



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

Stock Code: 1185

INTERIM REPORT
2006

* the Chinese name of the Company is for reference only

CONTENTS

	Page
Corporate Information	2
Independent Interim Review Report	4
Condensed Consolidated Financial Statements	
Condensed Consolidated Income Statement	6
Condensed Consolidated Balance Sheet	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Cash Flow Statement	9
Notes to the Condensed Consolidated Financial Statements	10
Management Discussion and Analysis	20
Additional Information	24

CORPORATE INFORMATION

Board of Directors

Non-Executive Directors

Mr. Wu Yansheng (*Chairman*)

Mr. Liang Xiaohong (*Vice-chairman*)

Mr. Tang Guohong

Executive Directors

Mr. Han Shuwang (*Vice-chairman*)

Mr. Wang Xiaodong

Mr. Li Guang

Independent Non-executive Directors

Mr. Yiu Ying Wai

Mr. Wong Fai, Philip

Mr. Zhu Shixiong

Mr. Moh Kwen Yung

Audit Committee

Mr. Yiu Ying Wai (*Chairman*)

Mr. Wong Fai, Philip

Mr. Zhu Shixiong

Mr. Moh Kwen Yung

Remuneration Committee

Mr. Wu Yansheng (*Chairman*)

Mr. Wong Fai, Philip

Mr. Yiu Ying Wai

Development and Investment Committee

Mr. Liang Xiaohong (*Chairman*)

Mr. Han Shuwang

Mr. Wang Xiaodong

Mr. Tang Guohong

Mr. Wong Fai, Philip

Company Secretary

Mr. Au-Yeung Keung Steve

Registered Office

Ugland House

South Church Street

P.O. Box 309, George Town

Grand Cayman, Cayman Islands

British West Indies

CORPORATE INFORMATION

Principal Place of Business	Suite 4701, 47th Floor Central Plaza 18 Harbour Road Wanchai Hong Kong
Auditors	Deloitte Touche Tohmatsu 35/F One Pacific Place 88 Queenway Hong Kong
Share Registrar	Standard Registrars Limited Share Registration Public Office 26/F, Tesbury Centre 28 Queen's Road East Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited DBS Bank (Hong Kong) Limited Hang Seng Bank Limited The Hongkong and Shanghai Banking Corporation Limited
Legal Advisers	Richards Butler Sit, Fung, Kwong & Shum Maples and Calder
Website	www.castelecom.com
Email Address	castel@castelecom.com
Stock Code	1185

INDEPENDENT INTERIM REVIEW REPORT

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Plaza
88 Queensway

TO THE BOARD OF DIRECTORS OF
CASIL TELECOMMUNICATIONS HOLDINGS LIMITED

INTRODUCTION

We have been instructed by CASIL Telecommunications Holdings Limited to review the interim financial report set out on pages 6 to 19.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT INTERIM REVIEW REPORT

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21 September 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		1.1.2006	1.1.2005
		to	to
		30.6.2006	30.6.2005
	NOTE	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	54,280	97,321
Cost of sales		(39,032)	(62,843)
Gross profit		15,248	34,478
Other income		2,025	2,038
Distribution costs		(6,797)	(4,277)
Administrative expenses		(27,360)	(28,719)
Reversal of allowance for amount due from an associate		10,019	—
Finance costs	4	(3,198)	(2,618)
Share of results of associates		(135)	(139)
(Loss) profit before taxation	5	(10,198)	763
Taxation	6	78	(143)
(Loss) profit for the period		(10,120)	620
Attributable to:			
Equity holders of the Company		(9,778)	287
Minority interests		(342)	333
		(10,120)	620
		HK cent	HK cent
(Loss) earnings per share — Basic	8	(0.96)	0.03

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	NOTE	30.6.2006 HK\$'000 (Unaudited)	31.12.2005 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	54,329	54,432
Goodwill		1,607	1,607
Intangible assets		31,296	33,634
Interests in associates		20,415	8,650
		107,647	98,323
Current assets			
Inventories		58,977	48,808
Trade and other receivables	10	146,856	165,873
Amounts due from related companies	15(b)	15,291	15,291
Amounts due from associates	15(b)	12,315	323
Pledged bank deposits		2,095	1,351
Bank balances and cash		17,298	22,387
		252,832	254,033
Current liabilities			
Trade and other payables	11	98,914	85,385
Amounts due to related companies	15(b)	4,407	4,407
Amount due to an associate	15(b)	44	—
Taxation payable		342	65
Borrowings — amount due within one year	15(c)	99,512	98,998
		203,219	188,855
Net current assets		49,613	65,178
Total assets less current liabilities		157,260	163,501
Non-current liabilities			
Borrowings — amount due after one year		10,981	6,654
Deferred taxation		1,769	2,217
		12,750	8,871
Net assets		144,510	154,630
Capital and reserves			
Share capital		101,714	101,714
Reserves		40,505	50,283
Equity attributable to equity holders of the Company		142,219	151,997
Minority interests		2,291	2,633
Total equity		144,510	154,630

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to the equity holders of the Company								Total
	Share capital	Special reserve	Share premium account	Exchange reserve	General reserve	Accumulated losses	Total	Minority interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	101,714	117,554	473,093	829	3,430	(516,074)	180,546	796	181,342
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	1,232	—	—	1,232	7	1,239
Loss for the year	—	—	—	—	—	(29,781)	(29,781)	417	(29,364)
Total recognised income (expense) for the year	—	—	—	1,232	—	(29,781)	(28,549)	424	(28,125)
Capital contribution from minority shareholders	—	—	—	—	—	—	—	1,413	1,413
At 31 December 2005 and at 1 January 2006	101,714	117,554	473,093	2,061	3,430	(545,855)	151,997	2,633	154,630
Loss for the period and total recognised expense for the period	—	—	—	—	—	(9,778)	(9,778)	(342)	(10,120)
At 30 June 2006	101,714	117,554	473,093	2,061	3,430	(555,633)	142,219	2,291	144,510
At 1 January 2005	101,714	117,554	473,093	829	3,430	(516,074)	180,546	796	181,342
Profit for the period and total recognised income for the period	—	—	—	—	—	287	287	333	620
At 30 June 2005	101,714	117,554	473,093	829	3,430	(515,787)	180,333	1,129	181,962

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	1.1.2006	1.1.2005
	to	to
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	8,728	(4,648)
Net cash used in investing activities		
Investment in associates	(10,920)	—
Purchase of property, plant and equipment	(5,767)	(2,648)
Other investing cash flows	(780)	(2,116)
	(17,467)	(4,764)
Net cash from (used in) financing activities		
Net cash flow from borrowings	3,857	(228)
Other financing cash flows	(207)	(1,634)
	3,650	(1,862)
Net decrease in cash and cash equivalents	(5,089)	(11,274)
Cash and cash equivalents at beginning of the period	22,387	37,616
Cash and cash equivalents at end of the period, representing bank balances and cash	17,298	26,342

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. SEGMENT INFORMATION

Business segments

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

Six months ended 30 June 2006

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Six months ended 30 June 2005

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

4. FINANCE COSTS

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

5. (LOSS) PROFIT BEFORE TAXATION

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

Notes:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

6. TAXATION

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

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

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

7. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

8. (LOSS) EARNINGS PER SHARE — BASIC

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

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$5,767,000 (1.1.2005 to 30.6.2005: HK\$2,648,000) on acquisition of property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$132,926,000 (31.12.2005: HK\$155,577,000). The Group allows credit periods ranging from 45 to 180 days to its customers for sales of goods. At the discretion of the directors, several major customers were allowed to settle their balances beyond credit terms up to one year. The average credit period of one year will be given to customers for revenue from service contracts. The following is an aged analysis of trade receivables:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Within 30 days	7,659	37,642
Between 31 and 90 days	5,857	21,741
Between 91 and 180 days	14,109	77,649
Between 181 and 365 days	27,490	7,647
Over 1 year	77,811	10,898
	132,926	155,577

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$17,839,000 (31.12.2005: HK\$31,023,000). The following is an aged analysis of trade payables:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Within 30 days	3,936	14,641
Between 31 and 90 days	5,918	8,651
Between 91 and 180 days	701	1,753
Between 181 and 365 days	3,505	1,120
Over 1 year	3,779	4,858
	17,839	31,023

12. DISPOSAL OF A SUBSIDIARY

During the six months ended 30 June 2006, CASTEL Qihua Hi-Tech Investments Limited ("CASTEL Qihua"), a subsidiary of the Company, entered into agreements with Concord Pacific Satellite Technologies Limited ("Concord Pacific"), an independent third party, under which Concord Pacific agreed to invest HK\$2,000,000 directly in CASTEL Spaceinet (Hong Kong) Communications Limited ("Spaceinet HK") directly and that Spaceinet HK would allot 1,020,000 shares to Concord Pacific and 979,998 shares to CASTEL Qihua respectively. Spaceinet HK became an associate of the Group upon the completion of the transaction. Spaceinet was engaged in the development, distribution and installation of Global Positioning System application and related product and a gain on disposal of HK\$980,000 was recognised.

	HK\$'000
Net assets disposed of	—
Gain on disposal	980
Total consideration	980
Satisfied by:	
Interest in an associate	980

Spaceinet HK did not make any significant contribution to the results and cash flows of the Group during the six months ended 30 June 2006.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

13. PLEDGE OF ASSETS

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

14. CAPITAL COMMITMENTS

At 30 June 2006, the Group was committed to capital expenditure of approximately HK\$98,205,000 (31.12.2005: HK\$108,000,000) for the establishment of two Sino-foreign joint ventures to engage in wind power generation in the PRC. Both Sino-foreign joint ventures will be owned as to 25% by the Group.

In addition, the Group was also committed to capital expenditure of approximately HK\$36,077,000 (31.12.2005: nil) for the building maintenance and operation of wind energy plants and facilities in the Liaoning Province of the PRC. The joint venture will be owned as to 40% by the Group.

15. RELATED PARTY TRANSACTIONS

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

	1.1.2006	1.1.2005
	to	to
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Sales of goods to associates	—	151
Purchases of goods from associates	—	16,402

(b) The balances with associates and related companies were unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

15. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) Included in borrowings was a loan from a wholly owned subsidiary of a shareholder of the Company amounting to HK\$46,800,000 (31.12.2005: HK\$46,800,000). The loan bears interest at 4.25% per annum and will be matured on 27 December 2006. Accrued interest payable as at 30 June 2006 was HK\$8,957,000 (31.12.2005: HK\$7,973,000).
- (d) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under China Aerospace Science & Technology Corporation which is controlled by the PRC government.

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

- (i) The Group has certain deposit placements, borrowings and other general banking facilities with certain banks, which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.
- (ii) The Group also has certain sales and purchases transactions with certain customers and suppliers in which the directors are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled entities.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

15. RELATED PARTY TRANSACTIONS (Continued)

- (e) Compensation of key management personnel

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

	1.1.2006	1.1.2005
	to	to
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Short-term benefits	1,600	1,642
Post-employment benefits	30	30
	1,630	1,672

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

- (f) On 30 March 2006, a subsidiary of the Company entered into a joint venture agreement with Longyuan Electric Group Corporation, an independent third party, and Beijing Wan Yuan Industry Corporation, a subsidiary of China Academy of Launch Vehicle Technology Limited ("CALT"), in respect of the building, maintenance and operation of wind energy plants and facilities in the Liaoning Province of the PRC. CALT is a shareholder with 44.17% interest in the Company. The total investment of the Group under the joint venture agreement amounted to approximately HK\$36,077,000.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS SUMMARY

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

BUSINESS REVIEW AND PROSPECTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

WIND ENERGY PROJECT

On 30 March 2006, Crownplus International Ltd. ("Crownplus"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Longyuan Electric Group Corporation and Beijing Wan Yuan Industry Corporation in respect of building, maintenance and operation of wind energy plants and facilities in the Liaoning Province of the PRC. The details of the joint venture company, Aerospace Long Yuan (Benxi) Wind Power Co., Ltd., are as follows:

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

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

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

HUMAN RESOURCES AND REMUNERATION POLICY

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

Exchange and Other Exposures

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

The Group did not have any contingent liabilities as at 30 June 2006.

A loan of US\$6,000,000 (HK\$46,800,000) from a related company, China Great Wall Industry Corporation, which was an associate or wholly-owned subsidiary (from December 2004) of China Aerospace Science & Technology Corporation, included in borrowings was described as a loan from an independent third party or not separately disclosed in the previous reported financial statements from those of 31 December 2001 inadvertently. The loan was separately disclosed as a loan from a related party in the condensed consolidated financial statements herein. This connected loan transaction was and is exempted from any disclosure or shareholders approval requirements under the Rule 14.24(8) of the former Listing Rules and Rule 14A.65(4) of the current Listing Rules by virtue of normal commercial term of interest rate 4.25% per annum and no security over the assets of the Group as the condition for the provision.

ADDITIONAL INFORMATION

INTERIM DIVIDEND

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO), or to be recorded in the register required to be maintained pursuant to Section 352 of the SFO, or otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTION SCHEME

Under the terms of the share option scheme of the Company (the "CASTEL Scheme") which became effective on 23 July 1997 and shall be valid until 23 July 2007, the board of directors may offer to any full time employees, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company at a price which is not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The options granted must be accepted within 28 days from date of grant. Upon acceptance of an offer of options, an amount of HK\$1 by way of consideration is payable by the employee. Options may be exercised, at any time for a period to be determined by the directors of the Company, which shall not exceed ten

ADDITIONAL INFORMATION

years from the adoption of the CASTEL Scheme. Unless otherwise terminated or altered, the CASTEL Scheme will remain in force for a period of ten years from the date of adoption.

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

Pursuant to Chapter 17 of Listing Rules with which the Company must comply, the exercise price of options under an option scheme must be at least the higher of: (i) the closing price of the shares on the Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of options to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue.

As the Listing Rules relating to a share option scheme were amended on 1 September 2001, share option can only be granted under the share option scheme provided that the existing Listing Rules on share option schemes are complied with.

No share option under the CASTEL Scheme was held by the directors or employees of the Company or its subsidiaries in the period ended 30 June 2006 and the year ended 31 December 2005.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, and Underlying Shares and Debentures", at no time during the period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the "Listing Rules") to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

ADDITIONAL INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, so far as is known to the directors, the persons/entities (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

Name	Capacity	Number of shares (Note 1)	Percentage of shareholding
China Aerospace Science & Technology Corporation ("CASC")	Interest of a controlled corporation (Note 2)	449,244,000 (L)	44.17%
China Academy of Launch Vehicle Technology Limited ("CALT")	Interest of a controlled corporation (Note 3)	449,244,000 (L)	44.17%
Astrotech Group Limited ("Astrotech")	Beneficial owner	449,244,000 (L)	44.17%

Notes:

1. The letter "L" denotes the shareholder's long position in the shares.
2. CASC is deemed to be interested in 449,244,000 shares as it holds 100% of the issued share capital of CALT.
3. Astrotech is a wholly owned subsidiary of CALT. Accordingly, CALT is deemed to be interested in all the shares held by Astrotech.

ADDITIONAL INFORMATION

Save as disclosed herein, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors, there is no other person/entity (other than a director or chief executive of the Company) who, as at 30 June 2006, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or in any options in respect of such capital.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

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

Model Code for Securities Transactions by Directors

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

ADDITIONAL INFORMATION

Independent Non-executive Directors

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

Audit Committee

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

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

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

By Order of the Board

Wang Xiaodong

Executive Director

Hong Kong, 21 September 2006