



CASIL TELECOMMUNICATIONS HOLDINGS LIMITED

航天科技通信有限公司*

Stock Code : 1185

INTERIM REPORT

2007

* the Chinese name of the Company is for reference only

CONTENTS

	Page
Corporate Information	2
Report on Review of Interim Financial Information	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	22
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

Company Secretary

Mr. Au-Yeung Keung, Steve

Registered Office

Ugland House

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P.O. Box 309, George Town

Grand Cayman, Cayman Islands

British West Indies

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	Tricor Standard 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	Sidley Austin Richards Butler Sit, Fung, Kwong & Shum Maples and Calder
Website	www.castelecom.com
Email Address	castel@castelecom.com
Stock Code	1185

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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太古廣場一座35樓

Deloitte Touche Tohmatsu
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TO THE BOARD OF DIRECTORS OF
CASIL TELECOMMUNICATIONS HOLDINGS LIMITED

Introduction

We have reviewed the interim financial information set out on pages 6 to 21, which comprises the condensed consolidated balance sheet of CASIL Telecommunications Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	1.1.2007 to 30.6.2007 HK\$'000 (Unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (Unaudited and re-presented)
Continuing operations			
Turnover	3	97,078	42,114
Cost of sales		(80,691)	(33,354)
Gross profit		16,387	8,760
Other income		7,951	1,834
Distribution costs		(4,361)	(5,031)
Administrative expenses		(20,565)	(24,764)
Increase in fair value of investment properties		5,010	—
Reversal of allowance for amount due from an associate		—	10,019
Finance costs	4	(3,734)	(3,156)
Share of results of associates		(3,815)	(135)
Loss before taxation	5	(3,127)	(12,473)
Taxation	6	439	379
Loss for the period from continuing operations		(2,688)	(12,094)
Discontinued operation			
Profit for the period from discontinued operation	7	—	1,974
Loss for the period		(2,688)	(10,120)
Attributable to:			
Equity holders of the Company		(4,294)	(9,778)
Minority interests		1,606	(342)
		(2,688)	(10,120)
Loss per share — Basic	9		
From continuing and discontinued operations		HK(0.42) cents	HK(0.96) cents
From continuing operations		HK(0.42) cents	HK(1.16) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	30.6.2007 HK\$'000 (Unaudited)	31.12.2006 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	29,323	42,879
Investment properties	10	18,608	—
Intangible assets		7,350	9,800
Interest in associates	11	142,783	84,864
		198,064	137,543
Current assets			
Inventories		59,420	62,910
Trade and other receivables	12	97,844	92,615
Amounts due from associates	16(b)	17,600	25,969
Amounts due from related companies	16(b)	15,291	15,291
Pledged bank deposits		1,560	1,537
Bank balances and cash		59,851	81,777
		251,566	280,099
Current liabilities			
Trade and other payables	13	28,219	41,587
Amounts due to associates	16(b)	2,110	13,365
Amounts due to related companies	16(b)	4,407	4,407
Taxation payable		330	330
Borrowings — amount due within one year	16(c) & (d)	3,036	97,350
		38,102	157,039
Net current assets		213,464	123,060
Total assets less current liabilities		411,528	260,603
Non-current liabilities			
Borrowings — amount due after one year	16(c) & (d)	318,740	168,317
Net assets		92,788	92,286
Capital and reserves			
Share capital		101,714	101,714
Reserves		(12,566)	(11,440)
Equity attributable to equity holders of the Company		89,148	90,274
Minority interests		3,640	2,012
Total equity		92,788	92,286

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to the equity holders of the Company									
	Share capital	Special reserve	Share		Property			Total	Minority interests	Total
			premium account	Exchange reserve	General reserve	revaluation reserve	Accumulated losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2007	101,714	117,554	473,093	4,900	3,430	—	(610,417)	90,274	2,012	92,286
Exchange difference arising on translation of foreign operations	—	—	—	573	—	—	—	573	22	595
Share of reserve of associates	—	—	—	1,263	—	—	—	1,263	—	1,263
Increase in fair value of leasehold land and buildings transferred to investment properties	—	—	—	—	—	1,776	—	1,776	—	1,776
Deferred tax liabilities arising on revaluation of properties	—	—	—	—	—	(444)	—	(444)	—	(444)
Net income recognised directly in equity	—	—	—	1,836	—	1,332	—	3,168	22	3,190
(Loss) profit for the period	—	—	—	—	—	—	(4,294)	(4,294)	1,606	(2,688)
Total recognised income (expense) for the period	—	—	—	1,836	—	1,332	(4,294)	(1,126)	1,628	502
At 30 June 2007	101,714	117,554	473,093	6,736	3,430	1,332	(614,711)	89,148	3,640	92,788
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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	1.1.2007 to 30.6.2007 HK\$'000 (Unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (Unaudited)
Net cash (used in) generated from operating activities	(7,587)	8,728
Net cash used in investing activities		
Investment in associates	(60,471)	(10,920)
Repayment from associates	8,509	—
Purchase of property, plant and equipment	(1,157)	(5,767)
Other investing cash flows	337	(780)
	(52,782)	(17,467)
Net cash generated from financing activities		
New borrowings raised	53,036	3,857
Repayment to associates	(11,448)	—
Other financing cash flows	(3,548)	(207)
	38,040	3,650
Net decrease in cash and cash equivalents	(22,329)	(5,089)
Effect of foreign exchange rate changes	403	—
Cash and cash equivalents at beginning of the period	81,777	22,387
Cash and cash equivalents at end of the period, representing bank balances and cash	59,851	17,298

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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 (the "Stock Exchange") and with Hong Kong Accounting Standard (the "HKAS") 34 Interim Financial Reporting.

Comparative figures for 2006 have been re-presented for presentation on continuing and discontinued operations disclosed in note 7.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006. In addition, the Group has applied the following accounting policy for investment properties during the current interim period:

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured 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.

For a transfer from owner-occupied property to investment property that is carried at fair value, the difference at the date of transfer between the carrying amount of the property and its fair value is credited to the property revaluation reserve.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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
HK(IFRIC) — INT 10	Interim Financial Reporting and Impairment ⁵

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.

⁵ Effective for annual periods beginning on or after 1 November 2006.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) — INT 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) — INT 12	Service Concession Arrangements ³
HK(IFRIC) — INT 13	Customer Loyalty Program ⁴
HK(IFRIC) — INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

⁴ Effective for annual periods beginning on or after 1 July 2008.

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

3. SEGMENT INFORMATION

Business segments

In prior periods, the Group was also involved in the video conference system operation. That operation was discontinued during the year ended 31 December 2006.

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

Six months ended 30 June 2007

	Continuing operations				Consolidated HK\$'000
	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Broadband		
			Wireless Access HK\$'000	Wind Energy Facilities HK\$'000	
Turnover					
External sales	27,803	19,586	49,689	—	97,078
Result					
Segment result	3,837	2,439	(484)	(22)	5,770
Unallocated corporate income					757
Unallocated corporate expenses					(7,115)
Finance costs					(3,734)
Share of results of associates	(2,071)	(481)	(1,222)	(41)	(3,815)
Increase in fair value of investment properties					5,010
Loss before taxation					(3,127)
Taxation					439
Loss for the period					(2,688)

3. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Six months ended 30 June 2006

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Broadband		Total HK\$'000	Video Conference System HK\$'000	
			Wireless Access HK\$'000	Wind Energy Facilities HK\$'000			
Turnover							
External sales	24,212	13,859	4,043	—	42,114	12,166	54,280
Result							
Segment result	1,935	(3,870)	(11,595)	—	(13,530)	2,317	(11,213)
Unallocated corporate expenses					(6,651)	—	(6,651)
Reversal of allowance for amount due from an associate	—	—	10,019	—	10,019	—	10,019
Gain on disposal of a subsidiary	—	980	—	—	980	—	980
Finance costs	—	—	—	—	(3,156)	(42)	(3,198)
Share of results of associates	—	(135)	—	—	(135)	—	(135)
(Loss) profit before taxation					(12,473)	2,275	(10,198)
Taxation					379	(301)	78
(Loss) profit for the period					(12,094)	1,974	(10,120)

4. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	1.1.2007	1.1.2006	1.1.2007	1.1.2006	1.1.2007	1.1.2006
	to	to	to	to	to	to
	30.6.2007	30.6.2006	30.6.2007	30.6.2006	30.6.2007	30.6.2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:						
Bank borrowings						
— wholly repayable within five years	—	2,005	—	42	—	2,047
— not wholly repayable within five years	—	167	—	—	—	167
Other loan wholly repayable within five years	3,734	984	—	—	3,734	984
	3,734	3,156	—	42	3,734	3,198

5. LOSS BEFORE TAXATION

Continuing operations		Discontinued operation		Consolidated	
1.1.2007	1.1.2006	1.1.2007	1.1.2006	1.1.2007	1.1.2006
to	to	to	to	to	to
30.6.2007	30.6.2006	30.6.2007	30.6.2006	30.6.2007	30.6.2006
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Loss before taxation has been arrived at after charging and (crediting):

Allowance for bad and doubtful debts	—	160	—	—	—	160
Amortisation of intangible assets (note)	2,450	2,338	—	—	2,450	2,338
Depreciation of property, plant and equipment	3,108	3,747	—	197	3,108	3,944
Gain on disposal of a subsidiary (included in other income)	—	(980)	—	—	—	(980)
Interest income	(191)	(102)	—	(5)	(191)	(107)

Note: During the six months ended 30 June 2007, amortisation of intangible assets of approximately HK\$2,450,000 (1.1.2006 to 30.6.2006: HK\$1,752,000) and nil (1.1.2006 to 30.6.2006: HK\$586,000) were included in cost of sales and administrative expenses respectively.

6. TAXATION

Continuing operations		Discontinued operation		Consolidated	
1.1.2007	1.1.2006	1.1.2007	1.1.2006	1.1.2007	1.1.2006
to	to	to	to	to	to
30.6.2007	30.6.2006	30.6.2007	30.6.2006	30.6.2007	30.6.2006
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

The tax credit (charge) comprises:

Current tax:

The People's Republic of China
(the "PRC") Enterprise

Income Tax	(5)	(69)	—	(301)	(5)	(370)
Deferred taxation	444	448	—	—	444	448

Taxation credit (charge) attributable to the Group

	439	379	—	(301)	439	78
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6. TAXATION (Continued)

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, certain of the Company's subsidiaries registered in the PRC are entitled to exemption from Enterprise Income Tax under certain tax holidays and concessions. Enterprise Income Tax was calculated at rates given under the concessions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC which will take effect on 1 January 2008. The New Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. However, the detailed implementation rules regarding the New Law have yet to be made public. Consequently, the Group is not able to make an estimate of the expected financial effect of the New Law on its deferred tax liabilities as at 30 June 2007.

7. DISCONTINUED OPERATION

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

The result of the video conference system operation for the six months ended 30 June 2006, which have been included in the condensed consolidated income statement, was as follows:

	1.1.2006 to 30.6.2006 HK\$'000
Turnover	12,166
Cost of sales	(5,678)
Other income	191
Distribution costs	(1,766)
Administrative expenses	(2,596)
Finance costs	(42)
Profit before taxation	2,275
Taxation	(301)
Profit for the period	1,974

The video conference system operation contributed cash outflow of HK\$644,000 to the Group's operating cash flows, paid HK\$118,000 in respect of investing activities and contributed HK\$43,000 in respect of financing activities for the six months ended 30 June 2006.

8. 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 2007.

9. LOSS PER SHARE — BASIC

From continuing and discontinued operations

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
Loss for the purpose of basic loss per share	(4,294)	(9,778)
	Number of shares	
	2007	2006
Weighted average number of shares for the purposes of basic loss per share	1,017,139,763	1,017,139,763

No diluted earning per share has been disclosed as the Company has no potential ordinary shares outstanding for both years.

From continuing operations

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

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
Loss for the purpose of basic loss per share	(4,294)	(9,778)
Less: Profit for the period from discontinued operation	—	(1,974)
Loss for the purpose of basic loss per share from continuing operations	(4,294)	(11,752)
	Number of shares	
	2007	2006
Weighted average number of shares for the purposes of basic loss per share	1,017,139,763	1,017,139,763

9. LOSS PER SHARE — BASIC *(Continued)*

From discontinued operation

Basic earnings per share for the discontinued operation for the period from 1.1.2006 to 30.6.2006 was HK0.19 cents per share, based on the profit for the period from the discontinued operation of HK\$1,974,000 and the denominators detailed above for basic loss per share.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group spent approximately HK\$1,157,000 (1.1.2006 to 30.6.2006: HK\$5,767,000) on acquisition of property, plant and equipment.

In addition, during the current period, the Group rented out certain of its leasehold land and buildings to outsiders for rental income. These properties was then reclassified as investment properties. Upon the transfer from property, plant and equipment to investment properties, those properties were revalued with the increase in fair value of HK\$1,776,000 credited to property revaluation reserve. The carrying amount at date of transfer was HK\$13,598,000.

The Group's investment properties were fair-valued by directors at 30 June 2007. The valuation performed by the directors of the Company was arrived at by reference to the valuation report performed by independent qualified professional valuers close to 30 June 2007 and review of recent market prices for similar properties. The resulting increase in fair value of investment properties of HK\$5,010,000 has been recognised directly in the condensed consolidated income statement.

11. INTEREST IN ASSOCIATES

During the period, the Group has made additional capital injection into associates for approximately HK\$60,471,000 for setting up new associates and continuous expansion of certain associates.

An impairment loss of HK\$2,338,000 is recognised and included in share of result of associates for the current period.

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$85,050,000 (31.12.2006: HK\$82,615,000). 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:

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Within 30 days	42,842	44,039
Between 31 and 90 days	34,688	2,682
Between 91 and 180 days	2,246	649
Between 181 and 365 days	836	832
Over 1 year	4,438	34,413
	85,050	82,615

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$10,841,000 (31.12.2006: HK\$19,844,000). The following is an aged analysis of trade payables:

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Within 30 days	258	14,576
Between 31 and 90 days	549	1,167
Between 91 and 180 days	6,023	901
Between 181 and 365 days	1,129	84
Over 1 year	2,882	3,116
	10,841	19,844

14. PLEDGE OF ASSETS

At 30 June 2007, bank deposits amounted to HK\$1,560,000 (31.12.2006: HK\$1,537,000) have been pledged to banks for general banking facilities granted to the Group.

15. OTHER COMMITMENTS

At 30 June 2007, the Group was committed to capital expenditure of approximately HK\$20,177,000 (31.12.2006: HK\$54,168,000) for the further investment of an associate in the Jilin Province of the PRC. The associate is engaged in the operation of wind energy plants and facilities power and is owned as to 25% by the Group as at 30 June 2007.

In addition, the Group was also committed to capital expenditure of approximately HK\$3,752,000 (31.12.2006: HK\$25,254,000) for further investment of an associate in the Liaoning Province of the PRC. The associate is engaged in the operation of wind energy plants and facilities and is owned as to 40% by the Group as at 30 June 2007.

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

16. RELATED PARTY TRANSACTIONS AND BALANCES

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

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
Sales of goods to an associate	1,489	—

- (b) The balances with associates and related companies were unsecured, non-interest bearing and repayable on demand.
- (c) Included in borrowings was a loan from a shareholder of the Company of HK\$41,000,000 (31.12.2006: HK\$40,594,000) which bears interest at 5.10% per annum and is repayable on 30 September 2008 (31.12.2006: repayable on 29 August 2007) and loans of HK\$220,000,000 (31.12.2006: HK\$168,317,000) which bear interest at 5.04% per annum with HK\$50,000,000 being repayable on 18 April 2011 and the remaining being repayable on 29 August 2011.

16. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

- (d) Included in borrowings was also a loan from a wholly owned subsidiary of a shareholder of the Company amounting to HK\$46,800,000 (31.12.2006: HK\$46,800,000). The loan bears interest at 4.25% per annum and will be matured on 30 September 2008 (31.12.2006: repayable on demand). Accrued interest payable as at 30 June 2007 was HK\$10,940,000 (31.12.2006: HK\$9,956,000).
- (e) On 15 February 2007 and 27 March 2007, the Company entered into a sale and purchase agreement and a supplemental agreement with Astrotech. For details, please refer to note 15.
- (f) 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.

16. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(g) Compensation of key management personnel

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

	1.1.2007 to 30.6.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
Short-term benefits	1,641	1,600
Post-employment benefits	18	30
	1,659	1,630

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

17. POST BALANCE SHEET EVENT

The Company had announced on 2 April 2007 that it proposed to raise approximately HK\$136 million, net of expenses, by issuing 406,855,905 offer shares ("Offer Shares") at a price of HK\$0.35 per Offer Share by way of open offer of new shares on the basis of four Offer Shares for every ten existing Shares in issue (hereinafter collectively referred to as the "Open Offer"). A prospectus dated 20 September 2007 has been issued in connection with the Open Offer. The acceptance of the Open Offer has not yet been completed as at the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Summary

As of 30 June 2007, the Group's turnover for the first half of 2007 amounted to HK\$97.08 million with a loss of HK\$2.69 million in contrast to those for the year 2006 of HK\$54.28 million and HK\$10.12 million respectively, representing a 78.9% increase of turnover and 73.5% decrease of loss over the same period last year.

Business Review and Prospects

In continuing the sales of communication equipment, and the application services of Global Positioning System for the first half of 2007, the Group is pursuing the acquisition of different businesses with the aim of exploring diversified operations and diversified earning sources for its future development in the years ahead. On 15 February 2007 and 27 March 2007, the Group entered into agreements whereby the Group is to acquire from China Academy of Launch Vehicle Technology businesses comprising three segments, namely, the automotive component parts, rare-earth-performance magnetic motor business and alternate energy at a purchase consideration of HK\$900 million.

The automotive component parts not only comprise the automotive engine management systems and components manufacturing, car body sealing system, vessel sealing system but also a wide range of components of automobiles such as brakes, clutch, fuel tank, muffler and tires. Rare earth that is a group of active metallic elements distinct from commonly used elements is widely used to make magnetic motors with high performance in terms of high precision, low noise, high stability, heavy load and energy effective. The alternate energy of wind power is being boosted by the new Renewable Energy Law which, inter alia, promotes the development and utilization of renewable energy and diversifies energy supplies.

The details of the acquisitions that will be completed in the midst of October 2007 were set out in a circular thereon of 1 June 2007 and a prospectus on Open Offer of 406,855,905 Offer Shares on the basis of four Offer Shares for every ten existing shares in issue in relation thereto of 20 September 2007.

Telecommunication Business

We continue to provide our customers including communication operators, China Mobile, China Unicom, China Telecom, China Netcom and China Railcom in PRC with communication equipment of high capability/price value in making revenue with steady growth.

Wind Energy Projects

The wind energy projects of Jiangsu Longyuan project and Jilin Sanyuan project in building, maintenance and operation of wind energy plants and facilities have started to generate profit contributions during the period whereas the Liaoning Benxi project was in its final phase of implementation and has started to general revenue in preparation for making profit contribution in the short term.

Human Resources and Remuneration Policy

As at 30 June 2007, the Group had 41 employees (2006: 36 employees) in the Hong Kong head office and 409 employees (2006: 618 employees) in the China Mainland offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus and share option schemes are available and are at the discretion of the Directors.

Financial Review

Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2007 were HK\$321,776,000 (31 December 2006: HK\$265,667,000), which were fixed rate borrowings. 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 2007 was 361% (31 December 2006: 294%).

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 2007.

ADDITIONAL INFORMATION

Interim Dividend

The Board of the Company did not recommend any interim dividend for the six months ended 30 June 2007 (2006: Nil).

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2007, 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 was valid until 23 July 2007, the board of directors might 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 was not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. Pursuant to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) with which the Company had to comply, the exercise price of options under an option scheme had to 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 had not to exceed 1% of the share capital of the company in issue. The options granted had to 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 was payable by the employee. Options might be exercised at any time for a period to be determined by the directors of the Company, which should not exceed ten years from the adoption of the CASTEL Scheme. Unless otherwise terminated or altered, the CASTEL Scheme would remain in force for a period of ten years from the date of adoption.

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

No share option under the CASTEL Scheme was granted to the directors or employees of the Company or its subsidiaries at 31 December 2006 and 30 June 2007.

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, underlying shares and debentures” and “Share option scheme”, 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.

Substantial Shareholders

As at 30 June 2007, 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 Division 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

Name	Capacity	Number of shares (Note 1)	Percentage of shareholding
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 ("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.

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 2007, had any interest or short position in the shares of underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group in any options in respect of such capital.

Corporate Governance

Code on Corporate Governance Practices

The Group has complied with all principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Code"), which became applicable to the Group in respect of the year under review, and complied with the relevant code provisions in the Code throughout the six month period ended 30 June 2007, with the exception of one deviation from the Code Provision A.4.1 of the Code which stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

All of the Directors of the Company including the Non-executive Directors and Independent Non-executive Directors are not appointed for a specific term but are subject to retirement and rotation and re-election at the Company's Annual General Meeting in accordance with the retirement provisions under the Articles of Association of the Company. The Company considers that sufficient measures have been taken in this regard to ensure that the Group's corporate governance practices are no less exacting than those in the Code.

Model Code for Securities Transactions by Directors

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

Independent Non-executive Directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in appointment of a sufficient number of 4 independent non-executive directors of whom Mr. Yiu Ying Wai (“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 2007.

By Order of the Board

Han Shuwang

Vice-Chairman

Hong Kong, 25 September 2007