditure of the construction of Shenzhen Aerospace Science & Technology Plaza.

The investment commitments of the Company and the related subsidiaries in respect of the land development project of the Complex Zone of the Launching Site in Hainan Province are RMB1,200,000,000. The Company will make investments in Hainan Aerospace by stages while Hainan Aerospace will be responsible in implementing the land development of the Complex Zone of the Launching Site in Hainan Province.

MANAGEMENT DISCUSSION AND ANALYSIS

With the comprehensive commencement of the construction of Shenzhen Aerospace Science & Technology Plaza in 2011, the capital expenditure authorised but not contracted for in relation to the construction is approximately RMB1,460,000,000. Shenzhen Aerospace will drawdown the loan facility of RMB1,500,000,000 by stages in order to settle related construction costs.

FINANCIAL RISKS

The Company and the subsidiaries review the cash flow and financial position periodically and do not presently engage into any financial instruments or derivatives to hedge the exchange and the interest rate risks.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Company and the subsidiaries' remuneration policy is based on the employee's qualifications, experience and performance as well as by reference to market trends. The Company and the subsidiaries 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 Company.

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

As at 31 December 2010, the Company and the subsidiaries have a total of about 6,600 staff based in the Mainland and Hong Kong.

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 2010, the Board of Directors of the Company comprises the Executive Directors, namely, Mr Li Hongjun (President) (re-desginated as Executive Director and appointed as President in May 2010), Mr Jin Xuesheng (re-designated as Executive Director in May 2010), Mr Zhao Liqiang (President) (resigned in May 2010), Mr Wu Hongju (resigned in May 2010) and Mr Guo Xianpeng (resigned in May 2010); the Non-Executive Directors, namely, Mr Rui Xiaowu (Chairman) (appointed in December 2010), Mr Wu Zhuo (Vice Chairman) (re-designated as Vice Chairman in December 2010), Mr Chen Xuechuan, Mr Shi Weiguo (appointed in July 2010), Dr Chan Ching Har, Eliza, Mr Zhou Qingquan (re-designated as Non-Executive Director in May 2010) and Mr Xu Jianhua (resigned in May 2010); and the Independent Non-Executive Directors, namely, Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan.

Mr Rui Xiaowu had been appointed as Chairman of the Company, Mr Wu Zhuo had been appointed as Vice Chairman of the Company and Mr Li Hongjun had been appointed as President of the Company. Mr Rui Xiaowu, Mr Wu Zhuo and Mr Li Hongjun are not related to 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 Company and the subsidiaries' 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 2010. So far as was known to the Company, all Directors had complied with Appendix 10 during the period. 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 2010, namely, Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan. 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.

Each of the directors of the Company had received a comprehensive, formal and tailored induction on the first occasion of their respective appointment, so as 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.

CORPORATE GOVERNANCE REPORT

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. In 2010, the Company held five board meetings. 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 the 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 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 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 Directors during 2010 are set out below:

	Annual General Meeting/ Extraordinary General Meeting		Board Meeting	
Number of meetings held	2		5	
Directors	Number of meetings entitled to attend	Number of attendance	Number of meetings entitled to attend	Number of attendance
Rui Xiaowu	0	0	1	1
Wu Zhuo	2	1	5	5
Li Hongjun	2	2	5	5
Jin Xuesheng	2	2	5	5
Chen Xuechuan	2	1	5	4
Shi Weiguo	1	1	3	3
Chan Ching Har, Eliza	2	1	5	5
Zhou Qingquan	2	2	5	5
Chow Chan Lum, Charles	2	1	5	4
Luo Zhenbang	2	2	5	5
Wang Junyan	2	0	5	5
Zhao Liqiang	0	0	2	2
Wu Hongju	0	0	2	2
Guo Xianpeng	0	0	2	2
Xu Jianhua	0	0	2	2

Note: Pursuant to the code provision E.1.2 of the Code on Corporate Governance Practices as set out in the Listing Rules, Mr Wu Zhuo (Vice Chairman), Mr Chow Chan Lum, Charles (Chairman of the Audit Committee) and Dr Chan Ching Har, Eliza (Chairman of the Remuneration Committee) were unable to attend some of the general meetings due to business reason.

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; Mr Zhou Qingquan (appointed in May 2010) and Mr Jin Xuesheng (resigned in May 2010 due to the re-designation as Executive Director), being Non-Executive Directors. 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 2010, the Audit Committee met twice, the external auditors, the related staff from Finance Department and Internal Audit Department, 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.

CORPORATE GOVERNANCE REPORT

The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2010.

The attendance records of individual Audit Committee members during 2010 are set out below:

	Number of meetings eligible to attend	Number of attendance
Chow Chan Lum, Charles	2	1
Luo Zhenbang	2	2
Zhou Qingquan	1	1
Jin Xuesheng	1	1

REMUNERATION COMMITTEE

The Remuneration Committee comprises Dr Chan Ching Har, Eliza (Chairman), Mr Chen Xuechuan and Mr Li Hongjun (resigned in May 2010 due to the re-designation as Executive Director and appointed as President), all being Non-executive Directors, and Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, 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 and senior management.

The Remuneration Committee met twice during 2010 to review the Directors' remuneration. The President, the General Manager of Human Resources Department 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' and senior management's remunerations. During the year, no Director was involved in deciding his/her remuneration.

The attendance records of individual Remuneration Committee members during 2010 are set out below:

	Number of meetings eligible to attend	Number of attendance
Chan Ching Har, Eliza	2	2
Chen Xuechuan	2	2
Chow Chan Lum, Charles	2	1
Luo Zhenbang	2	1
Wang Junyan	2	2
Li Hongjun	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.

CORPORATE GOVERNANCE REPORT

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 Company and the subsidiaries' internal control systems over all material controls, including that financial, operational and compliance controls and risk management functions. In addition, the Company considers that it is adequate in resources, qualifications and experience of staff of the Company's accounting and financial reporting function, as well as their training programmes and budget. 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 Company and the subsidiaries for that period. In preparing the accounts for the year ended 31 December 2010, 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 and reasonable, the Directors prepared the accounts on the going concern basis. Auditor's reporting responsibilities are set out on the financial statements by the auditor.

During 2010, 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 3 months and 2 months respectively after the end of the relevant period, as laid down in the Listing Rules.

In 2010, the Company paid a total sum of approximately HK$4,580,000 to the auditor, of which included an audit fee of approximately HK$3,900,000 and a non-audit fee of approximately HK$680,000. The latter comprised fees for providing services in reviewing interim report and results announcement, and provision of service in the assessment of the Company's cash flow and debt condition in respect of the Company's major and connected transaction.

SHAREHOLDERS' RIGHTS

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. Besides, all general meetings of the Company be conducted by poll 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 also counted in the meeting and vote results will be announced thereafter of which the same will be uploaded in the Company's and the Stock Exchange's websites respectively on the same day.

INVESTORS' RELATION

The information on the website of the Company will be updated in a proper and timely manner to maintain a quick, fair and transparent disclosure of its information.

The Company held an annual general meeting in May 2010 and an extraordinary general meeting in September 2010. Circular of each meeting was sent beforehand as required by related rules. In the annual general meeting, the shareholders reviewed and approved the resolutions on the Company's financial results of 2009, the payment of a final dividend, re-election and remuneration fixing of Directors, re-election and remuneration fixing of auditors, and

CORPORATE GOVERNANCE REPORT

general mandate to the Board to issue and repurchase shares. In the extraordinary general meeting, the shareholders reviewed and approved the resolutions on discloseable and connected transaction for the acquisition of 35% interests in Hainan Aerospace Investment Management Company Limited and the re-election of Director.

The Company had set aside enough time for shareholders to raise questions and for Directors to respond in the general meetings. Resolutions being put forward in the general meetings were duly approved by shareholders and the Company Secretary, representing the Chairman, announced all poll results promptly during the meetings, of which the same were uploaded in the Company and the Stock Exchange's websites respectively on the same day's afternoon.

The Company has occasionally received shareholders' enquiries by mail or telephone about information of their shares and the Company's announcements. The Company has arranged the Company Secretary to respond such enquiries in a latest practicable and reasonable manner.

The Company did not amend its Memorandum and Articles of Association during 2010.

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2010, the authorised share capital of the Company was 100,000,000,000 shares at HK$0.10 each while the issued share capital is 3,085,021,882 shares, and the market capitalization was about HK$3,500,000,000.

As at 31 December 2010, the Company had total registered shareholders of 1,328, of which included substantial shareholders, China Aerospace Science & Technology Corporation, holding approximately 37.06%. Since many other shareholders hold shares through HKSCC Nominees Limited in Hong Kong, the actual number of shareholders should be greater than the registered numbers.

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 of 25% as required by the Listing Rules as of the date of this Annual Report.

CORPORATE SOCIAL RESPONSIBILITY

In the midst of continuous business development, the Company also hopes to gradually set forth the message of corporate social responsibility, through consistent encouragement, suggestions and rules compliance, by reducing impacts on the environment and resources so as to contribute to the society and level up the society's sustainability. The Company endeavours to put efforts to become a company with social responsibility.

Fair Trading

The Company and its subsidiaries have engaged into business with their business partners and lending banks based on fair and reasonable terms and complied with related rules and regulations so as to reduce the exposure of risks. The Company and its subsidiaries will execute contracts and settle payables within a reasonable and practicable time according to related contract terms without unreasonable delay. The Company and its subsidiaries also demand the same on its customers so as to facilitate persistent cash flow without affecting business operations.

Environmental Protection

The Company has long been encouraging staff to lessen the consumption of natural resources and also requires its subsidiaries to comply with related environmental protection regulations and ensure such compliance during production and operation, with the hope to reduce unnecessary utilisation of natural resources and environmental pollution.

CORPORATE GOVERNANCE REPORT

Social Responsibility

Responding to the natural disasters of severe earthquake occurred in Yushu County, Qinghai Province in April 2010 and the huge flooding in Wenchang City, Hainan Province in October 2010, the Company and its subsidiaries speedily organized the employees in collecting donations. Donations of which were sent to the related charities, showing our care to the victims and laid an effort in helping the re-build of the disaster areas.

The products of the hi-tech manufacturing enterprises of the Company are made in compliance with related product safety regulations so as to ensure the production processes will not affect health and safety of the staff and finally that of our customers.

The Company and its subsidiaries provide their staff with a comparative reasonable salary level, appropriate medical protection and other insurance coverage. This helps to maintain a comparative stable working environment for the staff. Meanwhile, the Company and its subsidiaries also adequately sponsor the staff to attend some professional seminars and short-term courses in order to encourage staff to consistently increase their own competitiveness to face with the ever-changing market situation and to meet with the requirements of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr Rui Xiaowu, aged 51, a Master's postgraduate, is a Non-Executive Director and Chairman of the Company. He was accredited as a Research Fellow in 1999 and was awarded by the State Council of China as the winner of "Government Special Allowance" in 1996. In 1982, Mr Rui graduated from the Science & Technology University for National Defense of China major in Computer Software and studied a Master's Degree in Computer Aided Design at the 710 Research Institute of the former Ministry of Aerospace Industry of China during the period from 1982 to 1985, and participated works at the 710 Research Institute in the same year. Thereafter, he had been the Division Director of the Business Marketing Division, Vice President, President of the 710 Research Institute; he had been the Business Assistant to General Manager and Director General of the Business Planning & Investment Department, Business Assistant to General Manager and Director General of the Business Investment Department of China Aerospace Science & Technology Corporation since 2000; he had also been appointed as the Vice Chairman of Sino Satellite Communications Company Limited since 2001, the Assistant to General Manager of China Aerospace Science & Technology Corporation since 2002 and the Chairman of China Spacesat Company Limited (stock code: 600118), a company listed on the Shanghai Stock Exchange, during the period from 2002 to 2005. He had been appointed as the Deputy General Manager of China Aerospace Science & Technology Corporation during the period from 2005 to 2006, the General Manager of China Satellite Communications Corporation from June 2006 to March 2009, the Deputy General Manager of China Aerospace Science & Technology Corporation since April 2009, as well as the Chairman of NavInfo Company Limited (stock code: 002405), a company listed on the Shenzhen Stock Exchange, since January 2008.

Mr Rui had been appointed as the Chairman of the Company from 2002 to 2006. In the same period, he had been appointed as Chairman of the then CASIL Telecommunications Holdings Limited (stock code: 1185) (now known as China Energine International (Holdings) Limited), a company listed on the Stock Exchange of Hong Kong Limited. Mr Rui has also been appointed as a Non-Executive Director and Chairman of APT Satellite Holdings Limited (stock code: 1045), a company listed on the Stock Exchange of Hong Kong Limited, since December 2006. Mr Rui, who is familiar with the operation of capital markets in both Hong Kong and China very well, has been involved in senior posts in listed companies for years and has extremely ample experience in management. He was appointed as an Non-Executive Director and Chairman of the Company again in December 2010.

Mr Wu Zhuo, aged 61, a Research Fellow with graduate qualification, is a Non-Executive Director and Vice 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 and was re-designated as Vice Chairman of the Company in December 2010.

Mr Li Hongjun, aged 45, a Senior Engineer, is an Executive Director of the Company and President of the Group. 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 on the Shanghai Stock Exchange. In the meantime, he studied in the Party School of the Central Committee majoring in Economic Management

BIOGRAPHICAL DETAILS OF DIRECTORS

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 on 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 until May 2010. 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 a Non-Executive Director of the Company in March 2008 and was re-designated as an Executive Director of the Company and appointed as President of the Group in May 2010.

Mr Jin Xuesheng, aged 48, a Senior Engineer, is an Executive Director of the Company and Executive Vice President of the Group. 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 September 1999 to May 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 a Non-Executive Director of the Company in March 2008 and was re-designated as an Executive Director of the Company and appointed as Executive Vice President of the Group in May 2010.

Mr Chow Chan Lum, Charles, aged 60, 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, Complaints Panel, Taxation Committee and Professional Standards Monitoring Committee. He is currently a member of Foreign Experts Consultative Committee on China Independent Auditing Standards, Ministry of Finance, the PRC, a member of People's Political Consultative Committee, Guangdong Province, the PRC, Treasurer 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) and Maoye International Holdings Limited (stock code: 00848), companies listed on the Stock Exchange of Hong Kong Limited, since October 2002 and November 2007 respectively. He was appointed as an Independent Non-Executive Director of the Company in April 2000.

Mr Luo Zhenbang, aged 44, is an Independent Non-Executive Director of the Company and a Senior Partner of BDO China Shu Lun Pan CPAs. Mr Luo graduated from the School of Business of Lanzhou in 1991 majoring in Enterprise Management. He has been managing the audit works for several listed companies since 1994. He has been an expert supervisor of Xinda Asset Management Corporation and China Great Wall Asset Management Corporation. He was also an independent director of Long March Vehicle Technology Company Limited, Orient Tantalum Industry Company Limited, Wuzhong Instrument Company Limited and Shengxue Company Limited, as well as an internal audit expert of Northeast Securities Company Limited. He currently serves as independent director of AVIC Heavy Machinery Company Limited (stock code: 600765), a company listed on the Shanghai Stock Exchange. 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,

BIOGRAPHICAL DETAILS OF DIRECTORS

auditing and financial management. He is familiar with the audit of listed companies from various sectors and extensively participates in corporate restructuring for listing, listed company restructure and other business consultation services. He was appointed as an Independent Non-Executive Director of the Company in December 2004.

Mr Wang Junyan, aged 40, is an Independent Non-Executive Director of the Company and the Chairman 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. Currently he is an Adjunct Professor in the Department of Finance, Faculty of Business Administration at The Chinese University of Hong Kong. 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, and is now serving as an independent director of Livzon Pharmaceutical Group Company Limited (stock code: 000513), the shares of which are listed on Shenzhen Stock Exchange, an independent non-executive director of Yanzhou Coal Mining Company Limited (stock code: 1171) and an executive director of China New Economy Fund Limited (stock code: 80), the shares of which are listed on The Stock Exchange of Hong Kong Limited and the Chief Investment Officer of CITIC Securities International Investment Management (HK) Limited. Mr Wang has over ten years' experience in investment banking and securities industry. He was appointed as an Independent Non-Executive Director of the Company in March 2007.

Mr Chen Xuechuan, aged 48, a Research Fellow, is a Non-Executive Director of the Company. Mr Chen graduated from the Dailian Polytechnic University with a master's degree in engineering. He started his career and held such posts as Deputy Factory Officer, Chief Metallurgist, Deputy Chief Engineer and Deputy General Manager of Capital Aerospace Machinery Company from 1983, Deputy Director General of Personnel & Education Department of the First Academy of China Aerospace Corporation from 1997, Vice President of the Academy of Beijing Aerospace System Engineering from 2000, Director General of Human Resources Department of China Aerospace Science & Technology Corporation from April 2005 till now, and as standing council member of both China Institute of Space Law and China Space Foundation, member of Chinese Society of Astronautics and Director of Aerospace Science & Technology Finance Company Limited from 2007 onwards. Mr Chen has been engaged into the machinery manufacturing of launch vehicles, the management of corporations and academies, as well as human resources management and has substantial experience in corporate management and human resource management. He was appointed as a Non-Executive Director of the Company in August 2008.

Mr Shi Weiguo, aged 40, a Senior Engineer, a Non-Executive Director of the Company. He studied Applied Physics at Suzhou University from 1988 to 1992 and obtained a degree in Bachelor of Science. Since 1992, he served as Technician in Suzhou Nuclear Power Research Institute under the Ministry of Power Industry. He served as Executive of Foreign Trade Branch of China Suzhou International Economic Technical Cooperation Corporation since 1995, and that of Deputy General Manager of Asian Pacific Engineering Branch and Manager of Fujian Branch since 2003, respectively, during which he completed a postgraduate class of National Economic Investment in Nanjing University. Since 2005, he served as Deputy General Manager of Wan Yuan Industrial Company under the China Academy of Launch Vehicle Technology. From March 2007 to December 2007, he served as Deputy General Manager of CASIL Telecommunications Holdings Limited (now known as China Energine International (Holdings) Limited, stock code: 1185), the shares of which are listed on the Stock Exchange of Hong Kong Limited. He was a Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation since December 2007 and is currently that of the Director General since June 2010. Mr Shi has ample experience and ability in market development and operating management. He was appointed as a Non-Executive Director of the Company in July 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS

Dr Chan Ching Har, Eliza, aged 54, is a Non-Executive Director of the Company. Dr Chan is a Senior Consultant of Boughton Peterson Yang Anderson, Solicitors. She is a Member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a Standing Member of the CPPCC Tianjin Committee, 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, Chairman of Pension Appeals Board, member of the Medical Council, member of the Administrative Appeals Board, Disciplinary Panel Member of the Hong Kong Institute of Certified Public Accountants and the Legal Advisor to The Hong Kong Chinese Enterprises Association. Dr Chan is the Chairman of the University of Victoria Foundation (Hong Kong) Limited, Executive Vice-President of the Hong Kong CPPCC (Provincial) Members Association Limited, Honorary President of The Hong Kong China Chamber of Commerce and a Governor of The Canadian Chamber of Commerce in Hong Kong. She was also formerly a Member of the Hong Kong Hospital Authority, Hong Kong Public Service Commission, Board of Education, Hong Kong Examination and Assessment Authority and Council Member of The Hong Kong University of Science and Technology. Dr 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 and the Honorary Doctor of Law (LL.D. (Hon)) degree by the University of Victoria. She was appointed as an Independent Non-Executive Director of the Company in January 1997 and was re-designated as a Non-Executive Director of the Company in December 2004.

Mr Zhou Qingquan, aged 59, is a Non 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 and was re-designated as a Non-Executive Director of the Company and Vice President of the Group in May 2010.

Mr Zhao Liqiang, aged 49, a Research Fellow, was an Executive Director of the Company and President of the Group from September 2004 to May 2010. 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, Vice President, President, President and Assistant to Chairman, and Vice Chairman of Research Centre of Tracking & Navigating Equipment, 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, and, from December 2006 to June 2008, Non-executive Director of APT Satellite Holdings Limited (stock code: 1045), a company listed on the Stock Exchange of Hong Kong Limited. He was appointed as an Executive Director of the Company and President of the Group from September 2004. Due to the attempt of developing his own business, Mr Zhao resigned as Executive Director and President in May 2010.

Mr Wu Hongju, aged 49, a Senior Engineer, is a 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 and resigned as Executive Director but remains as Vice President of the Group in May 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr Guo Xianpeng, aged 44, a Senior Engineer, is a Vice President of the Group. 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 Division Director of Project Division of the Business Development Bureau 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 Civilian 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, project management and capital operations. He was appointed as an Executive Director of the Company and Vice President of the Group in January 2004 and resigned as Executive Director but remains as Vice President of the Group in May 2010.

Mr Xu Jianhua, aged 42, a Senior Economist, is a 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 on the Shanghai Stock Exchange. He was appointed as a Director and Deputy General Manager of CASIL Telecommunications Holdings Limited (stock code: 1185), a company listed on the Stock Exchange of Hong Kong Limited and was appointed as a Non-Executive Director of the Company and Vice President of the Group in July 2006 and resigned as a Non-Executive Director but remains as Vice President of the Group in May 2010.

DIRECTORS' REPORT

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 2010.

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 44, 45 and 46 to the consolidated financial statements, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 34.

A final dividend of HK1 cent per share in respect of the year ended 31 December 2010 (2009: HK2 cents) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired land and buildings, plant and equipment and motor vehicles, furniture and other equipment of HK$4,350,000, HK$31,973,000 and HK$16,905,000 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.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2010 comprised the retained profits of approximately HK$644,287,000 (2009: HK$572,686,000).

DONATION

During the year, the Group made charitable donations amounting to HK$6,861,000.

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' REPORT

DIRECTORS

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

Executive

Li Hongjun *(President)*	(re-designated as Executive Director and appointed as President on 12 May 2010)
Jin Xuesheng	(re-designated as Executive Director and appointed as Executive Vice President on 12 May 2010)
Zhao Liqiang *(President)*	(resigned on 12 May 2010)
Wu Hongju	(resigned on 12 May 2010)
Guo Xianpeng	(resigned on 12 May 2010)

Non-Executive

Rui Xiaowu *(Chairman)*	(appointed on 10 December 2010)
Wu Zhuo *(Vice Chairman)*	(re-designated as Vice Chairman on 10 December 2010)
Chow Chan Lum, Charles *(Independent)*	
Luo Zhenbang (Independent)	
Wang Junyan (Independent)	
Chen Xuechuan	
Shi Weiguo	(appointed on 21 July 2010)
Chan Ching Har, Eliza	
Zhou Qingquan	(re-designated as Non-Executive Director on 12 May 2010)
Xu Jianhua	(resigned on 12 May 2010)

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. Zhou Qingquan, Luo Zhenbang and Wang Junyan retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Besides, pursuant to the best practice of Appendix 14 of the Listing Rules, Mr Chow Chan Lum, Charles, who has been served as an independent non-executive director for more than nine years, retires in accordance with the rule and, being eligible, offer himself for re-election. The Directors are of the belief that, through comprehensive discussion, Mr Chow Chum Lum, Charles continues to have independence and is an independent person, no relationships or circumstances appear to affect his objectivity in any judgement.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2010, save for Mr Rui Xiaowu, Mr Chen Xuechuan and Mr Shi Weiguo, the Directors of the Company, who are officers of China Aerospace Science & Technology Corporation ("CASC"), substantial shareholder of the Company, 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' REPORT

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

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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, 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	Direct interest (Yes/No)	Number of shares interested (Long position)	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interests in controlled corporation *(Note 1)*	No	1,143,330,636	37.06%
Jetcote Investments Limited	Beneficial owner	Yes	131,837,011	4.27%
	Interests in controlled corporation *(Note 2)*	No	1,011,493,625	32.79%
			1,143,330,636	37.06%
Burhill Company Limited	Beneficial owner *(Note 2)*	Yes	539,566,136	17.49%
Sin King Enterprises Company Limited	Beneficial owner *(Note 2)*	Yes	471,927,489	15.30%

Notes:

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

(2) 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.

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 2010.

DIRECTORS' REPORT

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

Save as disclosed below, as of the date of this Annual Report, 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 of, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Company.

CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, had 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 advance under the loan agreement and the mortgage. A Court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 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 judgment 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 entered into a settlement deed with Chinluck and Mr Cheng Zhen Shu so as to solve the litigation completely. Pursuant to the settlement deed, 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$197,808,000 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.

On 31 December 2010, the carrying value of the amount advanced to Chinluck was HK$70,269,000.

DIRECTORS' REPORT

CONNECTED TRANSACTION

On 4 August 2010, 航科新世紀科技發展（深圳）有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited*), a direct wholly-owned subsidiary of the Company, successfully tendered and entered into a Property Right Transfer Agreement with 航天時代置業發展有限公司 (Aerospace Times Properties Development Limited*) for the acquisition of 35% interests in Hainan Aerospace at the purchase price of RMB45,583,400. 航天時代置業發展有限公司 (Aerospace Times Properties Development Limited*) is a subsidiary of CASC and is a connected person of the Company. The entering into the Property Right Transfer Agreement constituted a discloseable and connected transaction of the Company and that is subject to the Independent Shareholders' approval at the Extraordinary General Meeting, CASC and its associates were abstained from voting on the resolution related to the connected transaction. The Independent Shareholders had passed, by way of poll, the above connected transaction at the Extraordinary General Meeting held on 10 September 2010. Upon completion of the acquisition, Hainan Aerospace becomes an indirect wholly-owned subsidiary of the Company.

Independent Non-Executive Directors of the Company had reviewed the above discloseable and connected transaction and confirmed that the connected transaction had been entered into on normal commercial terms and are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

EVENTS AFTER THE REPORTING PERIOD

On 14 January 2011, 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-tech Investment Management Company Limited*), a subsidiary of the Company, entered into a syndicate loan agreement and a supplemental agreement in respect of a 5-year term loan in the amount of RMB1,500,000,000 with the Finance Syndicate for the construction cost of the Shenzhen Aerospace Science & Technology Plaza. Pursuant to the terms of the syndicate loan agreement, Shenzhen Aerospace is required to pledge the land use right of a parcel of land in Shenzhen to the Finance Syndicate as security. As one of the members of the Finance Syndicate is a connected person of the Company, the provision of security to the connected person by Shenzhen Aerospace constitutes a connected transaction of the Company and is subject to the Independent Shareholders' approval at the Extraordinary General Meeting. CASC and its associates shall abstain from voting on the resolution related to the connected transaction.

Independent Non-Executive Directors of the Company had reviewed the above connected transaction and confirmed that the connected transaction had been entered into on normal commercial terms and are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

On 23 January 2011, Shenzhen Aerospace entered into a main contractor contract with 中國建築股份有限公司 (China State Construction Engineering Corporation Limited*) for the construction of the main structure of the Shenzhen Aerospace Science & Technology Plaza at a consideration of RMB931,996,000. The entering into the main contractor contract by Shenzhen Aerospace constitutes a major transaction of the Company and is subject to the Shareholders' approval at the Extraordinary General Meeting.

AUDITOR

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

By order of the Board

Li Hongjun
Executive Director & President

Hong Kong, 24 March 2011

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
(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 34 to 100, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2010, 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 Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Turnover	5	**1,879,745**	1,361,045
Cost of sales		**(1,473,428)**	(1,021,621)
Gross profit		**406,317**	339,424
Other income	7	**78,949**	46,101
Other gains and losses	7	**39,071**	69,670
Selling and distribution costs		**(45,356)**	(49,012)
Administrative expenses		**(248,823)**	(215,001)
Fair value changes of investment properties		**189,995**	491,340
Finance costs	9	**(747)**	(1,898)
Share of results of jointly controlled entities		**58**	264
Profit before taxation	10	**419,464**	680,888
Taxation	11	**(75,335)**	(141,050)
Profit for the year		**344,129**	539,838
Attributable to:			
Owners of the Company		**292,478**	393,940
Non-controlling interests		**51,651**	145,898
		344,129	539,838
Earnings per share — basic	12	**HK9.69 cents**	HK15.32 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	**344,129**	539,838
Other comprehensive income includes:		
Fair value (loss) gain on available-for-sale investments	**(20,972)**	154,468
Property revaluation reserve		
Increase in fair value of land and buildings transferred to investment properties	**9,004**	–
Deferred tax liability arising on revaluation of properties	**(1,893)**	–
	7,111	–
Exchange differences arising on translating foreign operations		
Exchange gain arising during the year	**111,503**	6,088
Share of exchange reserve of jointly controlled entities	**279**	339
Reclassification adjustment for cumulative exchange differences included in profit or loss upon disposal or deregistration of foreign operations	**2,921**	(13,350)
	114,703	(6,923)
Other comprehensive income for the year	**100,842**	147,545
Total comprehensive income for the year	**444,971**	687,383
Total comprehensive income attributable to:		
Owners of the Company	**369,008**	540,476
Non-controlling interests	**75,963**	146,907
	444,971	687,383

STATEMENTS OF FINANCIAL POSITION

At 31 December 2010

	NOTES	THE GROUP 2010 HK$'000	THE GROUP 2009 HK$'000	THE COMPANY 2010 HK$'000	THE COMPANY 2009 HK$'000
Non-current assets					
Property, plant and equipment	14	**649,696**	655,264	**1,580**	2,292
Prepaid lease payments	15	**45,746**	43,006	**—**	—
Investment properties	16	**1,713,848**	1,327,476	**—**	—
Interests in subsidiaries	17	**—**	—	**423,021**	488,070
Amounts due from subsidiaries	17	**—**	—	**942,186**	495,186
Interests in associates	18	**—**	—	**—**	—
Interests in jointly controlled entities	19	**61,746**	61,409	**15,000**	15,000
Available-for-sale investments	20	**173,040**	194,012	**—**	—
Prepayment for land development	21	**148,053**	—	**—**	—
Land development expenditure	21	**77,767**	12,151	**—**	—
		2,869,896	2,293,318	**1,381,787**	1,000,548
Current assets					
Inventories	23	**191,985**	128,685	**—**	—
Trade and other receivables	24	**403,025**	289,018	**2,513**	4,465
Prepaid lease payments	15	**1,733**	1,660	**—**	—
Loans receivable	25	**70,269**	70,269	**—**	—
Financial assets at fair value through profit or loss	26	**2,864**	2,926	**—**	—
Amounts due from subsidiaries	27	**—**	—	**1,154,015**	879,809
Taxation recoverable		**1,514**	5,294	**—**	—
Pledged bank deposits	22	**43,529**	125,083	**—**	110,560
Bank balances and cash	22	**1,489,728**	1,208,827	**119,459**	17,534
		2,204,647	1,831,762	**1,275,987**	1,012,368
Current liabilities					
Trade and other payables	28	**691,727**	565,810	**62,703**	59,001
Amounts due to subsidiaries	27	**—**	—	**164,166**	154,666
Amount due to an associate	29	**1,050**	1,050	**1,050**	1,050
Taxation payable		**61,916**	53,484	**80**	80
Obligations under a finance lease	30	**767**	730	**—**	—
Secured bank loans	31	**—**	131,401	**—**	—
Other loan	32	**8,482**	8,126	**—**	—
		763,942	760,601	**227,999**	214,797
Net current assets		**1,440,705**	1,071,161	**1,047,988**	797,571
Total assets less current liabilities		**4,310,601**	3,364,479	**2,429,775**	1,798,119

STATEMENTS OF FINANCIAL POSITION

At 31 December 2010

	NOTES	THE GROUP 2010 HK$'000	THE GROUP 2009 HK$'000	THE COMPANY 2010 HK$'000	THE COMPANY 2009 HK$'000
Non-current liabilities					
Deferred taxation	33	**187,772**	131,763	**—**	—
Obligations under a finance lease	30	**65**	832	**—**	—
		187,837	132,595	**—**	—
		4,122,764	3,231,884	**2,429,775**	1,798,119
Capital and reserves					
Share capital	34	**308,502**	257,090	**308,502**	257,090
Reserves	35	**3,242,030**	2,433,340	**2,121,273**	1,541,029
Equity attributable to owners of the Company		**3,550,532**	2,690,430	**2,429,775**	1,798,119
Non-controlling interests		**572,232**	541,454	**—**	—
		4,122,764	3,231,884	**2,429,775**	1,798,119

The consolidated financial statements on pages 34 to 100 were approved and authorised for issue by the Board of Directors on 24 March 2011 and are signed on its behalf by:

Li Hongjun
Director

Jin Xuesheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 *(Note 35)*	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000 *(Note b)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	257,090	336,286	14,044	23,916	104,309	–	3,899	21,570	1,080	1,387,760	2,149,954	333,685	2,483,639
Profit for the year	–	–	–	–	–	–	–	–	–	393,940	393,940	145,898	539,838
Fair value gain on available-for-sale investment	–	–	–	–	–	154,468	–	–	–	–	154,468	–	154,468
Exchange gain arising on translating foreign operations	–	–	–	–	5,079	–	–	–	–	–	5,079	1,009	6,088
Share of exchange reserve of jointly controlled entities	–	–	–	–	339	–	–	–	–	–	339	–	339
Reclassification adjustment for cumulative exchange differences included in profit or loss upon disposal or deregistration of foreign operations	–	–	–	–	(13,350)	–	–	–	–	–	(13,350)	–	(13,350)
Total comprehensive income (expense) for the year	–	–	–	–	(7,932)	154,468	–	–	–	393,940	540,476	146,907	687,383
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	111,111	111,111
Disposal of interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(46,693)	(46,693)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(3,556)	(3,556)
At 31 December 2009	257,090	336,286	14,044	23,916	96,377	154,468	3,899	21,570	1,080	1,781,700	2,690,430	541,454	3,231,884

Notes:

(a) 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 years' losses or (ii) expand production operations.

(b) The capital reserve represents capital contribution from a major shareholder of the Company arising from acquisition of subsidiaries.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 *(Note 35)*	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000 *(Note b)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	257,090	336,286	14,044	23,916	96,377	154,468	3,899	21,570	1,080	1,781,700	2,690,430	541,454	3,231,884
Profit for the year	–	–	–	–	–	–	–	–	–	292,478	292,478	51,651	344,129
Fair value loss on available-for-sale investment	–	–	–	–	–	(20,972)	–	–	–	–	(20,972)	–	(20,972)
Exchange gain arising on translating foreign operations	–	–	–	–	87,191	–	–	–	–	–	87,191	24,312	111,503
Share of exchange reserve of jointly controlled entities	–	–	–	–	279	–	–	–	–	–	279	–	279
Increase in fair value of land and buildings transferred to investment properties	–	–	–	–	–	–	9,004	–	–	–	9,004	–	9,004
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	–	(1,893)	–	–	–	(1,893)	–	(1,893)
Reclassification adjustment for cumulative exchange differences included in profit or loss upon disposal or deregistration of foreign operations	–	–	–	–	2,921	–	–	–	–	–	2,921	–	2,921
Total comprehensive income (expense) for the year	–	–	–	–	90,391	(20,972)	7,111	–	–	292,478	369,008	75,963	444,971
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	(7,261)	–	–	(7,261)	(45,185)	(52,446)
Issue of shares in placing and subscription agreement	51,412	529,541	–	–	–	–	–	–	–	–	580,953	–	580,953
Expenses incurred in connection with issue of shares	–	(20,898)	–	–	–	–	–	–	–	–	(20,898)	–	(20,898)
Dividend recognised as distribution (Note 13)	–	–	–	–	–	–	–	–	–	(61,700)	(61,700)	–	(61,700)
At 31 December 2010	308,502	844,929	14,044	23,916	186,768	133,496	11,010	14,309	1,080	2,012,478	3,550,532	572,232	4,122,764

Notes:

(a) 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 years' losses or (ii) expand production operations.

(b) The capital reserve represents capital contribution from a major shareholder of the Company arising from acquisition of subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	**419,464**	680,888
Adjustments for:		
Depreciation	**63,056**	62,691
Amortisation of prepaid lease payments	**1,081**	1,074
Interest income	**(11,082)**	(12,447)
Interest expense	**685**	1,811
Finance lease charges	**62**	87
Fair value changes of investment properties	**(189,995)**	(491,340)
Reversal of impairment loss recognised in respect of loans receivable	**(24,419)**	(24,929)
Waiver of debts	**(31,063)**	—
(Reversal of) allowance for doubtful debts	**(8,256)**	5,142
Reversal of allowance for obsolete inventories	**(4,753)**	(1,614)
Gain on disposal of a subsidiary	**—**	(43,551)
Loss (gain) on deregistration of a subsidiary	**2,921**	(1,148)
Discount on acquisition of additional interests in a subsidiary	**—**	(3,176)
Share of results of jointly controlled entities	**(58)**	(264)
Loss (gain) on disposal of property, plant and equipment	**1,421**	(18)
Operating cash flows before movements in working capital	**219,064**	173,206
(Increase) decrease in inventories	**(50,935)**	9,120
Increase in trade and other receivables	**(99,693)**	(14,351)
Decrease (increase) in financial assets at fair value through profit or loss	**130**	(1,578)
Increase in trade and other payables	**116,410**	64,478
Cash generated from operations	**184,976**	230,875
Hong Kong Profits Tax paid	**(5,835)**	(16,201)
PRC Enterprise Income Tax paid	**(11,859)**	(7,891)
NET CASH FROM OPERATING ACTIVITIES	**167,282**	206,783

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	NOTE	2010 HK$'000	2009 HK$'000 (restated)
INVESTING ACTIVITIES			
Prepayment for land development		**(148,053)**	—
Development costs paid for investment properties under construction		**(96,036)**	(17,297)
Increase in land development expenditure		**(62,781)**	(12,151)
Purchase of property, plant and equipment		**(53,228)**	(65,213)
Decrease in pledged bank deposits		**83,194**	44,547
Repayment of loans receivable		**24,419**	31,737
Interest received		**11,082**	12,447
Proceeds from disposal of property, plant and equipment		**94**	712
Proceeds from disposal of investment properties		**80**	—
Redemption of short-term investment		**—**	107,710
Disposal of subsidiaries, net of cash and cash equivalents disposed of	36	**—**	(50,775)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(241,229)**	51,717
FINANCING ACTIVITIES			
Proceeds from issue of shares		**580,953**	—
Repayment of bank loans		**(131,401)**	(17,500)
Dividend paid		**(61,661)**	—
Acquisition of additional interests in a subsidiary		**(52,446)**	(380)
Issue share expenses		**(20,898)**	—
Repayment of obligations under finance leases		**(730)**	(360)
Interest paid		**(685)**	(1,811)
Finance lease charges		**(62)**	(87)
Capital contribution from non-controlling shareholders of subsidiaries		**—**	111,111
NET CASH FROM FINANCING ACTIVITIES		**313,070**	90,973
NET INCREASE IN CASH AND CASH EQUIVALENTS		**239,123**	349,473
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,208,827**	859,244
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**41,778**	110
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH		**1,489,728**	1,208,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 (the "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 also 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 44, 45 and 46, respectively.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 3 (as revised in 2008)	Business combinations
HKAS 24 (as revised in 2009)	Related party disclosures in relation to the partial exemption in paragraphs 25 to 27 for government-related entities
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners
HK — INT 5	Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKFRS 3 (as revised in 2008) Business combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions.

As there was no transaction during the current period in which HKFRS 3 (Revised) are applicable, the application of HKFRS 3 (Revised) had no effect on the consolidated financial statements of the Group for the current period. Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised) are applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

HKAS 27 (as revised in 2008) Consolidated and separate financial statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27(as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's acquisition of additional 35% of the equity capital of 海南航天投資管理有限公司 Hainan Aerospace Investment Management Company Limited ("Hainan Aerospace") in the current year. The change in policy has resulted in the difference of HK$7,261,000 between the proportionate share of the carrying amount of the net assets of Hainan Aerospace at the date of acquisition amounting to RMB39,266,000 (equivalent to approximately HK$45,185,000) and the consideration paid of RMB45,583,400 (equivalent to approximately HK$52,446,000) being recognised directly in equity (i.e. capital reserve), instead of in goodwill. Therefore, the change in accounting policy has resulted in a decrease in goodwill arising on acquisition of additional interest in a subsidiary of HK$7,261,000 and a decrease of equity of HK$7,261,000.

The consolidated statement of financial position as at 1 January 2009 has not been presented as the above restatement has no impact on that consolidated statement of financial position.

Amendments to HKAS 7 Statement of cash flows (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that cash flows arising from changes ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, shall be classified as cash flows from financing activities.

Accordingly, the cash consideration paid in the current year of HK$52,446,000 for the Group's acquisition of additional interests in a subsidiary has been included in cash flows as financing activities. This change has been applied retrospectively. Acquisition of additional interests in a subsidiary of HK$380,000 paid in 2009 has been reclassified from investing to financing activities in the consolidated statement of cash flows for consistent presentation.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which substantially all the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Amendments to HKAS 17 Leases (continued)

In accordance with the transitional provisions of HKAS 17 "Leases", the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases and found that the Improvements to HKFRS on HKAS 17 "Leases" had no effect on the consolidated financial statements of the Group.

HKAS 24 (as revised in 2009) Related party disclosures

Paragraphs 25 to 27 of HKAS 24 (as revised in 2009) "Related party disclosures" exempt certain disclosures in relation to the government-related entities. The Group has applied this disclosure exemption in the consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective except for partial exemption from disclosure requirements for government-related entities in accordance with HKAS 24 (as revised in 2009) "Related party disclosures".

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets[2]
HKFRS 9	Financial instruments[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
HKAS 24 (as revised in 2009)	Related party disclosures[5]
HKAS 32 (Amendments)	Classification of rights issues[6]
HK(IFRIC) — INT 14 (Amendments)	Prepayments of a minimum funding requirement[5]
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments[7]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2011.
3 Effective for annual periods beginning on or after 1 January 2013.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 February 2010.
7 Effective for annual periods beginning on or after 1 July 2010.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability´s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of HKFRS 9 will affect the classification and measurement of the Group's available-for-sale investment and may affect the classification and measurement of other financial assets.

The amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties located in the PRC that are measured using the fair value model. If the presumption under the amendments is not rebutted, the deferred tax liability relating to the revaluation of investment properties may increase as the land appreciation tax rate of the PRC is higher than the tax rate currently used by the Group to calculate the deferred tax recognised for investment properties.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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 by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 and up to the effective date of disposal, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted (i.e. the non-controlling interests share of recognised identifiable net assets at the date of acquisition) and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Joint ventures

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the statement of financial position of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified 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.

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 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 to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified 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 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loans receivable, pledged bank deposits, amounts due from subsidiaries and bank balance 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, 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.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to 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 the end of the reporting period. 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 affected.

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
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, 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 loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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 other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

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 subsidiaries, amount due to an associate, obligations under a finance lease, secured bank loans and other loan are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. Obligation is considered discharged upon the fulfilment of repayment terms specified in a debt restructuring deed entered into with the lender. The amount of debts waived is recognised as income in profit or loss. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 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 other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under construction for future owner-occupied purpose

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure except those properties transferred from property, plant and equipment due to change of usage as evidenced by the end of owner occupation, which are measured at fair value upon transfer. 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.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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 profit or loss in the period 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 profit or loss on a straight line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under a finance lease.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenses

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 listed above. 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.

Inventories

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

Impairment

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 costs

Payments to defined contribution retirement benefit schemes including Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which those 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 is the key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Allowance for trade and loans receivable

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, further impairment loss may arise. The management closely monitors the settlement status of trade and loans receivables (as described in notes 24 and 25) and will strengthen its effort to chase the debts and thus considers that the trade receivables with carrying amount of HK$357,135,000 (2009: HK$266,838,000) are recoverable due to its good credit quality and loans receivable that are past due of HK$70,269,000 (2009: HK$70,269,000) are recoverable in view of the fair value of assets under pledged for the loans receivable and the amounts of subsequent settlements.

Allowances for inventories

The management of the Group reviews an aged analysis at the end of each reporting period, 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. The amount of allowance would be changed as a result of changes in current market conditions subsequently (see Note 10).

Investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions and assumptions made on the investment properties, including:

- comparable market transactions with adjustments to reflect different locations or conditions; and

- comparable market rents and transactions, occupancy rate, discount rate and cost to be expended to complete the development of investment properties under construction.

In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation is reflective of the current market conditions and current development of the investment properties. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. TURNOVER

Turnover represents the gross invoiced amount of sales of goods, less discounts and sales related taxes, and rental income as follows:

	2010	2009
	HK$'000	HK$'000
Sales of goods	**1,866,696**	1,349,114
Rental income	**13,049**	11,931
	1,879,745	1,361,045

6. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the President, the chief operating decision maker of the Group, that are used to make strategic decisions. The management has identified the following operating segments: Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and the related industrial property investment), Aerospace and Aerospace Service (including the Shenzhen Aerospace Science & Technology Plaza of property investment project and the Hainan Launching Site Complex Zone of land development project) which represents the major industries the Group engaged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION (continued)

(a) An analysis of the Group's turnover and results by operating and reportable segments is as follows:

For the year ended 31 December 2010

	Turnover			
	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	650,770	79,748	730,518	65,310
Liquid crystal display	343,391	—	343,391	11,717
Printed circuit boards	395,616	—	395,616	95,116
Intelligent chargers	476,919	—	476,919	35,348
Industrial property investment	11,825	13,074	24,899	8,340
	1,878,521	92,822	1,971,343	215,831
Aerospace and Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	177,080
Land development in Hainan Launching Site Complex Zone	—	—	—	(14,800)
	—	—	—	162,280
Reportable segment total	1,878,521	92,822	1,971,343	378,111
Elimination	—	(92,822)	(92,822)	—
Other Business	1,224	—	1,224	(2,170)
	1,879,745	—	1,879,745	375,941
Unallocated corporate income				66,750
Unallocated corporate expenses				(46,957)
				395,734
Reversal of impairment loss recognised in respect of loans receivable				24,419
Share of results of jointly controlled entities				58
Finance costs				(747)
Profit before taxation				419,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION (continued)

(a) An analysis of the Group's turnover and results by operating and reportable segments is as follows: (continued)

For the year ended 31 December 2009

	Turnover			
	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	537,052	44,152	581,204	60,497
Liquid crystal display	244,663	—	244,663	9,733
Printed circuit boards	273,032	—	273,032	43,983
Intelligent chargers	294,367	—	294,367	28,829
Industrial property investment	11,818	12,680	24,498	14,537
	1,360,932	56,832	1,417,764	157,579
Aerospace and Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	501,212
Land development in Hainan Launching Site Complex Zone	—	—	—	(5,888)
	—	—	—	495,324
Reportable segment total	1,360,932	56,832	1,417,764	652,903
Elimination	—	(56,832)	(56,832)	—
Other Business	113	—	113	(19,252)
	1,361,045	—	1,361,045	633,651
Unallocated corporate income				19,568
Unallocated corporate expenses				(43,501)
				609,718
Reversal of impairment loss recognised in respect of loans receivable				24,929
Gain on disposal of a subsidiary				43,551
Gain on deregistration of a subsidiary				1,148
Discount on acquisition of additional interests in a subsidiary				3,176
Share of results of jointly controlled entities				264
Finance costs				(1,898)
Profit before taxation				680,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION (continued)

(a) An analysis of the Group's turnover and results by operating and reportable segments is as follows: (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represents the profit/loss earned/incurred by each segment without allocation of interest income, change in fair value of financial assets at fair value through profit or loss, reversal of impairment loss recognised on loans receivable, share of results of jointly controlled entities, interest expenses and other corporate income and corporate expenses. This is the measure reported to the President for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at cost-plus basis.

(b) The following is an analysis of the Group's assets and liabilities by operating segment:

	31.12.2010 HK$'000	31.12.2009 HK$'000
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	**550,625**	421,530
Liquid crystal display	**293,625**	265,745
Printed circuit boards	**202,459**	173,546
Intelligent chargers	**233,696**	184,740
Industrial property investment	**198,224**	184,362
	1,478,629	1,229,923
Aerospace and Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	**1,427,219**	1,091,916
Land development in Hainan Launching Site Complex Zone	**227,222**	48,392
	1,654,441	1,140,308
Total assets for reportable segments	**3,133,070**	2,370,231
Other Business	**90,703**	55,389
Available-for-sale investments	**173,040**	194,012
Interests in jointly controlled entities	**61,746**	61,409
Loans receivable	**70,269**	70,269
Unallocated assets	**1,545,715**	1,373,770
Consolidated assets	**5,074,543**	4,125,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION (continued)

(b) The following is an analysis of the Group's assets and liabilities by operating segment: (continued)

	31.12.2010	31.12.2009
	HK$'000	HK$'000
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	**179,080**	150,287
Liquid crystal display	**42,178**	26,116
Printed circuit boards	**81,943**	63,577
Intelligent chargers	**90,623**	75,460
Industrial property investment	**8,854**	5,663
	402,678	321,103
Aerospace and Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	**18,099**	251
Land development in Hainan Launching Site Complex Zone	**823**	1,013
	18,922	1,264
Total liabilities for reportable segments	**421,600**	322,367
Other Business	**1,440**	1,802
Unallocated liabilities	**528,739**	569,027
Consolidated liabilities	**951,779**	893,196

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, pledged bank deposits, financial assets at fair value through profit or loss, tax recoverable and the other unallocated assets; and

- all liabilities are allocated to operating segments other than taxation, deferred taxation, other loan, obligations under a finance lease, bank loans and the other unallocated liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION (continued)

(c) Other segment information

2010

	Capital additions HK$'000	Depreciation HK$'000	Fair value gain on investment properties HK$'000	Loss on disposal of property, plant and equipment HK$'000
Hi-Tech manufacturing business				
Plastic products	24,318	16,814	—	3
Liquid crystal display	6,874	9,900	—	—
Printed circuit boards	10,717	18,584	—	—
Intelligent chargers	3,383	4,996	—	—
Industrial property investment	3,729	10,628	7,357	—
	49,021	60,922	7,357	3
Aerospace and Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	96,221	502	183,645	—
Land development in Hainan Launching Site Complex Zone	1,649	885	—	—
	97,870	1,387	183,645	—
Segment total	146,891	62,309	191,002	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. SEGMENT INFORMATION (continued)

(c) Other segment information (continued)

2009

	Capital additions HK$'000	Depreciation HK$'000	Fair value gain on investment properties HK$'000	Gain on disposal of property, plant and equipment HK$'000
Hi-Tech manufacturing business				
Plastic products	19,162	16,200	—	—
Liquid crystal display	1,711	9,350	—	—
Printed circuit boards	6,824	18,865	—	3
Intelligent chargers	2,395	5,305	—	—
Industrial property investment	9,639	8,602	9,008	—
	39,731	58,322	9,008	3
Aerospace and Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	18,206	435	505,712	—
Land development in Hainan Launching Site Complex Zone	22,826	332	—	—
	41,032	767	505,712	—
Segment total	80,763	59,089	514,720	3

(d) Geographical information

The Group operates in three principal geographical areas — Hong Kong, the PRC and Canada.

The Group's revenue from external customers and information about its non-current assets (other than available-for-sale investments) by geographical location are detailed below:

	Revenue from external customers		**Non-current assets**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Hong Kong	**1,544,400**	1,081,597	**204,518**	157,004
The PRC	**335,273**	279,335	**2,435,241**	1,886,913
Canada	**72**	113	**57,097**	55,389
	1,879,745	1,361,045	**2,696,856**	2,099,306

No individual customer of the Group has contributed sales over 10% of the turnover of the Group for each of the year ended 31 December 2010 or 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	2010 **HK$'000**	2009 HK$'000
The Group's other income mainly comprises:		
Waiver of debts *(Note)*	**31,063**	—
Bank interest income	**11,082**	12,447
The Group's other gains and losses comprise:		
Reversal of impairment loss recognised in respect of loans receivable *(Note 25)*	**24,419**	24,929
Net exchange gain (loss)	**11,186**	(4,184)
Reversal of allowance (allowance for) doubtful trade debts	**8,256**	(5,142)
(Loss) gain on deregistration of a subsidiary	**(2,921)**	1,148
(Loss) profit on disposal of property, plant and equipment	**(1,421)**	18
(Loss) gain from change in fair value of financial assets at fair value through profit or loss	**(448)**	6,174
Gain on disposal of a subsidiary *(Note 36)*	**—**	43,551
Discount on acquisition of additional interests in a subsidiary	**—**	3,176

Note: Being derecognition of financial liabilities upon the fulfilment of repayment terms specified in a debt restructuring deed entered into with a bank in prior years.

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 15 (2009: 13) directors were as follows:

	Rui Xiaowu HK$'000	Wu Zhuo HK$'000	Li Hongjun HK$'000	Jin Xuesheng HK$'000	Chen Xuechuan HK$'000	Shi Weiguo HK$'000	Chan Ching Har, Eliza HK$'000	Zhou Qingquan HK$'000	Chow Chan Lum, Charles HK$'000	Luo Zhenbang HK$'000	Wang Junyan HK$'000	Zhao Liqiang* HK$'000	Wu Hongju* HK$'000	Guo Xianpeng* HK$'000	Xu Jianhua* HK$'000	2010 HK$'000
Directors' fees																
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	150	–	–	–	–	–	–	–	–	150
Independent non-executives	–	–	–	–	–	–	–	–	150	150	150	–	–	–	–	450
	–	–	–	–	–	–	150	–	150	150	150	–	–	–	–	600
Other emoluments																
Salaries and other benefits	15	10	1,006	1,308	30	25	60	1,127	110	110	60	766	388	388	388	5,791
Bonuses	–	–	1,194	763	–	–	–	944	–	–	–	259	310	310	247	4,027
	15	10	2,200	2,071	30	25	60	2,071	110	110	60	1,025	698	698	635	9,818
Total emoluments	15	10	2,200	2,071	30	25	210	2,071	260	260	210	1,025	698	698	635	10,418

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(a) Directors' emoluments (continued)

	Wu Zhuo HK$'000	Li Hongjun HK$'000	Jin Xuesheng HK$'000	Chen Xuechuan HK$'000	Chan Ching Har, Eliza HK$'000	Zhou Qingquan HK$'000	Chow Chan Lum, Charles HK$'000	Luo Zhenbang HK$'000	Wang Junyan HK$'000	Zhao Liqiang HK$'000	Wu Hongju HK$'000	Guo Xianpeng HK$'000	Xu Jianhua HK$'000	2009 HK$'000
Directors' fees														
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	150	–	–	–	–	–	–	–	–	150
Independent non-executives	–	–	–	–	–	–	150	150	150	–	–	–	–	450
	–	–	–	–	150	–	150	150	150	–	–	–	–	600
Other emoluments														
Salaries and other benefits	–	25	1,062	20	55	1,127	105	105	55	1,594	1,062	1,062	982	7,254
Bonuses	–	–	450	–	–	553	–	–	–	506	600	513	451	3,073
	–	25	1,512	20	55	1,680	105	105	55	2,100	1,662	1,575	1,433	10,327
Total emoluments	–	25	1,512	20	205	1,680	255	255	205	2,100	1,662	1,575	1,433	10,927

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

* Directors resigned in 2010

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included three directors (2009: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2009: two) highest paid individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	**1,213**	1,000
Bonuses *(Note)*	**2,305**	2,412
Contributions to retirement benefits scheme	**—**	12
	3,518	3,424

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

(b) Highest paid individuals' emoluments (continued)

The emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals 2010	2009
HK$1,500,001 to HK$2,000,000	**2**	2

During the year, no emoluments were paid by the Group to the 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

	2010 HK$'000	2009 HK$'000
Interest expenses on:		
— bank loans wholly repayable within five years	**685**	1,811
— finance lease charges	**62**	87
	747	1,898

10. PROFIT BEFORE TAXATION

	2010 HK$'000	2009 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Depreciation on		
— owned assets	**62,806**	62,441
— assets held under finance leases	**250**	250
Amortisation on prepaid lease payments	**1,081**	1,074
Auditors' remuneration		
— current year	**3,999**	4,080
— underprovision in prior year	**47**	157
Minimum lease payments under operating leases in respect of land and buildings	**8,230**	6,659
Research and development expenses	**17,681**	11,997
Staff costs, including directors' remuneration	**314,578**	234,926
Reversal of allowance for obsolete inventories (note)	**(4,753)**	(1,614)
Cost of inventories charged to profit or loss	**1,476,906**	1,022,049
Gross rental income	**(13,049)**	(11,931)
Less: Direct operating expenses from investment properties that generated rental income during the year	**1,275**	1,186
	(11,774)	(10,745)

Note: Cost of sales includes reversal of allowance for obsolete inventories of HK$4,753,000 (2009: HK$1,614,000) which were used in the production of finished goods sold in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. TAXATION

The tax charge for the year comprises:

	2010 HK$'000	2009 HK$'000
Current tax		
Hong Kong Profits Tax	**15,032**	9,519
PRC Enterprise Income Tax	**13,436**	11,112
	28,468	20,631
Under(over)provision in prior year		
Hong Kong Profits Tax	**254**	(2,256)
Deferred tax *(Note 33)*		
Current year	**46,613**	122,675
	75,335	141,050

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

	2010 HK$'000	2009 HK$'000
Profit before taxation	**419,464**	680,888
Tax at Hong Kong Profits Tax of 16.5% (2009: 16.5%)	**69,212**	112,347
Tax effect of share of results of jointly controlled entities	**(10)**	(44)
Tax effect of expenses not deductible for tax purposes	**1,155**	933
Tax effect of income not taxable for tax purpose	**(6,988)**	(3,028)
Tax effect of tax losses not recognised	**3,580**	—
Utilisation of tax losses previously not recognised	**(13,253)**	(14,850)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**19,949**	46,628
Under(over)provision in prior years	**254**	(2,256)
Others	**1,436**	1,320
Tax charge for the year	**75,335**	141,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. TAXATION (continued)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. For certain of the Company's subsidiaries situated in Shenzhen Special Economic Zone of the PRC, they were subject to a corporate income tax at a rate of 20% (2009: 18%) on its assessable profits arising in the PRC for the year, though the tax rate will gradually increase to 25% by 2012.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

12. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company for the year is based on the profit for the year attributable to owners of the Company of HK$292,478,000 (2009: HK$393,940,000) and on 3,017,412,000 weighted average number of shares (2009: 2,570,904,000 shares in issue) during the year.

13. DIVIDENDS

	2010 **HK$'000**	2009 HK$'000
Dividends recognised as distribution during the year:		
2009 final, paid — HK2 cents (2008 final dividend of : nil) per share	**61,700**	—

A final dividend of HK1 cent per share in respect of the year ended 31 December 2010 (2009: HK2 cents) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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	Plant and equipment	Motor vehicles, furniture and other equipment	Properties under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP							
COST							
At 1 January 2009	54,785	13,616	388,429	479,849	120,394	14,222	1,071,295
Exchange adjustments	—	—	—	—	16	—	16
Additions	—	—	30,786	13,038	23,311	—	67,135
Reclassifications	—	—	—	2,069	(2,069)	—	—
Reclassification from investment properties *(note b)*	22,090	—	—	—	—	—	22,090
Reclassification to investment properties *(note c)*	—	—	—	—	—	(14,222)	(14,222)
Disposals	—	—	—	(2,064)	(4,257)	—	(6,321)
Disposal of a subsidiary	—	—	—	—	(1,995)	—	(1,995)
At 31 December 2009	76,875	13,616	419,215	492,892	135,400	—	1,137,998
Exchange adjustments	—	403	21,896	21,778	4,452	—	48,529
Additions	—	—	4,350	31,973	16,905	—	53,228
Reclassifications	—	—	—	9,155	(9,155)	—	—
Surplus on revaluation *(note d)*	—	7,169	1,835	—	—	—	9,004
Reclassification to investment properties *(note d)*	—	(13,429)	(36,537)	—	—	—	(49,966)
Disposals	—	—	—	—	(8,294)	—	(8,294)
At 31 December 2010	76,875	7,759	410,759	555,798	139,308	—	1,190,499
DEPRECIATION AND IMPAIRMENT							
At 1 January 2009	26,243	990	113,061	222,056	63,861	—	426,211
Exchange adjustments	—	—	—	—	5	—	5
Charged for the year	685	207	9,625	38,620	13,554	—	62,691
Reclassification	—	—	—	35	(35)	—	—
Eliminated on disposals	—	—	—	(2,064)	(3,563)	—	(5,627)
Eliminated on disposal of a subsidiary	—	—	—	—	(546)	—	(546)
At 31 December 2009	26,928	1,197	122,686	258,647	73,276	—	482,734
Exchange adjustments	—	38	6,046	11,007	2,181	—	19,272
Charged for the year	1,984	208	9,114	41,698	10,052	—	63,056
Eliminated on disposals	—	—	—	—	(6,779)	—	(6,779)
Eliminated upon transfer to investment properties	—	(470)	(17,010)	—	—	—	(17,480)
At 31 December 2010	28,912	973	120,836	311,352	78,730	—	540,803
CARRYING VALUES							
At 31 December 2010	47,963	6,786	289,923	244,446	60,578	—	649,696
At 31 December 2009	49,947	12,419	296,529	234,245	62,124	—	655,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Motor vehicles, furniture and other equipment HK$'000
THE COMPANY	
COST	
At 1 January 2009	13,525
Additions	1,241
Disposals	(868)
At 31 December 2009	13,898
Additions	210
Disposals	(2,369)
At 31 December 2010	11,739
DEPRECIATION AND IMPAIRMENT	
At 1 January 2009	10,656
Provided for the year	1,818
Eliminated on disposals	(868)
At 31 December 2009	11,606
Provided for the year	922
Eliminated on disposals	(2,369)
At 31 December 2010	10,159
CARRYING VALUES	
At 31 December 2010	1,580
At 31 December 2009	2,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 construction 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%
Motor vehicle, furniture and other equipment	6%–25%

(b) During the year ended 31 December 2009, the Group transferred certain of its investment properties to owner-occupied property. At the date of transfer, the fair value of the investment properties was deemed to be the cost at transfer. The fair value of the property at the date of transfer to land and buildings was based on the valuation performed by Dudley Surveyors Limited, independent qualified professional valuers not connected with the Group, and have appropriate qualifications.

(c) Upon application of amendment to HKAS 40 during the year ended 31 December 2009, the Group's investment properties under construction that include the leasehold land and building elements with previous carrying amounts of HK$14,222,000 as at 1 January 2009 has been reclassified as investment properties on 1 January 2009 and measured at fair value as at 31 December 2009.

(d) During the year ended 31 December 2010, as the Group rented out certain of its leasehold properties at carrying amount of HK$23,482,000 included in property, plant and equipment to outsiders for rental income, these leasehold properties were transferred to investment properties, at their revalued amount of HK$32,486,000. The increase in fair value of HK$9,004,000 up to the date of transfer was recognised in equity under property revaluation reserve.

(e) The aggregate carrying values of the Group's motor vehicles, furniture and other equipment held under finance leases as at 31 December 2010 amounted to HK$2,279,600 (2009: HK$2,530,000).

15. PREPAID LEASE PAYMENTS

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
The Group's prepaid lease payments comprise leasehold land in the PRC held under medium-term leases and are analysed for reporting purposes as:		
Current portion	**1,733**	1,660
Non-current portion	**45,746**	43,006
	47,479	44,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. INVESTMENT PROPERTIES

	Investment properties HK$'000	Investment properties under construction HK$'000	Total HK$'000
FAIR VALUE			
At 1 January 2009	265,579	—	265,579
Exchange adjustment	8,790	—	8,790
Reclassified from property, plant and equipment *(Note 14)*	—	14,222	14,222
Reclassified to property, plant and equipment	(22,090)	—	(22,090)
Reclassified from prepaid lease payments	—	552,338	552,338
Construction costs incurred	—	17,297	17,297
Net (decrease) increase in fair value recognised in profit or loss	(14,372)	505,712	491,340
At 31 December 2009	237,907	1,089,569	1,327,476
Exchange adjustment	9,966	57,969	67,935
Reclassified from property, plant and equipment *(Note 14)*	32,486	—	32,486
Construction costs incurred	—	96,036	96,036
Disposals	(80)	—	(80)
Net increase in fair value recognised in profit or loss	6,350	183,645	189,995
At 31 December 2010	286,629	1,427,219	1,713,848

The carrying value of investment properties shown above comprises:

	2010 HK$'000	2009 HK$'000
Land in Hong Kong:		
Medium-term lease	**48,830**	44,055
Land outside Hong Kong:		
Freehold	**56,993**	55,295
Long lease	**14,059**	—
Medium-term lease	**1,593,966**	1,228,126
	1,713,848	1,327,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

16. INVESTMENT PROPERTIES (continued)

The fair values of the Group's investment properties at 31 December 2010 have been arrived at on the basis of valuations carried out on that date by Jones Lang LaSalle Sallmanns Limited ("Jones Lang") for properties situated in Hong Kong, Knight Frank Petty Limited ("Knight Frank") for properties situated in the PRC and Atkinson Appraisal Consultants Limited ("Atkinson") for properties situated overseas. Jones Lang, Knight Frank and Atkinson are independent qualified professional valuers not connected with the Group and are members of the Institute of Valuers. The valuation of investment properties was arrived at by reference to market evidence of transaction prices for similar properties. The valuation of investment properties under construction was arrived at by reference to market evidence of transaction prices for similar properties and by capitalisation of income potential of similar properties, on the basis that the properties will be developed and completed in accordance with the Group's latest development proposals, after taking into account of the estimated construction costs to completion to reflect the quality of the completed development and the restrictions imposed on the proposed development properties to lease or to sell to the third parties.

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

17. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**504,551**	796,908
Less: Impairment losses recognised	**(81,530)**	(308,838)
	423,021	488,070
Amounts due from subsidiaries	**942,186**	495,186

The impairment loss recognised mainly represents full impairment in investment cost of certain subsidiaries that have been inactive.

At 31 December 2010, the amounts due from subsidiaries are unsecured, interest free and will not be repayable within one year.

Particulars of the principal subsidiaries of the Company at 31 December 2010 are set out in Note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost of unlisted investments in associates	**3,603**	3,603	**3,603**	3,603
Share of post-acquisition profits, net of dividends received	**(3,603)**	(3,603)	**—**	—
Less: Impairment loss recognised	**—**	—	**(3,603)**	(3,603)
	—	—	**—**	—

Particulars of the associates of the Group at 31 December 2010 are set out in Note 45.

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:

	2010	2009
	HK$'000	HK$'000
Unrecognised share of results of associates for the year	**(213)**	(264)
Accumulated unrecognised share of losses of associates	**(12,587)**	(12,374)

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost of unlisted investments in jointly controlled entities	**88,531**	88,531	**15,000**	15,000
Share of other comprehensive income	**10,606**	10,327	**—**	—
Share of post-acquisition losses	**(37,391)**	(37,449)	**—**	—
	61,746	61,409	**15,000**	15,000

Particulars of the principal jointly controlled entities of the Group at 31 December 2010 are set out in Note 46.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

	CANW Group	
	2010	2009
	HK$'000	HK$'000
Non-current assets	**1,297**	1,390
Current assets	**61,039**	60,808
Current liabilities	**590**	789
Income	**674**	2,291
Expenses	**616**	2,027
Other comprehensive income	**279**	339

20. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Available-for-sale investments:		
— equity securities listed in Hong Kong	**87,360**	97,968
— unlisted equity securities outside Hong Kong	**85,680**	96,044
	173,040	194,012

The available-for-sale listed equity securities are held for an identified long term strategic purpose and are stated at fair value by reference to quoted bid price. The classification of the measurement of the available-for-sale listed equity securities amounting to HK$87,360,000 (2009: HK$97,968,000) at 31 December 2010 is Level 1 under the fair value hierarchy. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

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. The classification of the measurement of the available-for-sale unlisted equity securities amounting to HK$85,680,000 (2009: HK$96,044,000) at 31 December 2010 is Level 2 under the fair value hierarchy. Level 2 fair value measurements are those from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

21. PREPAYMENT FOR LAND DEVELOPMENT AND LAND DEVELOPMENT EXPENDITURE

Pursuant to a land development agreement entered into between the Group and the Wenchang Government on 20 August 2008 in relation to the land development in Hainan Launching Site Complex Zone ("Land Development Project"), the Group has prepaid HK$148,053,000 (2009: nil) at 31 December 2010 to Wenchang Government for the demolition and resettlement works carried out by Wenchang Government for the Land Development Project in accordance with expenditure requirement on the Land Development Project. Details of the Land Development Project are disclosed in the circular of the Company dated 10 September 2008.

The arrangement between the Wenchang Government and the Group for the above Land Development Project is considered as jointly controlled operations. The Wenchang Government provided the land for the Land Development Project and is responsible for the demolition and resettlement works while the expenses and costs incurred by the Wenchang Government on demolition and resettlement will be reimbursed by the Group. On the other hand, the Group will be responsible for the construction of basic infrastructure and arranging for or contribute all development costs required for the construction and development of for the Land Development Project. The revenues (after reimbursing the development costs and expenses incurred by the Group) from the sale of the land from the Land Development Project shall be shared between the Wenchang Government and CASIL Hainan Holdings Limited, an indirect wholly-owned subsidiary of the Company, in the ratio of 30%: 70%. Therefore, the Group will only record its cost incurred in the Land Development Project and 70% revenue earned from the Land Development Project in its financial statements.

Land development expenditure represents the development cost incurred in relation to the Land Development Project. As 31 December 2010, the Group has incurred HK$77,767,000 (2009: HK$12,151,000) in the planning and design, demolition and resettlement works in the Land Development Project.

22. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

The Group and the Company

The Group's bank deposits amounting to HK$43,529,000 (2009: HK$125,083,000) and the Company's bank deposits amounting to nil (2009: HK$110,560,000) have been pledged to secure bank loans and general banking facilities of the Group and are therefore classified as current assets. The bank deposits with an amount of HK$110,560,000 pledged to secure the Group's bank loans was released on the repayment of the bank loans during the year.

Bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.01% to 0.36% (2009: 0.01% and 1.8%) per annum at 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. INVENTORIES

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Raw materials	**78,134**	54,938
Work-in-progress	**57,044**	32,690
Finished goods	**56,807**	41,057
	191,985	128,685

24. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**381,377**	307,210	**—**	—
Less: Allowance for doubtful debts	**(24,242)**	(40,372)	**—**	—
	357,135	266,838	**—**	—
Other receivables, deposits and prepayments	**45,890**	22,180	**2,513**	4,465
	403,025	289,018	**2,513**	4,465

The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period:

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Within 90 days	**339,791**	255,506
Between 91–180 days	**17,344**	11,332
	357,135	266,838

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$17,344,000 (2009: HK$11,332,000) which are past due at the end of the reporting period 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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24. TRADE AND OTHER RECEIVABLES (continued)

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

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Age		
Overdue 1–90 days	**17,344**	11,332

Based on the historical experience of the Group, trade receivables aged within 180 days which are past due but not impaired are generally recoverable.

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

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
At 1 January	**40,372**	35,382
(Reversal of) allowance for doubtful debts	**(8,256)**	5,142
Amount written off as uncollectible	**(7,874)**	(152)
At 31 December	**24,242**	40,372

25. LOANS RECEIVABLE

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Fixed-rate loans receivable	**70,269**	70,269

Included in the carrying amount of loans receivable as at 31 December 2010 is an accumulated impairment loss of HK$206,797,000 (2009: HK$231,216,000).

The above amounts include a loan receivable from Chinluck Properties Limited 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:

			Carrying amount	
Amount	**Maturity date**	**Collateral**	**2010**	2009
			HK$'000	HK$'000
HK$71,887,000 loan receivable	14 January 2008	Certain properties	**70,269**	70,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. LOANS RECEIVABLE (continued)

The Group has reviewed the carrying amounts of loans receivable and reversed HK$24,419,000 (2009: HK$24,929,000) impairment loss recognised in respect of loans receivable during the year based on the amount recovered during the year. The management closely monitors the settlement status of loans receivables and will strengthen its effort to chase the debts and thus considers that the loans receivable that have past due of HK$70,269,000 (2009: HK$70,269,000) are recoverable in view of the fair value of assets under pledge for the loans receivable and the amounts of subsequent settlements.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Financial assets at fair value through profit or loss held for trading is analysed as follows:		
Equity securities		
— listed in Hong Kong	**1,246**	1,410
— listed in the PRC	**1,618**	1,516
	2,864	2,926

The fair value of listed securities is determined by the quoted market bid price available on the relevant exchange. The classification of the measurement of the listed equity securities amounting to HK$2,864,000 (2009: HK$2,926,000) at 31 December 2010 is Level 1 under the fair value hierarchy. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

27. AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

Other than HK$6,128,000 (2009: HK$6,128,000) due from certain subsidiaries and HK$7,500,000 (2009: HK$7,500,000) due to certain subsidiaries which bear interest at market rate, the amounts are unsecured, non-interest bearing and repayable on demand.

28. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**264,729**	218,740	**—**	—
Accrued charges	**98,082**	73,814	**14,086**	10,182
Other payables	**328,916**	273,256	**48,617**	48,819
	691,727	565,810	**62,703**	59,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Within 90 days	**248,877**	201,534
Between 91–180 days	**3,519**	4,227
Between 181–365 days	**849**	1,311
Over 1 year	**11,484**	11,668
	264,729	218,740

29. AMOUNT DUE TO AN ASSOCIATE

The Group and the Company

The amount due to an associate is of non-trade nature, unsecured, non-interest bearing and repayable on demand.

30. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**790**	750	**767**	730
In more than one year but not more than two years	**66**	780	**65**	730
In more than two years but not more than five years	**—**	118	**—**	102
Less: Future finance charges	**(24)**	(86)	**N/A**	N/A
Present value of lease obligations	**832**	1,562	**832**	1,562
Less: Amount due for settlement within one year shown under current liabilities			**(767)**	(730)
Amount due for settlement after one year			**65**	832

During the year, the Group leased certain of its plant and equipment under a finance lease. The average lease term is 3 years. Interest rate underlying all obligations under a finance lease is fixed at 5% at the contract date.

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For the year ended 31 December 2010

31. SECURED BANK LOANS

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Secured bank loans, amount due within one year	**—**	131,401

The secured bank loans carry interest at 1.25% per annum during the year 2009.

The Group has repaid the secured bank loans during the year and the related debts of HK$31,063,000 (Note 7) previously included in other payables also derecognised upon the fulfilment of repayment terms specified in a debt restructuring deed entered into with the bank in prior years. At 31 December 2009, the Group's certain investment properties, property, plant and equipment and bank deposits with aggregate carrying value of HK$3,350,000, HK$1,893,000 and HK$110,560,000 respectively, pledged for the Group's bank loans was released on the repayment of the bank loans.

32. OTHER LOAN

The Group

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

33. DEFERRED TAXATION

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

	Accelerated tax depreciation	**Revaluation of investment properties**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000 *(Note)*	HK$'000
The Group				
At 1 January 2009	3,254	6,052	(980)	8,326
(Credit) charge to profit or loss for the year	(97)	122,804	(32)	122,675
Exchange differences	—	762	—	762
At 31 December 2009	3,157	129,618	(1,012)	131,763
Charge to profit or loss for the year	491	46,122	—	46,613
Charge to property revaluation reserve	—	1,893	—	1,893
Exchange differences	—	7,503	—	7,503
At 31 December 2010	3,648	185,136	(1,012)	187,772

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. DEFERRED TAXATION (continued)

The Group (continued)

For the purpose of presentation in the consolidated statement of financial position, the above deferred tax assets and liabilities have been offset.

At 31 December 2010, the Group has unused tax losses of approximately HK$1,166 million (2009: HK$1,225 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. Included in the unrecognised tax losses, HK$1,143 million (2009: HK$1,208 million) may be carried forward indefinitely and the remaining balance will expire at various dates up to 2014.

Deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributable retained profits earned by the subsidiaries in the PRC amounting to HK$426 million (2009: HK$261 million) starting from 1 January 2008 under the EIT Law of the PRC that requires withholding tax upon the distribution of such profits to the non-PRC shareholders as the directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Company

At 31 December 2010, the Company had unused tax losses of approximately HK$89 million (2009: HK$59 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax loss due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.

34. SHARE CAPITAL

Authorised, issued and fully paid share capital

	Number of shares '000	Nominal value HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	100,000,000	10,000,000
Issued and fully paid:		
At 1 January 2009 and 1 January 2010	2,570,904	257,090
Issued of shares on placement *(Note)*	514,118	51,412
At 31 December 2010	3,085,022	308,502

Note: On 18 February 2010, the Company allotted and issued 514,118,000 ordinary shares of HK$0.10 each at a price of HK$1.13 per share as a result of the completion of the placing and subscription agreement in respect of a top-up placement of shares entered into among the Company, a substantial shareholder and a placing agent on 4 February 2010. All the shares which were issued during the period rank pari passu with the then existing shares in all aspects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. RESERVES

The Group and the Company

Share premium

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

35. RESERVES (continued)

The Group and the Company (continued)

Share premium (continued)

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

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

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

(3) the said overall aggregate limit in respect of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the 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 2010

35. RESERVES (continued)

The Company

	Share premium HK$'000	Special capital reserve HK$'000 *(note a)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2009	336,286	371,161	1,080	544,366	1,252,893
Profit for the year	—	—	—	28,320	28,320
Reversal of impairment loss recognised in respect of interests in a subsidiary	—	3,567	—	—	3,567
Reversal of allowance for amounts due from subsidiaries	—	256,249	—	—	256,249
Other comprehensive income for the year	—	259,816	—	—	259,816
Total comprehensive income for the year	—	259,816	—	28,320	288,136
At 31 December 2009	336,286	630,977	1,080	572,686	1,541,029
Profit for the year	—	—	—	133,301	133,301
Total comprehensive income for the year	—	—	—	133,301	133,301
Issue of shares in placing and subscription agreement	529,541	—	—	—	529,541
Expenses incurred in connection with issue of shares	(20,898)	—	—	—	(20,898)
Dividend recognised as distribution	—	—	—	(61,700)	(61,700)
At 31 December 2010	844,929	630,977	1,080	644,287	2,121,273

Notes:

(a) Under the terms of the court order in the reduction of the share premium on 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 on the investments will be transferred to a special capital reserve account until the amount of paid up share capital, share premium and the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisions stated in (3) and or (4) of this note. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.

(b) The Company's reserves available for distribution to shareholders as at 31 December 2010 comprised the retained profits of HK$644,287,000 (2009: HK$572,686,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2009, the Group disposed of its interests in a subsidiary which was engaged in property management.

The effect of the disposal of subsidiary for the year ended 31 December 2009 was summarised as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,449
Inventories	3,031
Trade and other receivables	2,701
Financial assets at fair value through profit or loss	1,903
Bank balances and cash	268,882
Trade and other payables	(44,502)
	233,464
Non-controlling interests	(46,693)
	186,771
Reclassification adjustment — translation reserve	(12,215)
Gain on disposal	43,551
Total consideration	218,107
Net cash outflow arising on disposal:	
Cash consideration	218,107
Bank balances and cash disposed of	(268,882)
	(50,775)

37. 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 net debt, which mainly includes the borrowings disclosed in Notes 31 and 32, net of cash and cash equivalent, and equity attributable to owners 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.

38. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Fair value through profit or loss				
Held for trading	**2,864**	2,926	**—**	—
Loans and receivables (including cash and cash equivalents)	**2,001,143**	1,687,703	**2,313,029**	1,505,519
Available-for-sale investments	**173,040**	194,012	**—**	—
Financial liabilities				
Amortised cost	**484,552**	593,597	**225,206**	212,189

b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, pledged bank deposits, trade and other receivables, loans receivable, financial assets at fair value through profit or loss, bank balances and cash, trade and other payables, amount due to an associate, obligations under a finance lease and other loan. 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.

The Company's major financial instruments include other receivables, amounts due from subsidiaries, pledged bank deposits, bank balances and cash, other payables, amounts due to subsidiaries and amount due to an associate. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. 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 and finance lease (see liquidity table below). The Group and the Company are also exposed to cash flow interest rate risk in relation to bank balance and pledged bank deposits. However, the management considered the risk is insignificant to the Group because the bank deposits have maturity dates within three months of 31 December 2010 and the deposit rates do not expect to fluctuate significantly during the year ended 31 December 2010.

Other price risk

The Group is exposed to equity price risk through its investments in listed and unlisted 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 manufacturing 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 financial assets at fair value through profit or loss had been 10% (2009: 10%) higher/lower, the Group's profit for the year ended 31 December 2010 would increase/decrease by HK$239,000 (2009: HK$244,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

If the prices of the available-for-sale investments had been 10% higher/lower, the Group's investment valuation reserve would increase/decrease by HK$17,304,000 (2009: HK$19,401,000) as a result of the changes in fair value of available-for-sale investments for the year ended 31 December 2010.

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 is not exposed to significant foreign currency risk as majority of its transactions are denominated in Hong Kong dollars and Renminbi ("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 end of the reporting period. The Company is exposed to foreign currency risk as certain amounts due from/to 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 2010

38. 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 at the reporting date, are as follows:

	Assets		**Liabilities**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE COMPANY				
RMB	**607,682**	586,090	**42,573**	41,076

Sensitivity analysis

The sensitivity analyses below details the Company's sensitivity to a 5% (2009: 1%) increase and decrease in Hong Kong dollars against RMB. 5% (2009: 1%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. A higher percentage is adopted in the sensitivity analysis in current period with reference to the fluctuation of RMB against Hong Kong dollars during the period.

The sensitivity analysis includes amounts due from/to subsidiaries denominated in RMB.

	Increase (decrease) in profit after taxation
	HK$'000
2010	
— if Hong Kong dollars weaken against RMB	**23,593**
— if Hong Kong dollars strengthen against RMB	**(23,593)**
2009	
— if Hong Kong dollars weaken against RMB	5,450
— if Hong Kong dollars strengthen against RMB	(5,450)

The resulting amounts above are mainly attributable to the exposure outstanding on amounts due from/to subsidiaries at the end of the reporting period.

The Group had the same foreign currency risk exposure arising in the amounts due from/to subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. 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 2010 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position.

The Company's credit risk is primarily attributable to other receivables, amounts due from subsidiaries and bank balance.

Other receivables and amounts due from subsidiaries which are in good credit quality. In addition, regular reviews on aging and recoverability are performed by the management of the Company to ensure that adequate impairment losses, if any, are made for irrecoverable amounts.

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 the end of the reporting period 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 25) 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.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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 2010

38. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average interest rate	On demand and less than 1 month	1 month to 1 year	1–5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
At 31 December 2010						
Financial liabilities						
Non-interest bearing	**–**	**230,475**	**253,245**	**–**	**483,720**	**483,720**
Finance lease	**5**	**64**	**726**	**66**	**856**	**832**
		230,539	**253,971**	**66**	**484,576**	**484,552**
At 31 December 2009						
Financial liabilities						
Non-interest bearing	–	196,428	264,206	–	460,634	460,634
Bank loans	1.25	–	132,873	–	132,873	131,401
Finance lease	5	64	686	898	1,648	1,562
		196,492	397,765	898	595,155	593,597

	Weighted average interest rate	On demand and less than 1 month	1 month to 1 year	1–5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE COMPANY						
At 31 December 2010						
Financial liabilities						
Non-interest bearing	**–**	**225,206**	**–**	**–**	**225,206**	**225,206**
At 31 December 2009						
Financial liabilities						
Non-interest bearing	–	212,189	–	–	212,189	212,189
Financial guarantee contracts *(note)*	–	131,401	–	–	131,401	–
		343,590	–	–	343,590	212,189

Note: The amounts included above for financial guarantee contracts were the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period of 31 December 2009, the Group considered that it was more likely than not that no amount would be payable under that arrangement. However this estimate was subject to change depending on the probability of the counterparty claiming under the guarantee which was a function of the likelihood that the financial receivables held by the counterparty which were guaranteed suffer credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

38. FINANCIAL INSTRUMENTS (continued)

c. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices;
- the fair value of unlisted equity securities is measured by reference to those quoted bid price of the underlying listed equity securities held by the unlisted private entities; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The classification of the Group's financial assets at 31 December 2010 and 2009 using the fair value hierarchy is Levels 1 and 2 (see Notes 20 and 26). 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.

39. CONTINGENT LIABILITIES

	THE COMPANY	
	2010	2009
	HK$'000	HK$'000
Guarantees given to banks, in respect of banking facilities granted to a subsidiary		
— amount guaranteed and utilised	**–**	131,401

No financial liabilities were recorded as, in the opinion of the directors, the fair values of the financial guarantee contracts were not significant.

40. COMMITMENTS

	THE GROUP	
	2010	2009
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respected of:		
— acquisition of property, plant and equipment	**14,281**	6,023
— properties under construction	**48,556**	16,914
	62,837	22,937
Capital expenditure authorised but not contracted for		
— properties under construction	**1,727,669**	1,377,000

At 31 December 2010, the Group has committed investment of approximately HK$1,189,000,000 (2009: HK$1,348,393,000) for the Hainan Launching Site Complex Zone project in Wenchang City, Hainan Province as detailed in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

41. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**10,136**	8,675	**2,593**	2,771
In the second to fifth year inclusive	**18,249**	21,707	**1,298**	3,891
Over five years	**30,928**	31,586	**—**	—
	59,313	61,968	**3,891**	6,662

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 two to thirty years.

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated and rentals are fixed for an average term of 2 years.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2010	2009
	HK$'000	HK$'000
Within one year	**5,861**	5,802
In the second to fifth year inclusive	**5,137**	4,784
	10,998	10,586

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

42. 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, limit to HK$12,000 (2009: HK$12,000) per annum per staff.

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$7,085,000 (2009: HK$6,892,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

43. RELATED PARTY TRANSACTIONS

Balances of related parties of the Company have been disclosed in respective notes. In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following related party transactions.

The Company is significantly influenced by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities"). The Group itself is part of a larger group of companies under China Aerospace Science & Technology Corporation ("CASC") (CASC and its subsidiaries are referred to as the "CASC Group") which is controlled by the PRC government. CASC is a substantial shareholder of the Company and has ability to exercise significant influence to the operations of the Group.

Transactions with the CASC Group

During the year, the Group acquired an additional 35% equity interest in Hainan Aerospace at a consideration of RMB45,583,400 (equivalent to approximately HK$52,446,000) from 航天時代置業發展有限公司, a subsidiary of CASC.

Apart from the transactions with CASC Group which have been disclosed above, the Group also conducts business with other government-related entities.

The Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are government-related entities in its ordinary course of business. Other than the repayment of bank loan (Note 31) and waiver of debts (Note 7) upon the fulfilment of repayment terms specified in a debt restructuring deed with a bank controlled by government-related entities, other operating expenses and transactions with other government-related entities are individually insignificant. The directors consider those government-related entities other than the CASC Group are independent third parties as far as the Group's business transactions with them are concerned.

Compensation of key management personnel

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2010 and 2009 are as follows:

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 Company %	Principal activities
Incorporated and operating in Hong Kong:					
CASIL Clearing Limited	HK$10,000,000	100	–	100	Provision of treasury services
CASIL Hainan Holdings Limited	HK$1	–	100	100	Investment holding
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
China Aerospace Industrial Limited	HK$1,000,000	100	–	100	Investment holding and property investment
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

44. 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 Company %	Principal activities
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Sinolike Investments Limited	US$1	100	–	100	Investment holding
Registered and operating in the PRC:					
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) 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
東莞康源電子有限公司#	HK$150,000,000	–	100	100	Manufacturing of printed circuit boards
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
Shenzhen Chee Yuen Plastics Company Limited##	RMB22,000,000	–	100	100	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
深圳市航天高科投資管理有限公司##	RMB700,000,000	–	60	60	Property investment
海南航天投資管理有限公司Δ#	RMB120,000,000	–	100	100	Land development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Wholly foreign-owned enterprises registered in the PRC
Sino-foreign joint equity enterprises registered in the PRC
Δ Additional interest was acquired during 2010.

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.

45. PARTICULARS OF ASSOCIATES

Details of the Group's associates at 31 December 2010 and 2009 are as follows:

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

46. PARTICULARS OF A PRINCIPAL JOINTLY CONTROLLED ENTITY

Details of the Group's principal jointly controlled entity at 31 December 2010 and 2009 are as follows:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

47. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2011, 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-tech Investment Management Company Limited), a subsidiary of the Company, entered into a syndication loan agreement and a supplemental agreement in respect of a 5-year term loan in the amount of RMB1.5 billion with the Finance Syndicate for the construction cost of the Shenzhen Aerospace Science & Technology Plaza. Pursuant to the terms of the syndication loan agreement, Shenzhen Aerospace is required to pledge the land use right of a parcel of land in Shenzhen to the Finance Syndicate as security. As one of the members of the Finance Syndicate, 航天科技財務有限責任公司 (Aerospace Science & Technology Finance Company Limited), is a connected person of the Company, the provision of security to the connected person by Shenzhen Aerospace constitutes a major and connected transaction of the Company and is subject to the Independent Shareholders' approval at the Extraordinary General Meeting to be held on 25 March 2011. CASC and its associates shall abstain from voting on the resolution related to the connected transaction.

On 23 January 2011, Shenzhen Aerospace entered into a main contractor contract with 中國建築股份有限公司 (China State Construction Engineering Corporation Limited) for the construction of the main structure of the Shenzhen Aerospace Science & Technology Plaza at a consideration of RMB931,996,000 (equivalent to approximately HK$1,099,700,000). The entering into the main contractor contract by Shenzhen Aerospace constitutes a major transaction of the Company and is subject to the Shareholders' approval at the Extraordinary General Meeting to be held on 25 March 2011.

APPENDIX I FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,879,745**	1,361,045	1,707,919	1,681,854	1,528,101
Profit before taxation	**419,464**	680,888	153,777	356,380	141,846
Taxation	**(75,335)**	(141,050)	(12,524)	(45,986)	(26,784)
Profit for the year	**344,129**	539,838	141,253	310,394	115,062
Attributable to:					
Owners of the Company	**292,478**	393,940	144,596	310,037	110,966
Non-controlling interests	**51,651**	145,898	(3,343)	357	4,096
	344,129	539,838	141,253	310,394	115,062

ASSETS AND LIABILITIES

	At 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,869,896**	2,293,318	1,707,564	1,212,880	1,132,296
Current assets	**2,204,647**	1,831,762	1,543,889	1,795,156	1,154,182
Current liabilities	**(763,942)**	(760,601)	(628,087)	(748,239)	(824,418)
Non-current liabilities	**(187,837)**	(132,595)	(139,727)	(178,744)	(189,061)
Shareholders' funds	**4,122,764**	3,231,884	2,483,639	2,081,053	1,272,999
Attributable to:					
Owners of the Company	**3,550,532**	2,690,430	2,149,954	2,001,606	1,220,412
Non-controlling interests	**572,232**	541,454	333,685	79,447	52,587
	4,122,764	3,231,884	2,483,639	2,081,053	1,272,999

APPENDIX II INVESTMENT PROPERTIES

Location	Lot number	Existing use	Approximate gross floor area/ site area (sq. m)	Group's interest (%)
MEDIUM TERM LEASES IN HONG KONG				
Units 402, 405 to 407 on 4th Floor the whole of 17th Floor 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	3,290	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
MEDIUM TERM LEASES IN THE PRC				
China Aerospace Industrial Estate Zhong Kai Development Zone Huizhou City Guangdong Province China	—	Industrial	118,867	90
South of Bin Hai Avenue and the East of Hou Hai Bin Road Nanshan District Shenzhen Guangdong Province China	—	Under development	12,619	60
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
LONG TERM LEASEHOLD IN THE PRC				
Level 8, Zhong Hai Building Zhong Hai Hua Ting North Zone No. 399 Fu Hua Road Futian District Shenzhen Guangdong Province China	—	Office	1,043	100