THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CASIL Telecommunications Holdings Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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CASTEL

CASIL TELECOMMUNICATIONS HOLDINGS LIMITED
(航 天 科 技 通 信 有 限 公 司)*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1185)

PROPOSED VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ADVANCED GRADE HOLDINGS LIMITED AND APPLICATION FOR WHITEWASH WAIVER

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

博大資本國際有限公司
Partners Capital International Limited

A letter from the Board is set out on pages 7 to 37 of this circular.

A letter from the Independent Board Committee is set out on pages 38 to 39 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 40 to 59 of this circular.

A notice convening the EGM to be held at Hall 1B, G/F., No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 18 June 2007 at 11:00 a.m. is set out on pages 60 to 62 of this circular. Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

1 June 2007

** For identification purpose only*

CONTENTS

In this circular, the following expressions shall have the following meanings, unless the context otherwise requires:

"Acquired Businesses"	the 49% equity interest in Beijing Delphi, 40% equity interest in Wanyuan GDX, 29% equity interest in Hangzhou REPM, 45% equity interest in Nantong Acciona and 45% equity interest in Beijing Acciona
"Advanced Grade"	Advanced Grade Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Astrotech
"Announcement"	the announcement of the Company dated 2 April 2007 in relation to, among other things, the Proposed Acquisition, the Whitewash Waiver and the Open Offer
"Astrotech"	Astrotech Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CALT
"associates"	has the meaning ascribed to it under the Listing Rules
"Beijing Accoina"	Beijing CASC Wanyuan Accoina Renewable Energy Corporation Ltd. (北京航天萬源安迅能新能源有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Beijing Delphi"	Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd. (北京德爾福萬源發動機管理系統有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Board"	board of Directors
"Business Day"	any day (other than a Saturday or Sunday) on which banks in Hong Kong are generally open for business
"CALT"	中國運載火箭技術研究院(China Academy of Launch Vehicle Technology), a legal entity established in the PRC and wholly-owned by CASC

"CASC"	中國航天科技集團公司(China Aerospace Science and Technology Corporation), a state-owned enterprise established in the PRC and the ultimate controlling Shareholder of the Company
"Company"	CASIL Telecommunications Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Sale and Purchase Agreements
"Consideration"	the consideration of HK$900,000,000 for the acquisition by the Company of the entire issued share capital of Advanced Grade pursuant to the Sale and Purchase Agreements
"Consideration Shares"	the new Shares to be allotted and issued by the Company to Astrotech as part consideration under the Sale and Purchase Agreements
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of Company to be convened to consider and, if thought fit, approve, among other things, the entering into of the Sale and Purchase Agreements and the Whitewash Waiver
"Excluded Shareholder(s)"	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions, consider it necessary or expedient not to offer the Open Offer to such Overseas Shareholder(s) on account either of restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in place
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
"Enlarged Group"	The Group immediately after Completion
"Group"	the Company and its subsidiaries as at the date of this circular

"Hangzhou REPM"	杭州航天萬源稀土電機應用技術有限公司(Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd.), a limited liability company established in the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising the independent non-executive Directors which was formed to advise the Independent Shareholders in respect of the Proposed Acquisition (including the terms of the Sale and Purchase Agreements) and the Whitewash Waiver
"Independent Financial Adviser"	Partners Capital International Limited, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders, a licensed corporation to carry on types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO
"Independent Shareholders"	Shareholders other than Astrotech and parties acting in concert with it, their respective associates and those involved or interested in the Proposed Acquisition and the Whitewash Waiver
"Issue Price"	the issue price of HK$0.35 per Consideration Share
"Last Trading Day"	12 February 2007, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	29 May 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Nantong Accoina"	Nantong CASC Wanyuan Accoina Wind Turbine Manufacture Corporation Ltd. (南通航天萬源安迅能風電設備製造有限公司), a Sino-foreign equity joint venture enterprise established in the PRC

"Offer Shares"	406,855,905 new Shares to be issued by the Company pursuant to the Open Offer
"Open Offer"	the proposed issue of the Offer Shares by the Company to the Shareholders on the basis of four Offer Shares for every ten existing Shares held at the Subscription Price
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong
"parties acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Posting Date"	18 July 2007 or such other date as the Underwriter may agree in writing with the Company for the despatch of the Prospectus Documents;
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposed Acquisition"	the proposed acquisition of the entire issued share capital of Advanced Grade by the Company pursuant to the terms and conditions of the Sale and Purchase Agreements
"Prospectus"	a prospectus containing details of the Offer Shares to be issued in connection with the Open Offer
"Prospectus Documents"	the Prospectus, the provisional allotment letter and the excess application form
"Qualifying Shareholder(s)"	Shareholder(s), other than the Excluded Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	16 July 2007 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Open Offer are to be determined

"Restructuring"	the restructuring of Wan Yuan Industry as described in the section headed "Information of Advanced Grade and Wan Yuan Industry" in the letter from the Board as set out on pages 13 to 14 of this circular
"Sale and Purchase Agreements"	the sale and purchase agreement dated 15 February 2007 and a supplemental agreement dated 27 March 2007 between Astrotech, CALT and the Company in respect of the sale and purchase of the entire issued share capital of Advanced Grade
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.35 per Offer Share
"Sub-underwriter"	Sino Grade Securities Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity under the SFO
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Underwriter"	Luen Fat Securities Company Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity under the SFO
"Underwriting Agreement"	the underwriting agreement dated 2 April 2007 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements of the Open Offer

"Wanyuan GDX"	Beijing Wanyuan GDX Automotive Sealing Products Co., Ltd. (北京萬源金德汽車密封製品有限公司), a Sino-foreign equity joint venture enterprise established in the PRC
"Wan Yuan Industry"	北京萬源工業公司(Beijing Wan Yuan Industry Corporation), a state-owned enterprise established in the PRC, and a wholly-owned subsidiary of CALT
"Wan Yuan Science & Technology"	北京航天萬源科技公司(Beijing CASC Wan Yuan Science & Technology Corporation), a state-owned enterprise established in the PRC and a wholly-owned subsidiary of Wan Yuan Industry, which will become a direct wholly-owned subsidiary of CALT after completion of the Restructuring
"Whitewash Waiver"	a waiver in respect of the obligation on the part of Astrotech and parties acting in concert with it to make a mandatory general offer to the Shareholders for all the issued Shares not already owned or agreed to be acquired by Astrotech and parties acting in concert with it as a result of the taking up of the Consideration Shares under the Proposed Acquisition in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, the exchange rates of RMB1.00 = HK$1.00 and US$1.00 = HK$7.78 have been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amount in US$, HK$ or RMB have been, could have been or may be converted at such or any other rates or at all.

Certain English translations of Chinese names or words in this circular are included for information only, and are not official English translations of such Chinese names or words.

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1185)

Executive Directors:
Mr. Han Shuwang *(Vice-chairman)*
Mr. Wang Xiaodong
Mr. Li Guang

Non-executive Directors:
Mr. Wu Yansheng *(Chairman)*
Mr. Liang Xiaohong *(Vice-chairman)*
Mr. Tang Guohong

Independent non-executive Directors:
Mr. Yiu Ying Wai
Mr. Wong Fai, Philip
Mr. Zhu Shixiong
Mr. Moh Kwen Yung

Registered Office:
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P.O. Box 309, George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
Suite 4701, 47th Floor
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18 Harbour Road
Wanchai
Hong Kong

1 June 2007

To the Shareholders

Dear Sir or Madam,

PROPOSED VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ADVANCED GRADE HOLDINGS LIMITED AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

On 2 April 2007, the Board announced that Astrotech (as vendor), CALT (as guarantor) and the Company (as purchaser) entered into a sale and purchase agreement and a supplemental agreement (collectively referred as "Sale and Purchase Agreements") on 15 February 2007 and 27 March 2007 respectively, 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.

* *For identification purpose only*

The purpose of this circular is (i) to provide you with further information in relation to, amongst other things, the Proposed Acquisition and the Whitewash Waiver; (ii) to set out the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iii) to give you a notice of EGM with resolution approving the Proposed Acquisition and the Whitewash Waiver.

THE PROPOSED ACQUISITION

The Sale and Purchase Agreements

Parties:

Vendor: Astrotech, the direct controlling Shareholder

Purchaser: The Company

Guarantor: CALT, an indirect controlling Shareholder

Asset to be acquired: One ordinary share of US$1.00, representing the entire issued share capital of Advanced Grade

Consideration: HK$900,000,000, which will be satisfied at Completion by

(1) HK$130,000,000 in cash; and

(2) the allotment and issue of 2,200,000,000 Consideration Shares by the Company to Astrotech at the Issue Price of HK$0.35 each.

The cash consideration will be financed by the proceeds from the Open Offer.

The Consideration Shares represent (i) approximately 216.29% of the issued share capital of the Company as at the date of this circular, (ii) approximately 154.49% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and (iii) approximately 60.71% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and the Consideration Shares.

The Consideration Shares shall be issued as fully paid and shall rank pari passu in all respects with the ordinary Shares then in issue. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of HK$0.35 represents:

(a) a discount of approximately 55.13% to the closing price per Share of HK$0.78 as quoted on the Stock Exchange on 12 February 2007, being the Last Trading Day;

(b) a discount of approximately 50.70% to the average closing price per Share of HK$0.71 as quoted on the Stock Exchange for the last 5 trading days leading up to and including the Last Trading Day;

(c) a discount of approximately 50.00% to the average closing price per Share of HK$0.70 as quoted on the Stock Exchange for the last 10 trading days leading up to and including the Last Trading Day;

(d) a discount of approximately 40.68% to the average closing price per Share of HK$0.59 as quoted on the Stock Exchange for the last 30 trading days leading up to and including the Last Trading Day;

(e) a discount of approximately 74.82% to the closing price per Share of HK$1.39 as quoted on the Stock Exchange as at the Latest Practicable Date; and

(f) a premium of approximately 337.50% over the latest published audited consolidated net tangible assets per Share of approximately HK$0.08 as at 31 December 2006.

Conditions precedent: Completion is subject to the satisfaction of the following conditions:

(i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares;

(ii) the Executive granting the Whitewash Waiver to Astrotech and parties acting in concert with it;

(iii) the approval of the Sale and Purchase Agreements (including the allotment and issue of the Consideration Shares) and the Whitewash Waiver by Independent Shareholders by poll at the EGM;

(iv) completion of the Restructuring and the Restructuring having been approved by, without limitation, CASC, the relevant PRC authorities and any third party who has interest in Advanced Grade (if any);

(v) The State-owned Assets Supervision and Administration Commission of the State Council of PRC has approved the Proposed Acquisition and the valuation of Wan Yuan Industry and the Acquired Businesses;

(vi) The Ministry of Commerce of PRC or its designated department having approved the transfer of the equity interest of CALT in Wan Yuan Industry to Advanced Grade;

(vii) The State Administration for Industry and Commerce having approved the change of shareholders of Wan Yuan Industry pursuant to the Restructuring;

(viii) Wan Yuan Industry having obtained its certificate of approval for conversion into a foreign investment enterprise;

(ix) Wan Yuan Industry having obtained its new business licence to show its corporate status as a foreign investment enterprise;

(x) The Company being able to maintain the public float of the Company at not less than 25% at Completion;

(xi) the Company being satisfied with the results of the due diligence review of Wan Yuan Industry and the Acquired Businesses; and

(xii) the warranties given by the vendor and the guarantor under the Sale and Purchase Agreements remaining true and accurate in all respects.

If the above conditions are not fulfilled by 30 September 2007 (or such later date as the parties may agree), the Sale and Purchase Agreements shall cease and determine and no party thereto shall have any claim against the other, save and except in respect of any antecedent breach of the Sale and Purchase Agreements. Neither the Company nor Astrotech has the right to waive any of the conditions in paragraphs (i) to (x) as set out above. The Company may at any time by notice in writing waive the conditions in paragraphs (xi) and (xii) as set out above.

Completion: Completion shall take place on the third Business Day after satisfaction of all the above conditions of the Sale and Purchase Agreements or such other date as the parties may agree.

Basis for determining the Consideration and the Issue Price

The Consideration of HK$900,000,000 has been determined after arm's length negotiations among the parties with reference to the historical performance and future prospects of the Acquired Businesses.

The Issue Price of HK$0.35 has been determined after arm's length negotiations among the parties, taking into account the following factors:

(a) the poor business performance of the Group as reflected by the Group's loss making history in the past. The net losses attributable to the equity holders of the Company for the year ended 31 December 2005 and for the six months ended 30 June 2006 amounted to approximately HK$29.36 million and HK$10.12 million respectively;

(b) the low liquidity of the Shares as represented by (i) the average daily trading volume of the Shares for the year ended 31 December 2006 was approximately 2,961,000 Shares (representing approximately 0.521% of issued Shares held by the public); (ii) the average daily trading volume of the Shares for the two months ended 28 February 2007 was approximately 12,033,000 Shares (representing approximately 2.119% of issued Shares held by the public)); and

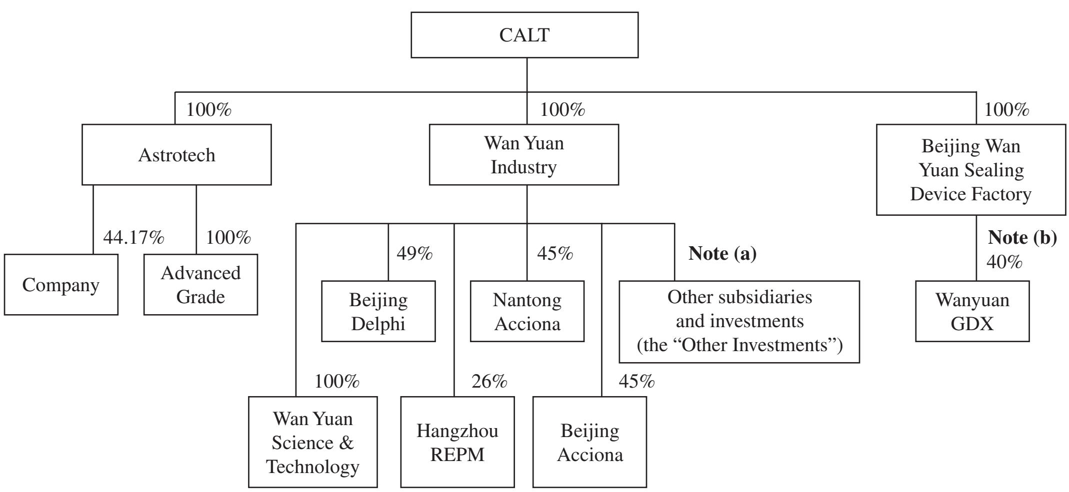
(c) the Issue Price represents a substantial premium of approximately 150.00% over the latest unaudited consolidated net assets per Share as at 30 June 2006 prior to the release of the Announcement, and a substantial premium of approximately 218.18% over the latest unaudited consolidated net tangible assets per Share as at 30 June 2006 prior to the release of the Announcement.

Given the loss making history of the Group, the low trading volume of the Shares and the substantial premium of the Issue Price over the net assets value per Share, the Directors consider that the discount on the Issue Price on the current market price of the Shares as proposed is appropriate.

Information on Advanced Grade and Wan Yuan Industry

The charts below set out the structure of Advanced Grade and Wan Yuan Industry before and after the Restructuring:

Before the Restructuring



Notes

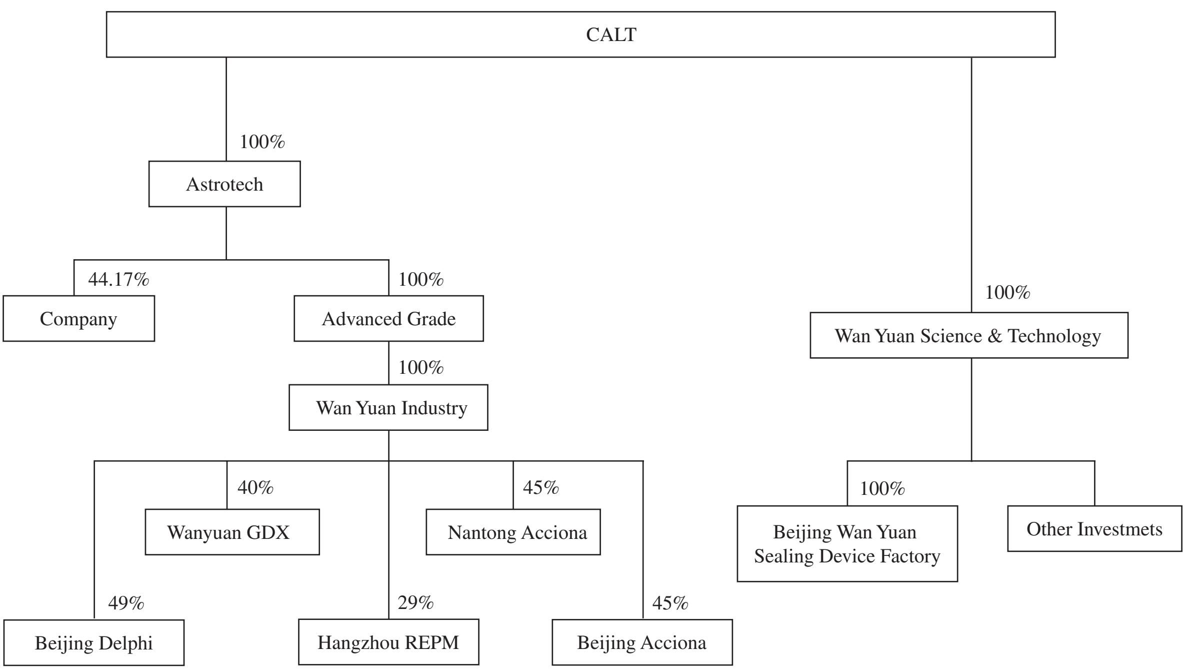
(a) Consist of its subsidiaries (at equity interests varying from approximately 40% to 100%) and investments (at equity interests varying from 0.4% to 33.6%) which are excluded from the Proposed Acquisition. These subsidiaries are mainly engaged in the manufacturing of electronic and automation control systems and equipment, mechanical equipment and medical equipment, and processing of metal and plastic product. The key investment is 15% equity interest in Aerospace Long Yuan (Benxi) Wind Power Co., Ltd. ("Long Yuan"). Currently, Wan Yuan Industry consolidates its subsidiaries and records its investments at cost in its accounts.

Long Yuan was incorporated in June 2006 and principally engaged in the wind energy production in Liaoning, the PRC. On 30 March 2006, Wan Yuan Industry, Crownplus International Limited (a wholly-owned subsidiary of the Company) and Longyuan Electric Group Corporation ("Longyuan Electric", an independent third party) entered into a joint venture agreement in respect of the establishment of Long Yuan. The equity interest held by Wan Yuan Industry, Crownplus International Limited and Longyuan Electric are 15%, 40% and 45% respectively. Details of this transaction were disclosed in a circular of the Group dated 21 April 2006.

As mutually agreed between the joint venture parties, Longyuan Electric shall be the largest single shareholder, therefore Wan Yuan Industry's 15% equity interest in Long Yuan is excluded from the Proposed Acquisition.

(b) In 1998, CALT issued a notice to assign certain businesses/investments, including its interest in Beijing Wan Yuan Sealing Device Factory, to Wan Yuan Industry. According to PRC legal opinion, Wan Yuan Industry is the ultimate beneficial owner of 100% equity interest in Beijing Wan Yuan Sealing Device Factory and 40% equity interest in Wanyuan GDX. Please refer to the note under "The Restructuring" below for further details.

After the Restructuring



The Restructuring

Wan Yuan Industry is a wholly-owned subsidiary of CALT and was incorporated in the PRC on 26 December 1984 as a state-owned enterprise for the purpose of manufacturing of mechanical equipment and of investment holdings. Prior to the Restructuring, Wan Yuan Industry has more than twenty investments which engaged in the manufacturing of wind turbine, electronic and automation control systems and equipment, mechanical equipment, medical equipment, and automotive parts, and the operation of wind energy plant.

On 28 December 2006, CALT, Wan Yuan Industry, Beijing Wan Yuan Sealing Device Factory, Wan Yuan Science & Technology and a subsidiary of CALT had entered into a set of deeds of assignment for the purpose of effecting a restructuring exercise whereby:

(a) apart from the Acquired Businesses, all of Wan Yuan Industry's investments and businesses (the "Non-acquired Businesses") were assigned to Wan Yuan Science & Technology;
(b) CALT's entire equity interest in Beijing Wan Yuan Sealing Device Factory was assigned to Wan Yuan Science & Technology *(Note)*;
(c) Wan Yuan Industry's entire equity interest in Wan Yuan Science & Technology was assigned to CALT;
(d) a further 3% equity interest in Hangzhou REPM was assigned from a subsidiary of CALT to Wan Yuan Industry; and
(e) a 40% equity interest in Wanyuan GDX was assigned to Wan Yuan Industry *(Note)*.

Note: In 1998, CALT issued a notice (the "Notice") to assign certain businesses/investments, including its interest in Beijing Wan Yuan Sealing Device Factory, to Wan Yuan Industry. Although Wan Yuan Industry has not taken appropriate actions to complete legal procedures for the assignment of interest in Beijing Wan Yuan Sealing Device Factory, the corresponding risk and rewards were transferred to and taken up by Wan Yuan Industry in accordance with the Notice. According to PRC legal opinion, Wan Yuan Industry is the ultimate beneficial owner of 100% equity interest in Beijing Wan Yuan Sealing Device Factory and 40% equity interest in Wanyuan GDX. In order to ratify the legal status, the 40% equity interest in Wanyuan GDX was directly assigned to Wan Yuan Industry during the Restructuring. As Beijing Wan Yuan Sealing Device Factory is only an investment holding company and is not part of the Proposed Acquisition, its entire equity interest was directly assigned to Wan Yuan Science & Technology during the Restructuring.

As at the Latest Practicable Date, the assignments in paragraphs (a), (b) and (c) as set out above were completed. The other above mentioned assignments are expected to be completed on or before 30 June 2007.

CALT had undertaken to indemnify the Company for any debtors or claims arising from the Non-acquired Businesses before completion of the Restructuring for a period of five years commencing from Completion. Also as part of the restructuring exercise, on 15 February 2007, CALT entered into a deed of assignment to assign its 100% direct shareholdings in Wan Yuan Industry to Advanced Grade. The Restructuring has yet to complete as at the date of this circular. CALT estimates that the Restructuring to be completed on or before 30 June 2007. Upon completion of the Restructuring, Wan Yuan Industry will not carry on any business or have any materials assets, other than the holding of a 49% equity interest in Beijing Delphi, a 40% equity interest in Wanyuan GDX, a 29% equity interest in Hangzhou REPM, a 45% equity interest in Nantong Acciona and a 45% equity interest in Beijing Acciona (the "Acquired Businesses").

Advanced Grade is a limited liability company incorporated in the British Virgin Islands on 13 December 2006 which does not carry on any business or have any material assets. After the completion of the Restructuring, Advanced Grade will hold the entire equity interest in Wan Yuan Industry.

According to the accountants' report on Advanced Grade, Advanced Grade had no profit or loss for the period from 13 December 2006 (date of incorporation) to 31 December 2006. As at 31 December 2006, the audited total assets and audited net assets of Advanced Grade was HK$8.

For the purpose of Proposed Acquisition, the financial statements for each of three years ended 31 December 2006 of Wan Yuan Industry as set out in Appendix III to this circular have been prepared in accordance with Hong Kong Financial Reporting Standards and accounting principles generally accepted in Hong Kong as if the Restructuring had taken place and Wan Yuan Industry had been in operation on a stand alone basis.

For the year ended 31 December 2006, the audited net profit before and after taxation of Wan Yuan Industry prepared on the above mentioned basis amounted to approximately RMB96.70 million (or approximately HK$96.70 million). For the year ended 31 December 2005, the audited net profit before and after taxation of Wan Yuan Industry prepared on the above mentioned basis amounted to approximately RMB83.99 million (or approximately HK$83.99 million). For the year ended 31 December 2004, the audited net profit before and after taxation of Wan Yuan Industry prepared on the above mentioned basis amounted to approximately RMB111.64 million (or approximately HK$111.64 million).

The audited net asset values of Wan Yuan Industry prepared on the above mentioned basis as at 31 December 2006 was approximately RMB436.67 million (or approximately HK$436.67 million).

The Acquired Businesses

Beijing Delphi is a Sino-foreign equity joint venture established in the PRC on 30 March 1994, and is principally engaged in the manufacture of automotive engine management systems and components, as well as after-sale service and technical consultancy service corresponding with it. The total registered capital of Beijing Delphi is US$13 million (or approximately HK$101.14 million) and contributions thereto attributable to Delphi Automotive System China Corporation and Wan Yuan Industry amounted to US$6.63 million (or approximately HK$51.58 million) and US$6.37 million (or approximately HK$49.56 million) respectively. Delphi Automotive System China Corporation and Wan Yuan Industry hold 51% and 49% equity interest in Beijing Delphi respectively.

Wanyuan GDX is a Sino-foreign equity joint venture established in the PRC on 28 December 1995, and is principally engaged in development and manufacture of the car body sealing system, vessel sealing system and accessories, as well as the provision of technical consultancy and training service. The total registered capital of Wanyuan GDX is RMB100 million (or approximately HK$100 million) and contributions thereto attributable to GDX Automotive Beteiligungs GMBH and Beijing Wan Yuan Sealing Device Factory amounted to RMB60 million (or approximately HK$60 million) and RMB40 million (or approximately HK$40 million) respectively. GDX Automotive Beteiligungs GMBH and Beijing Wan Yuan Sealing Device Factory hold 60% and 40% equity interest in Wanyuan GDX respectively.

Hangzhou REPM is a limited liability company established in the PRC on 27 February 2002, and is principally engaged in the development and manufacture of rare-earth-permanent magnet motors for elevator. The total registered capital of Hangzhou REPM is RMB50.00 million (or approximately HK$50.00 million) and contributions thereto attributable to Wan Yuan Industry, 北京航天長征飛行器研究所 (Beijing Institute of Spaceflight Chang Zheng Aircraft ("Spaceflight Institute"), a subsidiary of CALT), 遼寧富士電梯有限公司 (Liaoning Fuji Elevator Co. Ltd. ("Liaoning Elevator")), 上海新時達電氣有限公司 (Shanghai STEP Electric Co. Ltd. ("Shanghai Electric")), 杭州榮海投資有限公司 (Hangzhou Rong Hai Investment Co. Ltd. ("Hangzhou Investment")), 丹陽市金象化工廠 (Danyang Jin Xiang Chemical Plant ("Danyang Chemical")) and 北京長征天民高科技有限公司 (Beijing Chang Zheng Tian Min High Technology Co. Ltd. ("Tian Min")) amounted to RMB13 million (or approximately HK$13 million), RMB1.50 million (or approximately HK$1.50 million), RMB10 million (or approximately HK$10 million), RMB10 million (or approximately HK$10 million), RMB9 million (or approximately HK$9 million), RMB5 million (or approximately HK$5 million) and RMB1.50 million (or approximately HK$1.50 million) respectively. Wan Yuan Industry, Spaceflight Institute, Liaoning Elevator, Shanghai Electric, Hangzhou Investment, Danyang Chemical and Tian Min hold 26%, 3%, 20%, 20%, 18%, 10% and 3% equity interest in Hangzhou REPM respectively. After completion of the Restructuring, Wan Yuan Industry will hold 29% equity interest in Hangzhou REPM.

Nantong Acciona is a Sino-foreign equity joint venture established in the PRC on 22 June 2005, and is principally engaged in sale and manufacture of wind turbine. Nantong Acciona commenced its production in June 2006. The total paid-up capital of Nantong Acciona is RMB99.71 million (or approximately HK$99.71 million) and contributions thereto attributable to Wan Yuan Industry, Energia Hidroelectrica de Navarra, Entidad de Tenencia de Valores en el Extranjero, S.A. ("Energia") and International Commercial E. Industria S.A. (" International Commercial") amounted to RMB45 million (or approximately HK$45 million), RMB45 million (or approximately HK$45 million) and RMB9.71 million (or approximately HK$9.71 million) respectively. Wan Yuan Industry, Energia and International Commercial hold 45%, 45% and 10% equity interest in Nantong Acciona respectively.

Beijing Acciona is a Sino-foreign equity joint venture established in the PRC on 9 September 2005, and is principally engaged in development of renewable energy projects, research and development of related technologies and equipment, especially those of wind power marketing, blades, biomass and biofuel for the market of PRC, management and human resource training. Since the date of incorporation, Beijing Acciona has not commenced its business. The total registered capital of Beijing Acciona is RMB50 million (or approximately HK$50 million) and contributions thereto attributable to Wan Yuan Industry, Energia and International Commercial amounted to RMB22.5 million (or approximately HK$22.5 million), RMB22.5 million (or approximately HK$22.5 million) and RMB5 million (or approximately HK$5 million) respectively. Wan Yuan Industry, Energia and International Commercial hold 45%, 45% and 10% equity interest in Beijing Acciona respectively.

Currently, Wan Yuan Industry equity accounted for the Acquired Businesses in its consolidated accounts.

REASONS FOR THE PROPOSED ACQUISITION

The Company was incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange and is an investment holding company. The Group is principally engaged in the businesses of manufacture and sale of communication product, distribution of intelligent transportation system in application of global positioning system and broadband wireless access system. To broaden its business scope and earning base as well as diversifying its business risk from concentration on the telecommunication sector, the Company began investments in the alternate power industry. The Group has currently invested into three joint venture operations relating to wind energy production in the PRC. The Company is of the view that the Proposed Acquisition represents a good opportunity for the Group to further expand its business in the alternate energy market, including investments in wind turbine manufacturing and renewable energy projects. Also, taking into account of the dividends received from the Acquired Businesses in the past years, the Company's cashflow position will be substantially enhanced.

The Directors believe that the terms of the Sale and Purchase Agreements, including the Consideration and the Issued Price, are on normal commercial terms which are fair and reasonable, and the Proposed Acquisition is entered into in the interests of the Company and its Shareholders as a whole.

FINANCIAL INFORMATION ON THE GROUP

The following table sets out a summary of consolidated audited financial information of the Group as extracted from the published annual reports for the two years ended 31 December 2006:

	For the year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	156,199	185,784	148,126
Profit/(loss) before taxation	(66,931)	(29,874)	6,722
Profit/(loss) attributable to Shareholders	(64,562)	(29,781)	5,368
Net tangible assets	80,474	116,756	139,880

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

After Completion, Advanced Grade and Wan Yuan Industry will become the wholly-owned subsidiaries of the Group and their results will be consolidated into the accounts of the Group. Also, the Group will hold the Acquired Businesses with less than 50% equity interests in the respective companies which will become either associates or jointly controlled entities of the Group and their results will be equity accounted for in the accounts of the Group.

In addition, the Company will, under HKFRS 3, recognise all the identifiable assets and liabilities of Advanced Grade and Wan Yuan Industry (including the Acquired Businesses) at their fair values in its consolidated financial statements. The difference between the cost of acquisition and net attributable fair value of the identifiable assets, liabilities and contingent liabilities so recognised will be accounted for as goodwill or excess on acquisition. Any goodwill arising from the Proposed Acquisition will be recognised as an asset in the consolidated balance sheet and carried at cost, subject to annual impairment review. Such impairment will have to be recognised as an expense in the income statement. Any excess on acquisition arising from the Proposed Acquisition will be credited to the Company's income statement as an other revenue. These accounting treatments are consistent with the accounting policies of the Group.

As required by HKFRS 3, the fair value of the Consideration Shares for accounting purposes will be determined at the Completion date. As a result, the value of the goodwill will, subject to the share price of the Shares at the Completion date, be recognised as an asset in the consolidated balance sheet in the manner as aforesaid.

The following sets out for illustrative purposes only the key financials of (i) the unaudited pro forma income statement of the Enlarged Group commencing on 1 January 2006 as if the Completion had taken place on 1 January 2006; and (ii) the unaudited pro forma net assets statement of the Enlarged Group as at 31 December 2006 as if the Completion had taken place on 31 December 2006. Please refer to Appendix IV to this circular for basis of preparing the unaudited pro forma financial information on the Enlarged Group and the unaudited pro forma financial information on the Enlarged Group after the Completion.

Net assets

The audited consolidated net asset value of the Group as at 31 December 2006 as extracted from the consolidated balance sheet of the Group as at 31 December 2006 was approximately HK$90.3 million, comprising total assets of approximately HK$417.6 million, total liabilities of approximately HK$325.3 million and minority interests of approximately HK$2.0 million.

As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2006, the unaudited pro forma net assets of the Enlarged Group will have been approximately HK$1,788.3 million, comprising unaudited pro forma total assets of approximately HK$2,115.6 million, unaudited pro forma total liabilities of approximately HK$325.3 million and unaudited pro forma minority interests of approximately HK$2.0 million.

Earnings

The audited consolidated net loss of the Group attributable to the Shareholders for the year ended 31 December 2006 as extracted from the consolidated income statement of the Group for the year ended 31 December 2006 was approximately HK$64.6 million.

As set out in Appendix IV to this circular, assuming the Completion had taken place on 1 January 2006, the unaudited pro forma net profit of the Enlarged Group attributable to the Shareholders would be approximately HK$32.1 million.

Indebtedness

At the close of business on 30 April 2007, Advanced Grade and its subsidiaries (as if Completion had already taken place) did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of Advanced Grade and its subsidiaries (as if Completion had already taken place) since 30 April 2007.

Gearing

As at 31 December 2006, gearing ratio of the Group (total borrowings over shareholders' equity) was 294%.

As Advanced Grade and its subsidiaries (as if Completion had already taken place) had no borrowings as at 31 December 2006, gearing ratio of the Enlarged Group (total borrowings over shareholders' equity) was significantly reduced to 15%.

Working Capital

As set out in Appendix IV to this circular, the increase in net cash and cash equivalents for the year ended 31 December 2006 will be slightly increased by approximately 2.5% to approximately HK$60.35 million as if the Completion had taken place on 1 January 2006.

However, taking into account of the past history of dividends income from the Acquired Businesses (2006: RMB16.56 million, 2005: RMB129.99 million and 2004: RMB58.55 million) as set out in cash flow statements in Appendix III to this circular, the Group's cashflow position will be substantially enhanced after Completion.

After due and careful enquiry and taking into account of the financial resources available to Advanced Grade and its subsidiaries (as if Completion had already taken place), the Directors are of the opinion that, in the absence of unforeseen circumstances, the working capital available to Advanced Grade and its subsidiaries is sufficient for its present requirements.

Furthermore, after due and careful enquiry and taking into account the financial resources available to the Group, Advanced Grade and its subsidiaries, the Directors are of the opinion that the Enlarged Group will, following Completion and in the absence of unforeseen circumstances, have sufficient working capital for its requirements.

IMPLICATIONS OF THE PROPOSED ACQUISITION UNDER THE LISTING RULES AND THE TAKEOVERS CODE

At the Latest Practicable Date, CALT, the guarantor under the Sale and Purchase Agreements, through Astrotech, is beneficially interested in 449,244,000 Shares, representing approximately 44.17% of the existing issued share capital of the Company. Accordingly, CALT and Astrotech are connected persons of the Company under the Listing Rules. The Proposed Acquisition therefore constitutes a connected transaction for the Company under the Listing Rules. Also, as the percentage ratios contemplated in the Proposed Acquisition as defined in the Listing Rules are more than 100%, the Proposed Acquisition thus constitutes a very substantial acquisition for the Company. The Proposed

Acquisition is subject to the approval of the Independent Shareholders by way of poll at the EGM where Astrotech and parties acting in concert with it, their respective associates and those involved or interested in the Proposed Acquisition and the Whitewash Waiver will abstain from voting.

Upon Completion (assuming that no further Shares, other than the Offer Shares and the Consideration Shares, are issued by the Company between the Latest Practicable Date and Completion), the beneficial shareholding interest of Astrotech (and parties acting in concert with it) in the Company will increase from approximately 44.17% to 73.10%. Accordingly, Astrotech will be obliged to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Astrotech and parties acting in concert with it under Rule 26.1 of the Takeovers Code, unless a Whitewash Waiver is obtained from the Executive.

In this regard, Astrotech had made an application to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted to Astrotech and its concert parties, subject to the approval of the Independent Shareholders by way of poll at the EGM. Astrotech and parties acting in concert with it, their respective associates and those involved or interested in the Proposed Acquisition and the Whitewash Waiver are required to abstain from voting at the EGM. **Completion is subject to the satisfaction of a number of conditions precedent (including the obtaining of the Whitewash Waiver from the Executive) as detailed above. The condition regarding the Whitewash Waiver will not be waived by Astrotech under the Sale and Purchase Agreements. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

Upon Completion (assuming that no further Shares, other than the Offer Shares and the Consideration Shares, are issued by the Company between the Latest Practicable Date and Completion), the beneficial shareholding interest of Astrotech (and parties acting in concert with it) in the Company will exceed 50% of the issued share capital of the Company as enlarged by the Offer Shares and Consideration Shares to be issued pursuant to the Sale and Purchase Agreements. Accordingly, if the Whitewash Waiver is approved by the Independent Shareholders, Astrotech (and parties acting in concert with it) may acquire further Shares following Completion without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

Astrotech has confirmed that it (and parties acting in concert with it) has not dealt in the securities of the Company during the period beginning 6 months prior to the date of the Announcement and ending on the Latest Practicable Date, and will not deal in them prior to the Completion or lapse of the Proposed Acquisition. As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Astrotech and parties acting in concert with it.

OPEN OFFER

To cater for the cash consideration of the Proposed Acquisition, the Company will raise approximately HK$136 million, net of expenses, by issuing 406,855,905 Offer Shares. However, as one of the conditions of the Open Offer is the approval of the Sale and Purchase Agreements by Independent Shareholders by poll at the EGM, should such approval not be obtained, the Open Offer will not proceed.

Issue statistics

Basis of the Open Offer	:	Four Offer Shares for every ten existing Shares held on the Record Date
Subscription Price	:	HK$0.35 per Offer Share (the same as the Issue Price)
Number of existing Shares in issue as at the date of of this circular	:	1,017,139,763 Shares
Number of Offer Shares	:	406,855,905 Offer Shares
Number of Shares in issue upon completion of the Open Offer	:	1,423,995,668 Shares

The Offer Shares to be issued represent (i) approximately 40% of the entire issued share capital of the Company as at the date of this circular, (ii) approximately 28.57% of the entire issued share capital of the Company as enlarged by the issue of the Offer Shares, and (iii) approximately 11.23% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and the Consideration Shares.

As at the date of this circular, the Company has no derivatives option, warrants and conversion rights and other similar rights which are convertible or exchangeable into Shares and, save for the Open Offer, has no intention to issue any new shares or any of the above securities before completion of the Open Offer.

As at the Latest Practicable Date, Astrotech is beneficially interested in 449,244,000 Shares. Astrotech has undertaken to the Company that it will not (i) subscribe for the Offer Shares to which it is entitled under the Open Offer in order to comply with Schedule VI 3(b) of the Takeovers Code; and (ii) dispose of the Shares held by it from the date of the Underwriting Agreement to Completion.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Open Offer, Shareholders must at the close of business on the Record Date:

(i) be registered on the register of members of the Company; and

(ii) not be an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:00 p.m. on 11 July 2007. The address of the Registrar is:

Standard Registrars Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange.

Closure of register of members

The register of members of the Company will be closed from 12 July 2007 to 16 July 2007, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price for the Offer Shares is HK$0.35 per Offer Share, payable in full on acceptance. The Subscription Price represents:

(a) a discount of approximately 55.13% to the closing price per Share of HK$0.78 as quoted on the Stock Exchange on 12 February 2007, being the Last Trading Day;

(b) a discount of approximately 50.70% to the average closing price per Share of HK$0.71 as quoted on the Stock Exchange for the last 5 trading days leading up to and including the Last Trading Day;

(c) a discount of approximately 50.00% to the average closing price per Share of HK$0.70 as quoted on the Stock Exchange for the last 10 trading days leading up to and including the Last Trading Day;

(d) a discount of approximately 40.68% to the average closing price per Share of HK$0.59 as quoted on the Stock Exchange for the last 30 trading days leading up to and including the Last Trading Day;

(e) a discount of approximately 46.97% to the theoretical ex-entitlement price per Share of HK$0.66 based on the closing price as quoted on the Stock Exchange on the Last Trading Day; and

(f) a premium of approximately 337.50% over the latest published audited consolidated net tangible assets per Share of approximately HK$0.08 as at 31 December 2006.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter and after having taken into account, among other things, i) the historical price of the Shares for the past year; ii) the business performance of the Company in the past; and iii) the Issue Price. The Directors consider that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Fractions of Offer Shares

The Company will not allot fractions of the Offer Shares. Any fractional entitlement to the Offer Shares will be aggregated and will be taken up by the Underwriter and/or the Qualifying Shareholders who have applied for the excess Offer Shares.

Application for excess Offer Shares

Qualifying Shareholders may make excess application. Applications for excess Offer Shares can be made only by completing the excess application form and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Company will allocate the excess Offer Shares at their discretion on a fair and equitable basis.

Investors with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company, must lodge all necessary document with the branch share registrar of the Company in Hong Kong for completion of the relevant registration by 4:00 p.m. on 11 July 2007.

The latest time for the acceptance of and payment for Offer Shares is 4:00 p.m. on 2 August 2007, or such later time or date as may be agreed between the Company and the Underwriter.

Share certificates and refund cheques for Open Offer

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before 9 August 2007 to those entitled thereto by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares (if any) are expected to be posted on or before 9 August 2007 by ordinary post to the applicants at their own risk.

Rights of the Overseas Shareholders

If, at the close of business on the Record Date, a Shareholder's registered address and correspondence address on the register of members of the Company are in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents are not expected to be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong. The Board will make enquiries to its lawyers as to whether the issue of Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange pursuant to Rule 13.36(2)(a) of the Listing Rules. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders, the Open Offer will not be available to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Excluded Shareholders. The results of the enquiries and the basis of exclusion of Overseas Shareholders will be disclosed in the Prospectus Document.

The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded Shareholders.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

Conditions of the Open Offer

The Open Offer is conditional upon:

(1) the signing by or on behalf of all of the Directors of one printed copy of each of the Prospectus Documents and the certification by all Directors (or by their agents duly authorised in writing) in the manner as mentioned in paragraph (6) below of two copies of each of the Prospectus Documents on or before the Posting Date;

(2) the delivery of one such signed copy of each of the Prospectus Documents to the Underwriter on or before the Posting Date;

(3) the approval of the Sale and Purchase Agreements (including the allotment and issue of Consideration Shares) by Independent Shareholders by poll at the EGM on or before the Posting Date;

(4) the approval of the Whitewash Waiver by Independent Shareholders by poll at the EGM and the receipt of the Whitewash Waiver before the Posting Date;

(5) the obtaining of the necessary approvals issued by the relevant PRC authorities of the Restructuring and the Proposed Acquisition before the Posting Date;

(6) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by two Directors (or by their agents duly authorised in writing) in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules on or before the Posting Date;

(7) the posting of copies of the Prospectus Documents to the Qualifying Shareholders on the Posting Date;

(8) compliance by the Company with all its obligations under the Underwriting Agreement; and

(9) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares on or before 4:00 p.m. on the Business Day immediately preceding the commencement of dealings in Offer Shares.

In the event the said conditions have not been satisfied on or before the respective dates above (or such other date as the Company and the Underwriter may otherwise agree, which shall not be later than 30 September 2007 unless extended by mutual agreement), the Underwriting Agreement shall terminate and all obligations and liabilities of the parties thereunder shall cease and determine and no party shall have any claim against the others (save for any antecedent breaches thereof).

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Date	:	2 April 2007
Underwriter	:	Luen Fat Securities Company Limited
Number of Offer Shares underwritten	:	Pursuant to the Underwriting Agreement, the Underwriter have conditionally agreed to underwrite 406,855,905 Offer Shares, representing approximately 40% of the entire issued share capital of the Company as at the date of this circular, on a fully underwritten basis
Commission	:	3% of the aggregate Subscription Price in respect of then number of Offer Shares agreed to be underwritten by the Underwriter

The 3% commission payable to the Underwriter was determined after arm's length negotiations between the Company and the Underwriter. The Directors consider that the underwriting commission is on normal commercial terms and accords with market rates.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Offer Shares which have not been taken up. The Underwriter and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules), and are not acting in concert with the Sub-underwriter, Astrotech and their respective concert parties.

Termination of the Underwriting Agreement

The Underwriter has the right to terminate the Underwriting Agreement by notice in writing given to the Company at any time prior to 4:00 p.m. on the second Business Day after the latest time for the acceptance of and payment for Offer Shares, if:

(i) the occurrence of the following events would, in the reasonable opinion of the Underwriter, materially and adversely affect the business, financial or trading position or prospects of the Group as a whole or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or

(c) the occurrence of any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities);

(ii) any change occurs in the circumstances of the Company or any member of the Group which would materially and adversely affect the prospects of the Group as a whole;

(iii) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement;

(iv) the Underwriter shall receive notification pursuant to the terms of the Underwriting Agreement or shall otherwise become aware of, the fact that any of the representations or warranties by the Company in the Underwriting Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate and the Underwriter shall in its reasonable opinion determine that any such untrue representation or warranty represents or is likely to represent a material and adverse change in the business, financial or trading position or prospects of the Group as a whole or is otherwise likely to have a material and adverse effect on the Open Offer; or

(v) the Company shall, after any matter or event that comes to the attention of the Company that any representation or warranty given would be untrue or inaccurate in any respect or would render untrue, inaccurate in any material respect or misleading or such events come to the attention of the Underwriter, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of such termination notice, all obligations of the Underwriter shall cease and determine (save for any antecedent breaches thereof) and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement.

USE OF PROCEEDS

The net proceeds from the Open Offer of approximately HK$136 million will be applied as to (i) HK$130 million for the cash consideration of the Proposed Acquisition; and (ii) the remaining balance for general working capital of the Group.

As majority of the proceeds of the Open Offer will be used as consideration for the Proposed Acquisition, the completion of the Open Offer will take place on or before Completion.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE LAST TWELVE MONTHS IMMEDIATELY BEFORE THE DATE OF THIS ANNOUNCEMENT

The Company did not have any capital raising activities in the last twelve months immediately before the date of the Announcement.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES

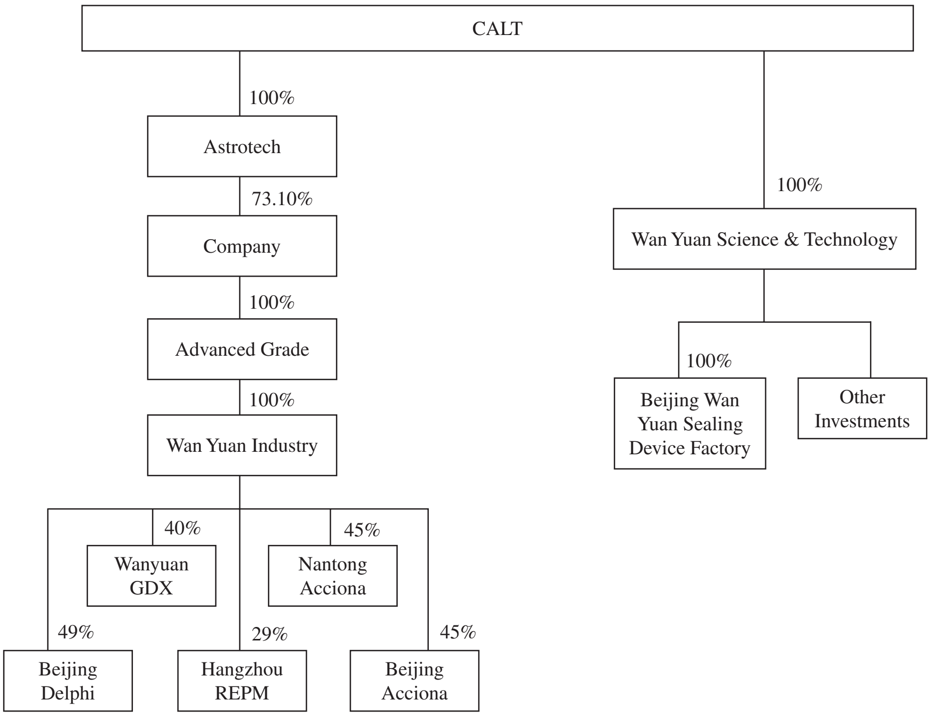
Shareholders should note that if the conditions of the Open Offer are not fulfilled or the Underwriting Agreement is terminated, the Open Offer will not proceed. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Open Offer is subject are fulfilled will bear the risk that the Open Offer may not become unconditional or may not proceed. If in any doubt, investors are recommended to consult their professional advisers.

EXPECTED TIMETABLE OF THE OPEN OFFER

	2007
Last day of dealing in Shares on a cum-entitlement basis	Monday, 9 July
First day of dealing in Shares on an ex-entitlement basis	Tuesday, 10 July
Latest time for lodging transfers of Shares in order to be qualified for the Open Offer	4:00 p.m. on Wednesday, 11 July
Register of members of the Company closes	Thursday, 12 July to Monday, 16 July (both dates inclusive)
Record Date	Monday, 16 July
Register of members of the Company reopens	Tuesday, 17 July
Despatch of the Prospectus Documents	Wednesday, 18 July
Latest time for the acceptance of and payment for Offer Shares	4:00 p.m. on Thursday, 2 August
Latest time for the Open Offer to become unconditional	4:00 p.m. on Monday, 6 August
Announcement of the results of acceptance and excess applications of the Open Offer	Wednesday, 8 August
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Thursday, 9 August
Despatch of share certificates for Offer Shares	Thursday, 9 August
Dealing in fully-paid Offer Shares commences	Monday, 13 August

All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be announced as appropriated.

STRUCTURE AFTER COMPLETION OF THE OPEN OFFER AND THE PROPOSED ACQUISITION



SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a table showing the shareholding structure of the Company i) as at the Latest Practicable Date; ii) immediately upon completion of the Open Offer; and iii) immediately upon Completion:–

	As at the Latest Practicable Date		Immediately upon completion of the Open Offer				Immediately upon Completion			
			(assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		(assuming no Qualifying Shareholder takes up his/her/its entitlements under the Open Offer)		(assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		(assuming no Qualifying Shareholder takes up his/her/its entitlements under the Open Offer)	
Shareholders	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**	**Number of Shares held**	**% (approx.)**
Astrotech and its concert parties	449,244,000	44.17	449,244,000	31.55	449,244,000	31.55	2,649,244,000	73.10	2,649,244,000	73.10
Underwriter *(Note)*	–	–	179,697,600	12.62	283,855,905	19.93	179,697,600	4.96	283,855,905	7.83
Sub-underwriter *(Note)*	–	–	–	–	123,000,000	8.64	–	–	123,000,000	3.40
Other Public Shareholders	567,895,763	55.83	795,054,068	55.83	567,895,763	39.88	795,054,068	21.94	567,895,763	15.67
Sub-total of public float	567,895,763	55.83	974,751,668	68.45	974,751,668	68.45	974,751,668	26.90	974,751,668	26.90
Total	**1,017,139,763**	**100.00**	**1,423,995,668**	**100.00**	**1,423,995,668**	**100.00**	**3,623,995,668**	**100.00**	**3,623,995,668**	**100.00**

Note: Pursuant to a sub-underwriting arrangement made between the Underwriter and the Sub-underwriter (who and whose respective ultimate beneficial owners are also third parties independent of the Company and its connected persons, and not acting in concert with the Underwriter, Astrotech and their respective concert parties), the Underwriter has conditionally agreed to sub-underwrite 123,000,000 Offer Shares to the Sub-underwriter.

Shareholders and public investors should note that the above shareholding structure is for illustration purpose only and the actual shareholding structure of the Company upon completion of the Open Offer and Completion are subject to various factors, including the results of acceptance of the Open Offer.

The Proposed Acquisition and the Open Offer will not result in a change of control of the Company.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Taking into account of the past history of the Acquired Businesses, the Group's cashflow position will be substantially enhanced after Completion. The Group will continue to expand its business in the alternate energy market through acquiring or investing quality alternate energy projects. At the same time, the Group will also continue to seek for any investment opportunity to diversify its business.

The Group will benefit from its continuous investments in alternate energy industry 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.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF SUBJECT ENTITIES

(1) Management Discussion and Analysis of the Performance of Advanced Grade

Advanced Grade was incorporated on 13 December 2006 which does not carry on any business or have any material assets. After completion of the Restructuring, Advanced Grade will hold the entire equity interest in Wan Yuan Industry.

(2) Management Discussion and Analysis of the Performance of Wan Yuan Industry

Upon completion of the Restructuring, Wan Yuan Industry will not carry on any business or have any materials assets, other than Acquired Businesses. The following are the management discussion and analysis of the performance of Wan Yuan Industry as if the Restructuring had taken place and Wan Yuan Industry had been in operation on a stand alone basis.

For the year ended 31 December 2004

RESULTS SUMMARY

For the year ended 31 December 2004, as compared to the last year, Wan Yuan Industry's profit for the year was slightly decreased by approximately 6.6% to RMB111.64 million.

BUSINESS REVIEW

During the year, Wan Yuan Industry was continuously acting as an investment holding company with non-controlling equity interest in three joint venture companies. Wan Yuan Industry's investments are principally engaged in the manufacture of automotive parts (engine management systems and components, and automotive sealing system and accessories, collectively referred as the "Automotive Related Business") and rare-earth-permanent magnet motors for elevator (the "Rare-Earth Business") in the PRC.

During the year, the share of net profits of the Automotive Related Business continuously contributed majority of net profits of Wan Yuan Industry. In 2004, the automotive industry in the PRC did not sustain the explosive rapid growth as it did in the past two years. Instead, it had entered a stage of stable development following market adjustments. Affected by the negative impacts resulted from the State's implementation of macroeconomic control measures, the tightening of car loans, restraints on urban roads due to traffic environment and the upsurge of oil price, there was a certain downward adjustment to the growth rate of production and sales volume of automobiles as compared with those of the previous year. Accordingly, Wan Yuan Industry's share of net profits of the Automotive Related Business in current year was slightly decreased by approximately 6.4% to RMB112.30 million.

During the year, the Rare-Earth Business continued its research and development on the new products and commenced its small scale production in current year, which incurred loss during the year. Accordingly, Wan Yuan Industry shared loss of approximately RMB0.86 million from this business.

FINANCIAL POSITION

During the year, Wan Yuan Industry received dividends of RMB58.55 million from the Automotive Related Business and which was subsequently distributed to its equity holder.

Save as its interest in the Automotive Related Business and the Rare-Earth Business, as at the balance sheet date, Wan Yuan Industry had no assets or liabilities. Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2004 was zero.

Save as disclosed in the accountants' report in Appendix III to this circular, Wan Yuan Industry had no contingent liabilities and commitments.

For the year ended 31 December 2005

RESULTS SUMMARY

For the year ended 31 December 2005, as compared to the last year, Wan Yuan Industry's profit for the year was significantly decreased by approximately 24.8% to RMB83.99 million.

BUSINESS REVIEW

During the year, Wan Yuan Industry was continuously acting as an investment holding company with non-controlling equity interest in three joint venture companies. Wan Yuan Industry's investments are principally engaged in the manufacture of automotive parts (engine management systems and components, and automotive sealing system and accessories, collectively referred as the "Automotive Related Business") and rare-earth-permanent magnet motors for elevator (the "Rare-Earth Business") in the PRC.

During the year, the share of net profits of the Automotive Related Business continuously contributed majority of net profits of Wan Yuan Industry. In 2005, the automobile industry in the PRC was significantly slowdown caused by the State's tightening policies on the automotive industry in the third quarter of 2004. Accordingly, Wan Yuan Industry's share of net profits of the Automotive Related Business in current year was significantly decreased by approximately 24.9% to RMB84.30 million.

During the year, the Rare-Earth Business continued its research and development on the new products and its small scale production. As it is still in development stage, the Rare-Earth Business continuously incurred loss during the year. Accordingly, Wan Yuan Industry shared loss of approximately RMB1.03 million from this business.

During the year, Wan Yuan Industry entered into two joint venture agreements for its new investments in wind turbine manufacturing and renewable energy projects (collectively referred as the "Alternate Energy Business"). Total capital investments in this aspect was RMB49.50 million. The Alternate Energy Business has not commenced its commercial operation in 2005.

FINANCIAL POSITION

During the year, Wan Yuan Industry received dividends of RMB129.99 million from the Automotive Related Business and contribution of RMB54.50 million from its equity holder to finance its capital requirement for the Alternate Energy Business. On the other hand, Wan Yuan Industry distributed RMB127.39 million to its equity holder in 2005.

Save as its interest in the Automotive Related Business, the Rare-Earth Business and the Alternate Energy Business, as at the balance sheet date, Wan Yuan Industry had no assets or liabilities. Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2005 was zero.

Save as disclosed in the accountants' report in Appendix III to this circular, Wan Yuan Industry had no contingent liabilities and commitments.

For the year ended 31 December 2006

RESULTS SUMMARY

For the year ended 31 December 2006, as compared to the last year, Wan Yuan Industry's profit for the year was significantly increased by approximately 15.1% to RMB96.70 million.

BUSINESS REVIEW

During the year, Wan Yuan Industry was continuously acting as an investment holding company with non-controlling equity interest in five joint venture companies. Wan Yuan Industry's investments are principally engaged in the manufacture of automotive parts (engine management systems and components, and automotive sealing system and accessories, collectively referred as the "Automotive Related Business") and rare-earth-permanent magnet motors for elevator (the "Rare-Earth Business"), and wind turbine manufacturing and renewable energy projects (collectively referred as the "Alternate Energy Business") in the PRC.

During the year, the share of net profits of the Automotive Related Business continuously contributed majority of net profits of Wan Yuan Industry. The sluggish recovery from the weakened automotive industry started since late 2005 and the recovery is expected to continue in 2007. Accordingly, Wan Yuan Industry's share of net profits of the Automotive Related Business in current year was significantly increased by approximately 24.4% to RMB104.75 million.

During the year, the Rare-Earth Business continued its research and development on the new products. Turnover for the Rare-Earth Business was increased by approximately 319.75%. However, as it is still in development stage, the Rare-Earth Business continuously incurred loss during the year. Accordingly, Wan Yuan Industry shared loss of approximately RMB1.88 million from this business.

The manufacturing of wind turbine had been commenced during the second half year, while the renewable energy project is still inactive. As the production volume of wind turbine is still very low, the Alternate Energy incurred loss during the year. Accordingly, Wan Yuan Industry shared loss of approximately RMB6.26 million from this business.

FINANCIAL POSITION

During the year, Wan Yuan Industry received dividends of RMB16.56 million from the Automotive Related Business and which was subsequently distributed to its equity holder. In addition, Wan Yuan Industry received contribution of RMB4.50 million from its equity holder in 2006.

Save as cash and cash equivalents of RMB4.50 million and its interest in the Automotive Related Business, the Rare-Earth Business and the Alternate Energy Business, as at the balance sheet date, Wan Yuan Industry had no assets or liabilities. Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2006 was zero.

Save as disclosed in the accountants' report in Appendix III to this circular, Wan Yuan Industry had no contingent liabilities and commitments.

EGM

Set out on pages 60 to 62 is a notice convening the EGM to be held at Hall 1B, G/F., No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 18 June 2007 at 11:00 a.m. at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Proposed Acquisition (including the Sale and Purchase Agreements and issue of the Consideration Shares) and the Whitewash Waiver.

A form of proxy is enclosed with this document for use at the EGM. Whether or not you intend to be present at the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the holding of the meeting. Completion of a form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

Astrotech and parties acting in concert with it, their respective associates and those involved or interested in the Proposed Acquisition and the Whitewash Waiver shall abstain from voting at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Yiu Ying Wai, Mr. Wong Fai, Philip, Mr. Zhu Shixiong and Mr. Moh Kwen Yung, has been formed to advise the Independent Shareholders on the Proposed Acquisition (including the terms of the Sale and Purchase Agreements) and the Whitewash Waiver. As all non-executive Directors, namely Mr. Wu Yansheng, Mr. Liang Xiaohong and Mr. Tang Guohong, are representatives of CALT, they are considered not to be independent for appointment as members of the Independent Board Committee. Your attention is drawn to the advice from the Independent Board Committee set out in their letter dated 1 June 2007 on pages 38 to 39 of this circular.

INDEPENDENT FINANCIAL ADVISER

Partners Capital International Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Proposed Acquisition (including the terms of the Sale and Purchase Agreements) and the Whitewash Waiver. The appointment of Partners Capital International Limited as the independent adviser has been approved by the Independent Board Committee. Your attention is drawn to the advice from the Independent Financial Adviser set out in its letter dated 1 June 2007 on pages 40 to 59 of this circular.

RECOMMENDATION

The Directors believe that the transaction contemplated under the Sale and Purchase Agreements including the terms of the Proposed Acquisition and issue of the Consideration Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreements, the Proposed Acquisition and the issue of the Consideration Shares.

Your attention is drawn to the letter from Independent Board Committee set out in this circular which contains advice in relation to the Proposed Acquisition and the Whitewash Waiver and the recommendation to the Independent Shareholders concerning the Proposed Acquisition and Whitewash Waiver. Moreover, your attention is also drawn to the letter from the Independent Financial Adviser set out in this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in this regard and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its advice.

FURTHER INFORMATION

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it.

Yours faithfully,
For and on behalf of the board of directors of
CASIL Telecommunications Holdings Limited
Wang Xiaodong
Executive Director

The following is the text of a letter received from the Independent Board Committee setting out their advice to the Independent Shareholders for the purpose of inclusion in this circular.

CASTEL

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1185)

1 June 2007

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ADVANCED GRADE HOLDINGS LIMITED AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 1 June 2007 (the "Circular") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular.

We, being the Directors constituting the Independent Board Committee, have been appointed by the Board to advise you as to whether the Proposed Acquisition are fair and reasonable insofar as the Independent Shareholders are concerned.

We wish to draw your attention to the letter from the Board, which is set out on pages 7 to 37 of the Circular, and the letter of advice from the Independent Financial Adviser appointed by the Company to advise the Independent Board Committee, setting out its advice to us in respect of the Proposed Acquisition, as set out on pages 40 to 59 of the Circular.

* *For identification purpose only*

Having considered the terms of the Proposed Acquisition and the advice of the Independent Financial Adviser, we are of the opinion that the terms of the Proposed Acquisition and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned and the Proposed Acqusition and Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Proposed Acquisition and the Whitewash Waiver.

Yours faithfully,

Yiu Ying Wai **Wong Fai, Philip** **Zhu Shixiong** **Moh Kwen Yung**

Independent Board Committee

The following is the text of the letter to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser prepared for the purpose of incorporation into this circular.

博大資本國際有限公司
Partners Capital International Limited

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

1 June 2007

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition and the Whitewash Waiver, particulars of which are set out in the letter from the Board (the "Letter from the Board") of this circular to the Shareholders dated 1 June 2007 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

The Sale and Purchase Agreements have been entered into amongst the Vendor, the Purchaser and the Guarantor. Pursuant to the Sale and Purchase Agreements, 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. As CALT, the guarantor under the Sale and Purchase Agreements, through Astrotech, is beneficially interested in 449,244,000 Shares, representing approximately 44.17% of the existing issued share capital of the Company, CALT and Astrotech are connected persons of the Company under the Listing Rules. Accordingly, the Proposed Acquisition constitutes a connected transaction of the Company under the Listing Rules. In addition, as certain of the percentage ratios calculated under the Listing Rules in respect of the Proposed Acquisition exceeds 100%, the Proposed Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. In view of the above, the Proposed Acquisition will be subject to the approval of the Independent Shareholders at the EGM under Chapters 14 and 14A of the Listing Rules. On the other hand, upon the Completion (assuming that no further Shares, other than the Offer Shares and the Consideration Shares, are issued by the Company between the Latest Practicable Date and the Completion), the beneficial shareholding interest of Astrotech (and parties acting in concert with it) in the Company will increase from approximately 44.17% to 73.10%. Accordingly, Astrotech will be obliged to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Astrotech and parties acting in concert with it under Rule 26.1 of the Takeovers Code, unless a Whitewash Waiver is obtained from the Executive. An application has been made by Astrotech to the Executive for the Whitewash Waiver pursuant to the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which Astrotech and parties acting in concert with it will abstain from voting on the relevant resolution. In this regard, Partners Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Proposed Acquisition and the Whitewash Waiver.

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Mr. Yiu Ying Wai, Mr. Wong Fai, Philip, Mr. Zhu Shixiong and Mr. Moh Kwen Yung, was formed to advise the Independent Shareholders in respect of the Proposed Acquisition and the Whitewash Waiver.

The appointment of Partners Capital International Limited as the independent financial adviser in respect of the Proposed Acquisition and the Whitewash Waiver has been approved by the Independent Board Committee. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion as to whether the terms of the Proposed Acquisition and the grant of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and whether the Proposed Acquisition and the grant of the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

Partners Capital International Limited is not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates and is independent pursuant to Rule 13.84 of the Listing Rules and is therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to Partners Capital in connection with this appointment, no arrangement exists whereby Partners Capital will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the respective terms and conditions of the Proposed Acquisition, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, CALT, Astrotech, Advanced Grade, Wan Yuan Industry, Beijing Delphi, Wanyuan GDX, Hangzhou REPM, Nantong Accoina, Beijing Accoina and their respective associates nor have we carried out any independent verification of the information supplied.

THE PROPOSED ACQUISITION

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Proposed Acquisition, we have considered the following principal factors and reasons:

1. Background of and reasons for the Proposed Acquisition

The Group is principally engaged in the manufacture and sales of communication product, distribution of Intelligent Transportation system in application of Global Positioning System and broadband wireless access system. To broaden its business scope and earning base as well as diversify business risk from concentration on the telecommunication sector, the Company began investments in the alternate power industry. The Group has currently invested into three joint venture operations relating to wind energy production in the PRC.

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2006:

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	156,199	185,784	148,126
Profit/(loss) before taxation	(66,931)	(29,874)	6,722
Profit/(loss) attributable to Shareholders	(64,562)	(29,781)	5,368
Net tangible assets	80,474	116,756	139,880

The Directors believe that the investment in the Acquired Businesses will allow the Company to diversify its income sources and to tap into the automotive engine management systems and components businesses and the rare-earth-permanent magnetic motors business in the PRC and the Proposed Acquisition represents a good opportunity for the Group to further expand its business in the alternate energy market, including investments in wind turbine manufacturing and renewable energy projects, both of which the Directors consider will have substantial growth potential in the future in light of the rapid growth in the economy in the PRC.

For assessing the prospects of the Acquired Businesses, we divide the Acquired Businesses into three business segments, namely, the automotive component parts, rare-earth-permanent magnetic motor business and alternative energy.

- ***The automotive component parts***

  The automotive component parts comprise a wide range of components of automobiles such as brakes, clutch, fuel tank, muffler and tires. The automotive engine management systems and components manufactured by Beijing Delphi and the car body sealing system, vessel sealing system and accessories manufactured by Wanyuan GDX are also classified as automotive component parts.

  Beijing Delphi is principally engaged in the manufacture and sale of automotive engine management systems and components for mini-vehicles and vehicles. Based on our review of the business profile of Beijing Delphi, we note that Beijing Delphi has captured a market share of one fifth of the domestic market of passenger vehicle engine management systems. We also note that the customers of Beijing Delphi are primarily domestic automobile manufacturers in the PRC, two of which were ranked among the top ten PRC automobile manufacturers in 2006 by the China Association of Automobile Manufacturers. Delphi is also the second largest automotive parts suppliers in the world.

Wanyuan GDX is principally engaged in the manufacture and sale of car body sealing system, vessel sealing system and accessories. Its car body sealing systems, which target the medium to high end sedan market, have been widely adopted by the major automobile manufacturers in the PRC in a wide range of brands such as Volkswagen, General Motors, Audi, Toyota, BMW, Mazda, Peugeot, Citrogen and other domestic brands such as 紅旗. We also note that six customers of Wanyuan GDX were ranked among the top ten PRC automobile manufacturers in 2006 by the China Association of Automobile Manufacturers. Wanyuan GDX was also awarded, among others, by FAW-VW Automobile Co., Ltd. (一汽大眾), FAW Car Co., Ltd. (一汽轎車) and China FAW Group Corporation (一汽集團) as one of the "Ten Best Suppliers" in 2005 and by Shanghai Volkswagen as "Distinguished Supplier".

According to the China Association of Automobile Manufacturers, the total number of the automobiles manufactured and total number of the automobiles sold in the PRC in 2006 were approximately 7.28 million vehicles and 7.22 million vehicles respectively, representing increases of approximately 27.32% and 25.13% as compared to those of the year 2005.

- ***Rare-earth-permanent magnetic motors***

Rare earth is a group of active metallic elements different from commonly-used elements in that rare earth is rarely directly used as a metal, but as an additive. When added to materials, rare earth either improves the quality of the materials, or creates totally new materials. Therefore, rare earth has been closely related to contemporary science and technology. Rare earth is widely used to make magnetic materials and rare-earth-permanent magnetic motors. The rare-earth-permanent magnetic motors manufactured by Hangzhou REPM are considered innovative products to the market and the business is at its incubation stage. Based on our study, we note that the weight and size of rare-earth-permanent magnetic motors are generally more than 50% lighter and smaller than those of conventional motors. Rare-earth-permanent magnetic motors are also characterised by their high performance in terms of high precision, low noise, high stability and heavy load. Significant energy saving could also be achieved on rare-earth-permanent magnetic motors. The prices of the rare-earth-permanent magnetic motors are also comparable to those of the conventional motors. Accordingly, we concur with the Directors that rare-earth-permanent magnetic motors will have the potential to tap into the conventional motors market.

- ***Alternative energy***

  Alternative energy is energy derived from resources that are regenerative or for all practical purposes cannot be depleted. Wind power, water power, solar energy, biofuel, geothermal energy and nuclear power are examples of alternative energy. In the context of the Acquired Businesses, we focus on wind power. According to the Global Wind Energy Council, 2006 recorded an increase of installed capacity of 15,197 megawatts, taking the total installed wind energy capacity worldwide to 74,233 megawatts, up from 59,091 megawatts in 2005. In terms of economic value, the wind energy sector has become one of the important players in the energy markets, with total value of new power generating equipment installed in 2006 reaching US$23 billion. The PRC has more than doubled its total installed capacity by installing 1,347 megawatts of wind energy in 2006, representing an increase of 70% from previous year's capacity. This brings the PRC up to 2,604 megawatts of capacity, making it the sixth largest wind energy market worldwide. The market in the PRC was boosted by the new Renewable Energy Law, which came into force on 1 January 2006. The new Renewable Energy Law was promulgated with a view to (i) promoting the development and utilization of renewable energy (including non-fossil energy of wind energy, solar energy, water energy, biomass energy, geothermal energy, and ocean energy), (ii) improving the energy structure, (iii) diversifying energy supplies, (iv) safeguarding energy security, (v) protecting the environment, and (vi) realizing the sustainable development of the economy and society. The Law covers areas such as (i) economic incentives and supervisory measures, (ii) price management and fee sharing, and (iii) industry guidance and technology support. According to the Global Wind 2006 Report published by the Global Wind Energy Council, based on the list of approved projects and those under construction by the Government of the PRC, 3,500 MW of wind capacity could be installed by the end of 2007, which represents an increase of more than 100% from previous year's capacity.

Against the above background and in light of the unsatisfactory financial performance of the Group in recent years, we consider it commercially sensible for the Group to seek other business opportunities so as to diversify its business risk and to increase its revenue sources. The Company has indicated to us that the Company currently has no intention to dispose of its loss-making businesses. Nevertheless, given the growth potentials of automotive components market, the rare-earth-permanent magnet motors business and the alternate energy industry in the PRC and the Proposed Acquisition represents a good opportunity for the Group to tap into such potential markets without cash outlay from internal resources, we consider the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

2. Terms of the Proposed Acquisition

(i) Consideration

Pursuant to the Sale and Purchase Agreements, the Company will purchase the entire issued share capital of Advanced Grade at a consideration (the "Consideration") of HK$900,000,000 which shall be satisfied by cash in the amount of HK$130,000,000 and the allotment and issue of the Consideration Shares at the Issue Price to Astrotech on Completion. As set out in the Letter from the Board, the Consideration was agreed after arm's length negotiations among the parties taking into consideration the historical performance and future prospects of the Acquired Businesses.

For the purpose of assessing of the fairness and reasonableness of the Consideration, the following approaches are adopted:

- *Price/earnings multiple*

  As the Acquired Businesses comprise manufacture of the automotive components businesses, rare-earth-permanent magnet motors business and alternate energy business in the PRC, reference to price/earnings multiple is the most common approach adopted by the investment community in valuing such kind of revenue-generating entities. Based on the accountants' report on Wan Yuan Industry as set out in Appendix III to this circular, the audited combined net profit attributable to the Acquired Businesses for the year ended 31 December 2006 was RMB96,704,000 (equivalent to HK$96,704,000). However, the net profit contributed by Beijing Delphi and Wanyuan GDX for the year ended 31 December 2006 amounted to RMB104,752,674 (equivalent to HK$104,752,674), representing approximately 108.3% of the audited combined net profit attributable to the Acquired Businesses.

  Beijing Delphi is engaged in the manufacturing and sale of engine management system and component and Wanyuan GDX is engaged in the manufacturing and sale of car body sealing system, vessel sealing system and accessories. Accordingly, for the purpose of assessing the reasonableness of the Consideration by reference to the price/earnings multiples, we have identified (to the best of our knowledge) six companies listed on the Stock Exchange which are principally engaged in the manufacture and sales of automobile component parts in the PRC (the "Comparables") and the details of the Comparables are set out below:

Company name of the Comparables engaging in the manufacture and sales of automobile component parts in the PRC	Year end date	Closing share price as at 12 February 2007 *(HK$)*	Approximate Market Capitalisation *(HK$ million)*	Latest published earnings per share *(HK$)*	Price/earnings multiple *(times)*
Xingda International Holdings Limited	31 December	4.99	6,417.1	0.2131	23.42
Minth Group Limited	31 December	6.7	5,561.0	0.324	20.68
Norstar Founders Group Limited	31 March	3.43	4,292.3	0.3524	9.73
Jinheng Automotive Safety Technology Holdings Limited	31 December	0.87	339.4	0.1186	7.34
Zhejiang Shibao Company Limited	31 December	0.80	210.2	0.14	5.71
Zhejiang Prospect Company Limited	31 December	0.86	65.9	0.053	16.23
				Mean	13.85
				Median	12.98

	Consideration *(HK$)*	Combined net profit *(HK$)*	
The Acquired Businesses	***900,000,000***	***96,704,000***	***9.3***

Source: www.hkex.com.hk and Infocast

Upon comparison, we note that the price/earnings multiple represented by the Consideration of 9.3 times falls within the range of the Comparables from 5.71 times to 23.42 times and lies below the mean and median of that of the Comparables, which were calculated with reference to the respective closing price of the shares of the Comparables as at 12 February 2007, being the last trading day prior to the signing of the Sale and Purchase Agreements.

Based on the above analysis which was made from the perspective of price/earnings multiples with reference to the Comparables, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

- *Net assets value*

In addition to price/earnings multiples, we also assess the Consideration by reference to the net assets value of the Acquired Businesses. Although it may not be most relevant to value a company principally engaged in manufacturing by reference to its net assets in general, we have reviewed and tabulated below the premia/(discounts) of the closing share prices of the Comparables as at 12 February 2007 over/(to) their respective net tangible assets value as reported in their latest published financial reports:

Company name of the Comparables engaging in the manufacture and sales of automobile component parts in the PRC	Year end date	Closing share price as at 12 February 2007	Latest published net tangible asset value per share	Premium/(discount) of the closing share price on 12 February 2007 over/(to) the latest published net tangible assets value per share
		(HK$)	*(HK$)*	
Xingda International Holdings Limited	31 December	4.99	1.48	237.2%
Minth Group Limited	31 December	6.7	1.40	378.6%
Norstar Founders Group Limited	31 March	3.43	1.60	114.4%
Jinheng Automotive Safety Technology Holdings Limited	31 December	0.87	0.56	55.4%
Zhejiang Shibao Company Limited	31 December	0.80	1.37	(41.6%)
Zhejiang Prospect Company Limited	31 December	0.86	1.42	(39.4%)
			Mean	117.4%
			Median	84.9%

	Consideration	*Combined net tangible assets*	
	(HK$)	***(HK$)***	
The Acquired Businesses	***900,000,000***	***436,665,000***	***106.1%***

Source: www.hkex.com.hk and Infocast

The premia/(discounts) of the closing share prices as at 12 February 2007, being the last trading day prior to the signing of the Sale and Purchase Agreements, over/(to) the net tangible asset value per share of the Comparables range from a discount of approximately 41.6% to a premium of approximately 378.6%.

Upon comparison, we note that the premium of the Consideration over the consolidated net tangible assets value of the Acquired Businesses as at 31 December 2006 of approximately 106.1% falls within the range of that of the Comparables and lies above the median of that of the Comparables but falls below the mean of that of the Comparables.

On the above basis and from the sole perspective of assessment of the Consideration with respect to the net asset value, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Mode of settlement of Consideration

Pursuant to the Sale and Purchase Agreements, the Company will purchase the entire issued share capital of Advanced Grade at a consideration of HK$900,000,000 which shall be satisfied by cash in the amount of HK$130,000,000 and the allotment and issue of the Consideration Shares at the Issue Price of HK$0.35 per Share to Astrotech on Completion. The Company confirmed that the Group will finance the cash consideration of HK$130,000,000 by the Open Offer.

As stated in the Announcement dated 2 April 2007 and the Letter from the Board, the Issue Price of HK$0.35 has been determined after arm's length negotiations among the parties, taking into account (a) the poor business performance of the Group for the past two financial years; (b) the low liquidity of the Shares as represented by (i) the average daily trading volume of the Shares of approximately 2,961,000 Shares for the year ended 31 December 2006 (representing approximately 0.521% of issued Shares held by the public); (ii) the average daily trading volume of the Shares of approximately 12,033,000 Shares for the two months ended 28 February 2007 (representing approximately 2.119% of issued Shares held by the public); and (c) the fact that the Issue Price represents a substantial premium of approximately 150.00% over the latest unaudited consolidated net assets per Share as at 30 June 2006 prior to the release of the Announcement, and a substantial premium of approximately 218.18% over the latest unaudited consolidated net tangible assets per Share as at 30 June 2006 prior to the release of the Announcement.

For our assessment purpose, we note that the Issue Price of HK$0.35 per Consideration Share represents:—

(i) a discount of approximately 55.1% to the closing price of HK$0.78 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 50.7% to the average closing price of approximately HK$0.71 per Share for the last five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 50.0% to the average closing price of approximately HK$0.70 per Share for the last 10 trading days up to and including the Last Trading Day;

(iv) a discount of approximately 40.7% to the average closing price of approximately HK$0.59 per Share for the last 30 trading days up to and including the Last Trading Day;

(v) a discount of approximately 35.2% to the average closing price of approximately HK$0.54 per Share for the last 90 trading days up to and including the Last Trading Day;

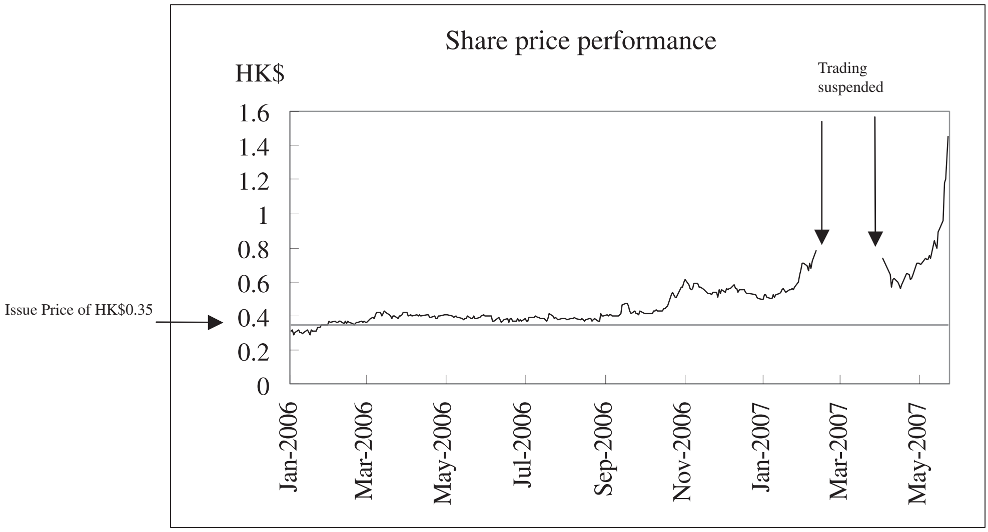
(vi) a discount of approximately 74.8% to the average closing price of approximately HK$1.39 per Share on the Latest Practicable Date; and

(vii) a premium of approximately 337.5% over the net tangible assets value per Share of HK$0.08 as at 31 December 2006 based on the latest published audited financial information of the Group as shown in the Company's 2006 annual report and the total number of issued Shares as at the date of the Announcement.

For the purpose of assessing of the fairness and reasonableness of the Issue Price, the following approaches are further taken into consideration:

(a) Share price performance

For the purpose of further comparing the Issue Price with the market price of the Shares, we plot the closing price level of the Shares traded on the Stock Exchange from 1 January 2006 to 12 February 2007 (being the Last Trading Day) (the "Review Period") and further up to the Latest Practicable Date (the "Extended Review Period") as follows:



Source: Infocast

During the Review Period, the lowest closing price was HK$0.285 per Share recorded on 18 January 2006 and the highest closing price was HK$0.78 per Share recorded on 12 February 2007. The trading of the Shares was suspended on 13 February 2007 pending the publication of the Announcement and the trading of the Shares resumed on 4 April 2007. The Issue Price represents a premium of approximately 22.8% over the lowest closing price per Share and a discount of approximately 55.1% to the highest closing price per Share during the Review Period. For reference purpose, the Issue Price also represents a premium of approximately 22.8% over the lowest closing price per Share, a discount of approximately 77.1% to the highest closing price per Share during the Extended Review Period and a discount of approximately 74.8% to the closing price of the Shares of HK$1.39 on the Latest Practicable Date.

We note that the closing price of the Shares rose from a level of approximately HK$0.40 per Share in September 2006 to a level of approximately HK$0.60 per Share in early November 2006. We also note that the closing price of the Shares rose from a level of approximately HK$0.50 per Share in January 2007 to HK$0.78 per Share on 12 February 2007, the trading day immediately before the suspension of the Shares pending the release of the Announcement. We further note that the closing price of the Shares dropped from the peak of HK$0.78 per Share on the Last Trading Day to HK$0.56 per Share on 18 April 2007 and then rebounded to a level of above HK$0.70 per Share around early May 2007. As at the Latest Practicable Date, the closing price per Share was HK$1.39.

(b) Price/earnings multiple

As the Company is principally engaged in the manufacture and sales of communication product, distribution of Intelligent Transportation system in application of Global Positioning System and broadband wireless access system, price-earnings multiple is one of the most commonly used benchmarks for valuing the Company. However, the Group has been loss making for the year ended 31 December 2006. Accordingly, it would not be feasible and meaningful to assess the Issue Price using the price-earnings multiple approach.

(c) Net asset value

In addition to price/earnings multiples, we also assess the Company by reference to its net asset value. For comparison purpose and to the best of our knowledge after having made all reasonable enquiries (such as in-house research), we could identify only 28 companies listed on the main board of the Stock Exchange which are principally engaged in manufacturing and sale of telecommunication related products which we consider are similar to the businesses of the Company and we selected seven companies (the "Telecommunication Comparables") out of the said 28 companies based on similar market capitalisation (i.e. falling within a band of HK$300 million above and below that of the Company) for closer comparison. We have reviewed and tabulated below the premia/(discounts) of the closing share prices of the Telecommunication Comparables as at 12 February 2007 over/(to) their respective net tangible assets value as reported in their latest published financial reports:

Company name of the Telecommunication Comparables engaging in manufacturing and sale of telecommunication related products	Year end date	Market capitalisation *(HK$ million)*	Closing share price as at 12 February 2007 *(HK$)*	Latest published net tangible asset value per share *(HK$)*	Premium/(discount) of the closing share price on 12 February 2007 over/(to) the latest published net tangible asset value per share
DBA Telecommunication (Asia) Holdings Ltd	31 December	1099.8	1.06	0.68	56.8%
China Motion Telecom International Ltd	31 March	975.5	0.415	0.03	1424.2%
CCT Telecom Holdings Ltd	31 December	964.5	1.21	3.24	(62.6%)
City Telecom (H.K.) Ltd	31 August	890.6	1.45	1.49	(2.5%)
China Wireless Technologies Ltd	31December	729.7	0.73	0.41	78.2%
APT Satellite Holdings Limited	31 December	706.7	1.71	4.91	(65.2%)
Chevalier iTech Holdings Ltd	31 March	585.8	3.08	1.44	113.4%
				Mean	220.3%
				Median	56.8%
The Company	***31 December***	***793.3***	***0.78***	***0.08***	***875.0%***
Issue Price (HK$)			***0.35***	***0.08***	***337.5%***

Source: www.hkex.com.hk and Infocast

The premium/(discounts) of the closing share price on the Last Trading Day over/(to) the net assets value per share of the Comparables range from a discount of approximately 65.2% to a premium of 1,424.2%. Upon comparison, we note that the premium of approximately 337.5% as represented by the Issue Price over the net tangible asset value per Share of HK$0.08 lies within the range and well above the mean and median of that of the Comparables.

Having considered the above factors and analysis, in particular,

(i) the Issue Price has been determined after arm's length negotiation and taking into account (a) the poor business performance of the Group as reflected by the Group's loss making history in the past; (b) the low liquidity of the Shares for the year ended 31 December 2006 and during the two months ended 28 February 2007; and (c) the fact that the Issue Price represents a substantial premium over the latest unaudited consolidated net tangible asset value per Share;

(ii) the premium of the Issue Price over the net tangible asset value per Share lies within the range and well above the mean and median of that of the Comparables;

(iii) the positive financial effects of the Proposed Acquisition on the Group as detailed in the paragraph headed "Financial effects of the Proposed Acquisition on the Group"; and

(iv) the Issue Price is equal to the Subscription Price under the Open Offer and the Subscription Price was determined after arm's length negotiation with the Underwriter which is an independent securities firm,

and notwithstanding the substantial discount of the Issue Price to the closing price of the Shares on the Last Trading Date, we consider that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Financial effects of the Proposed Acquisition on the Group

- ***Earnings***

The consolidated financial results of Advanced Grade will be consolidated into the accounts of the Group after Completion. Based on the pro forma income statement of the Enlarged Group as set out in Appendix IV to the Circular, the Proposed Acquisition would have a positive effect on the earnings of the Enlarged Group and the financial results of the Group attributable to the Shareholders would turnaround from a loss of approximately HK$64.6 million to a profit of approximately HK$32.1 million assuming the Proposed Acquisition had been completed on 1 January 2006.

- ***Cashflow***

As HK$130,000,000 of the Consideration will be satisfied by cash which will be financed completely by the Open Offer whilst the remainder of the Consideration will be satisfied by way of issuance of the Consideration Shares, no negative impact on the cashflow of the Group is expected to arise from the Proposed Acquisition. Based on the pro forma cashflow statement of the Enlarged Group as set out in Appendix IV to the Circular, the cash and cash equivalent of the Enlarged Group would increase slightly from approximately HK$81.8 million to approximately HK$83.3 million upon completion of the Proposed Acquisition assuming the Proposed Acquisition and the Open Offer had been completed on 1 January 2006.

- ***Net Asset Value***

Based on the pro forma balance sheet of the Enlarged Group as set out in Appendix IV to the Circular, the consolidated net assets attributable to equity holders of the Company would increase from approximately HK$90.3 million to approximately HK$1,788.3 million if the Proposed Acquisition and the Open Offer had been completed on 31 December 2006. In addition, the consolidated net tangible assets attributable to equity holders of the Company would increase from approximately HK$80.5 million to approximately HK$514.1 million if the Proposed Acquisition and the Open Offer had been completed on 31 December 2006. Independent Shareholders should note that the major difference between the consolidated net assets attributable to equity holders of the Company after Completion and the consolidated net tangible assets attributable to equity holders of the Company after Completion is the goodwill arising from the Proposed Acquisition. According to the pro forma balance sheet of the Enlarged Group as set out in Appendix IV to the Circular, there would be a goodwill of approximately HK$1,268.8 million arising from the Proposed Acquisition. As confirmed by the Company and indicated in the pro forma balance sheet of the Enlarged Group as set out in Appendix IV to the Circular, no impairment loss is provided by the Company on Completion. According to the accounting policies of the Company, the carrying amount of goodwill will be subject to impairment test at the year end of the Company. In the event the recoverable amount of the cash-generating unit of the Acquired businesses is less than the carrying amount of the unit, an impairment loss is provided to reduce the carrying amount of any goodwill and any impairment loss for goodwill is recognised directly in the consolidated income statement of the Company.

Based on the pro forma balance sheet of the Enlarged Group as set out in Appendix IV to the Circular, the consolidated net assets per Share attributable to equity holders of the Company would increase from approximately HK$0.089 to approximately HK$0.493 if the Proposed Acquisition and the Open Offer had been completed on 31 December 2006. Moreover, the consolidated net tangible assets per Share attributable to equity holders of the Company would increase from approximately HK$0.08 to approximately HK$0.142 if the Proposed Acquisition and the Open Offer had been completed on 31 December 2006.

- ***Gearing***

Based on the audited balance sheet of the Group as at 31 December 2006, total borrowings of the Group were approximately HK$265.67 million as at 31 December 2006 whilst the consolidated net assets of the Group as at 31 December 2006 were approximately HK$90.27 million. As at 31 December 2006, the gearing ratio of the Group (measured by total borrowings over shareholders' equity) was 294%. Based on the pro forma balance sheet of the Enlarged Group as set out in Appendix IV to the Circular, the total liabilities of the Enlarged Group will remain the same as Advanced Grade and its subsidiaries had no borrowings as at 31 December 2006 and the net assets of the Enlarged Group (as if Completion had already taken place) would increase to approximately HK$1,788.27 million. Based on the foregoing, the gearing ratio of the Enlarged Group (measured by total borrowings over shareholders' equity) would be significantly reduced from 294% to 15% if Completion had taken place as at 31 December 2006.

Based on the above, the Proposed Acquisition (together with the Open Offer) would have an overall positive effect on the financial position of the Group in terms of earnings, cashflow, net asset value, and gearing on a pro forma basis. On such basis, we are of the view that the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

(iv) Potential dilution effect on the shareholding of the Company

Based on the Issue Price, 2,200,000,000 Shares will be issued upon Completion , representing (i) approximately 216.29% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 154.49% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and (iii) approximately 60.71% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and the Consideration Shares.

As disclosed in the table set out in the section headed "Shareholding structure of the Company before and after completion" in the Letter from the Board, the shareholdings of the Independent Shareholders in the Company will be diluted from approximately 55.83% to 21.94% upon Completion (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer).

We were advised by the Directors that they had considered various financing alternatives for satisfying the Consideration. The Directors were of the view that debt financing would adversely affect the gearing of the Company and the interest expenses thereof would inevitably impact the profitability of the Company. In light of the above and in view that the issue of the Consideration Shares will enlarge and strengthen capital base of the Company, the Directors consider that the Open Offer and the issue of the Consideration Shares are the best financing alternatives available to the Company at the moment to finance the Proposed Acquisition.

Taking into account the above factors, in particular, the following:

(i) the Company has been loss-making since 2001 (except 2004);

(ii) the Issue Price represents a substantial premium over the net tangible assets per Share;

(iii) the issue of the Consideration Shares will enlarge and strengthen capital base of the Company as well as greatly enhance the net asset position (including the consolidated net assets per Share and the consolidated net tangible assets per Share attributable to equity holders of the Company) and gearing position of the Group on a pro forma basis;

(iv) the Proposed Acquisition would turnaround the Group from a loss making position to a profitable position on a pro forma basis; and

(v) the Directors consider that the Open Offer and the issue of the Consideration Shares are the best financing alternatives available to the Company at the moment to finance the Proposed Acquisition,

we are of the opinion that the issue of the Consideration Shares is an acceptable means of financing the majority portion of the Consideration given the limitation of resources of the Company and the shareholding dilution to the Independent Shareholders is acceptable so far as the Independent Shareholder are concerned.

3. The Whitewash Waiver

(a) Background

As at the Latest Practicable Date, CALT, the guarantor under the Sale and Purchase Agreements, through Astrotech, is beneficially interested in 449,244,000 Shares, representing approximately 44.17% of the existing issued share capital of the Company. Upon the Completion (assuming that no further Shares, other than the Open Offer and the Consideration Shares, are issued by the Company between the Latest Practicable Date and the Completion), the beneficial shareholding interest of Astrotech (and parties acting in concert with it) in the Company will increase from approximately 44.17% to 73.10%. Accordingly, Astrotech will be obliged to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Astrotech and parties acting in concert with it under Rule 26.1 of the Takeovers Code, unless a Whitewash Waiver is obtained from the Executive.

An application has been made by Astrotech to the Executive for the Whitewash Waiver pursuant to the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which the Astrotech and parties acting in concert with it will abstain from voting on the relevant resolution.

(b) The Whitewash Waiver as a condition of the Sale and Purchase Agreements

It is a condition precedent to the completion of the Sale and Purchase Agreements that the Whitewash Waiver is granted by the Executive and approved by Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by Independent Shareholders, the Sale and Purchase Agreements will lapse and the Proposed Acquisition will not proceed.

(c) Astrotech and parties acting in concert with it shall remain as the largest group of Shareholders

As at the Latest Practicable Date, CALT, the guarantor under the Sale and Purchase Agreements, through Astrotech, is beneficially interested in 449,244,000 Shares, representing approximately 44.17% of the existing issued share capital of the Company. Upon the Completion (assuming that no further Shares, other than the Offer Shares and the Consideration Shares, are issued by the Company between the Latest Practicable

Date and Completion), the beneficial shareholding interest of Astrotech (and parties acting in concert with it) in the Company will increase from approximately 44.17% to 73.10%. On such basis, Independent Shareholders should note that Astrotech and parties acting in concert with it shall remain as the largest group of Shareholders upon completion of the Proposed Acquisition.

The granting and approval of the Whitewash Waiver will enable the Group and all the Shareholders, including the Independent Shareholders, to take the opportunity to enjoy the financial benefits upon completion of the Proposed Acquisition and the Open Offer which include, among other things, (i) the opportunity for the Group to tap into the automotive engine management systems and components businesses and the rare-earth-permanent magnetic motors business in the PRC and further expand its business in the alternate energy market, including investments in wind turbine manufacturing and renewable energy projects without cash outlay from internal resources; (ii) the turnaround of earnings of the Group on a pro forma basis; (iii) the increase in net assets and the enhancement of the equity base of the Group; (iv) significant reduction in the gearing level of the Group. Accordingly, we consider that the granting of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons, we are of the opinion that the terms of the Proposed Acquisition are on normal commercial terms, in the ordinary course of business of the Group and are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole. On the basis that the grant of the Whitewash Waiver is a condition of the Sale and Purchase Agreements, we also consider that the grant of the Whitewash Waiver is fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Proposed Acquisition and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Partners Capital International Limited
Alan Fung **Harry Yu**
Managing Director *Executive Director*

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated income statement and balance sheet for the three years ended 31 December 2006 as extracted from the respective annual reports of the Group, and as restated and reclassified as appropriate. There was no modification or qualification in the auditor's reports of the Group for each of the three years ended 31 December 2004, 2005 and 2006. There were no extraordinary items or exceptional items for these three years.

Consolidated income statement

	For the year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
		(Note)	*(Note)*
Continuing operations			
Turnover	141,275	173,478	135,044
Cost of sales	(134,495)	(111,785)	(85,487)
Gross profit	6,780	61,693	49,557
Other income	20,775	2,914	8,553
Distribution costs	(9,458)	(9,355)	(10,474)
Administrative expenses	(74,795)	(46,665)	(34,749)
Impairment loss recognised in respect of intangible assets	(9,403)	—	—
Reversal of (allowance for) amount due from an associate	10,019	(27,633)	—
Finance costs	(9,370)	(5,803)	(5,059)
Share of result of associates	(1,300)	(259)	(149)
Net loss on liquidation of subsidiaries	—	—	(186)
(Loss) profit before taxation	(66,752)	(25,108)	7,493
Taxation	1,751	439	(2,408)
(Loss) profit for the year from continuing operations	(65,001)	(24,669)	5,085
Discontinued operation			
Loss for the year from discontinued operation	(224)	(4,695)	(907)
(Loss) profit for the year	(65,225)	(29,364)	4,178
Attributable to:			
Equity holders of the Company	(64,562)	(29,781)	5,368
Minority interests	(663)	417	(1,190)
	(65,225)	(29,364)	4,178
	HK cent	*HK cent*	*HK cent*
Basic (loss) earnings per share for (loss)/profit attributable to the equity holders of the Company			
— From continuing and discontinued operations	(6.35)	(2.93)	0.54
— From continuing operations	(6.33)	(2.47)	0.63

Note: Owing to the discontinuance of the Group's operation of video conference system in 2006, the consolidated results of the Group for the years ended 31 December 2004 and 2005 have been restated to conform with the presentation for the year ended 31 December 2006.

Consolidated balance sheet

	As at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	42,879	54,432	47,202
Goodwill	—	1,607	4,275
Intangible assets	9,800	33,634	36,391
Interests in associates	84,864	8,650	1,269
	137,543	98,323	89,137
Current assets			
Inventories	62,910	48,808	70,523
Trade and other receivables	92,615	165,873	124,170
Amounts due from related companies	15,291	15,291	15,291
Amounts due from associates	25,969	323	19,122
Taxation recoverable	—	—	210
Pledged bank deposits	1,537	1,351	1,264
Bank balances and cash	81,777	22,387	37,616
	280,099	254,033	268,196
Current liabilities			
Trade and other payables	41,587	85,385	68,312
Amounts due to related companies	4,407	4,407	3,743
Amounts due to associates	13,365	—	870
Amounts due to immediate holding company of a shareholder	—	—	906
Taxation payable	330	65	296
Borrowings — amount due within one year	97,350	98,998	39,358
	157,039	188,855	113,485
Net current assets	123,060	65,178	154,711

Consolidated balance sheet *(Continued)*

	As at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total assets less current liabilities	260,603	163,501	243,848
Non-current liabilities			
Borrowing — amount due after one year	168,317	6,654	59,381
Deferred taxation	—	2,217	2,675
	168,317	8,871	62,506
	92,286	154,630	181,342
Capital and reserves			
Share capital	101,714	101,714	101,714
Reserves	(11,440)	50,283	78,832
Equity attributable to equity holders of the Company	90,274	151,997	180,546
Minority interests	2,012	2,633	796
Total equity	92,286	154,630	181,342

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated income statements of the Company for each of the two years ended 31 December 2006, the audited consolidated balance sheets of the Company as at 31 December 2006 and 2005, and the audited consolidated cash flow statements of the Company for each of the two years ended 31 December 2006, the audited consolidated statements of changes in equity of the Company for each of the two years ended 31 December 2006 together with accompanying notes extracted from the 2006 annual report of the Company.

Consolidated income statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operations			
Turnover	6	141,275	173,478
Cost of sales		(134,495)	(111,785)
Gross profit		6,780	61,693
Other income		20,775	2,914
Distribution costs		(9,458)	(9,355)
Administrative expenses		(74,795)	(46,665)
Impairment loss recognised in respect of intangible assets		(9,403)	—
Reversal of (allowance for) amount due from an associate		10,019	(27,633)
Finance costs	8	(9,370)	(5,803)
Share of results of associates		(1,300)	(259)
Loss before taxation		(66,752)	(25,108)
Taxation	9	1,751	439
Loss for the year from continuing operations		(65,001)	(24,669)
Discontinued operation			
Loss for the year from discontinued operation	10	(224)	(4,695)
Loss for the year		(65,225)	(29,364)
Attributable to:			
Equity holders of the Company		(64,562)	(29,781)
Minority interests		(663)	417
		(65,225)	(29,364)
Loss per share — Basic	14		
From continuing and discontinued operations		HK(6.35) cents	HK(2.93) cents
From continuing operations		HK(6.33) cents	HK(2.47) cents

Consolidated balance sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	42,879	54,432
Goodwill	16	—	1,607
Intangible assets	17	9,800	33,634
Interest in associates	18	84,864	8,650
		137,543	98,323
Current assets			
Inventories	19	62,910	48,808
Trade and other receivables	20	92,615	165,873
Amounts due from related companies	21	15,291	15,291
Amounts due from associates	22	25,969	323
Pledged bank deposits	23	1,537	1,351
Bank balances and cash	24	81,777	22,387
		280,099	254,033
Current liabilities			
Trade and other payables	25	41,587	85,385
Amounts due to related companies	21	4,407	4,407
Amounts due to associates	22	13,365	—
Taxation		330	65
Borrowings — amount due within one year	26	97,350	98,998
		157,039	188,855
Net current assets		123,060	65,178
Total assets less current liabilities		260,603	163,501
Non-current liabilities			
Borrowings — amount due after one year	26	168,317	6,654
Deferred taxation	27	—	2,217
		168,317	8,871
		92,286	154,630

Consolidated balance sheet *(Continued)*
As at 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Capital and reserves			
Share capital	*28*	101,714	101,714
Reserves		(11,440)	50,283
Equity attributable to equity holders of the Company		90,274	151,997
Minority interests		2,012	2,633
Total equity		92,286	154,630

Consolidated cash flow statement
For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Cash flows from operating activities			
Loss before taxation		(66,931)	(29,874)
Adjustments for:			
Interest income		(567)	(154)
Interest expenses		9,447	5,889
Share of results of associates		1,300	259
Amortisation of intangible assets		12,900	5,016
Depreciation of property, plant and equipment		7,714	7,203
Loss on disposal of property, plant and equipment		48	45
Impairment loss recognised in respect of intangible assets		9,403	—
Gain on disposal and deemed disposal of subsidiaries		(2,641)	—
Impairment loss recognised in respect of goodwill		542	2,668
Allowance for doubtful debts		22,170	5,178
(Reversal of) allowance for amount due from an associate		(10,019)	27,633
Allowance for obsolete inventories		1,916	274
Write-off of development costs		—	228
Write-back of interest payable		(14,585)	—
Effect of foreign exchange rate changes on intercompany balances		(3,531)	(1,017)
Operating cash flows before movements in working capital		(32,834)	23,348
(Increase) decrease in inventories		(25,903)	22,754
Decrease (increase) in trade and other receivables		43,941	(45,342)
Increase in amounts due from associates		(15,601)	(8,466)
(Decrease) increase in trade and other payables		(5,382)	16,071
Increase in amounts due to related companies		—	592
Increase (decrease) in amounts due to associates		13,316	(887)
Decrease in amount due to immediate holding company of a shareholder		—	(923)

Consolidated cash flow statement *(Continued)*
For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Cash (used in) generated from operations		(22,463)	7,147
Income taxes (paid) refunded		(118)	31
Net cash (used in) generated from operating activities		(22,581)	7,178
Investing activities			
Capital contribution to associates		(66,476)	(7,640)
Purchase of property, plant and equipment		(9,787)	(13,846)
Increase in pledged bank deposits		(175)	(87)
Interest received		567	154
Proceeds from disposal of property, plant and equipment		458	184
Net cash inflow in respect of disposal and deemed disposal of subsidiaries	*30*	199	—
Development costs paid		—	(2,418)
Net cash used in investing activities		(75,214)	(23,653)
Financing activities			
New loans raised		208,911	4,717
Repayments of bank loans		(44,800)	(471)
Interest paid		(7,463)	(3,905)
Capital contribution from minority shareholders		—	1,413
Net cash from financing activities		156,648	1,754
Net increase (decrease) in cash and cash equivalents		58,853	(14,721)
Effect of foreign exchange rate changes		537	(508)
Cash and cash equivalents at beginning of the year		22,387	37,616
Cash and cash equivalents at end of the year, representing bank balances and cash		81,777	22,387

Consolidated statement of changes in equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	Special reserve HK$'000 (Note)	Share premium account HK$'000	Exchange reserve HK$'000	General reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	101,714	117,554	473,093	829	3,430	(516,074)	180,546	796	181,342
Exchange difference arising on translation of operations outside Hong Kong not recognised in the consolidated income statement	—	—	—	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 1 January 2006	101,714	117,554	473,093	2,061	3,430	(545,855)	151,997	2,633	154,630
Exchange difference arising on translation of operations outside Hong Kong not recognised in the consolidated income statement	—	—	—	2,707	—	—	2,707	42	2,749
Released on disposal and deemed disposal of subsidiaries	—	—	—	132	—	—	132	—	132
Loss for the year	—	—	—	—	—	(64,562)	(64,562)	(663)	(65,225)
Total recognised income (expense) for the year	—	—	—	2,839	—	(64,562)	(61,723)	(621)	(62,344)
At 31 December 2006	101,714	117,554	473,093	4,900	3,430	(610,417)	90,274	2,012	92,286

Note: The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital of the subsidiaries acquired by the Company and the aggregate amount of HK$116,025,000 transferred from other reserves pursuant to the Group's reorganisation on 11 August 1997.

Notes to the financial statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate substantial shareholder is Astrotech Group Limited ("Astrotech"), a company incorporated in the Cayman Islands which holds 44.17% of equity interest in the Company with controlling interest. Astrotech is wholly owned by China Academy of Launch Vehicle Technology Limited ("CALT"). China Aerospace Science & Technology Corporation ("CASC") is a substantial shareholder of the Company via the immediate shareholding of CALT. Both CASC and CALT are companies established in the People's Republic of China (the "PRC").

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

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in note 36.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segment [2]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC) — INT 8	Scope of HKFRS 2 [4]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives [5]
HK(IFRIC) — INT 10	Interim financial reporting and impairment [6]
HK(IFRIC) — INT 11	HKFRS 2 — Group and treasury share transactions [7]
HK(IFRIC) — INT 12	Service Concession Arrangement [8]

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

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

[3] Effective for annual periods beginning on or after 1 March 2006.

[4] Effective for annual periods beginning on or after 1 May 2006.

[5] Effective for annual periods beginning on or after 1 June 2006.

[6] Effective for annual periods beginning on or after 1 November 2006.

[7] Effective for annual periods beginning on or after 1 March 2007.

[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”s) 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 of Hong Kong Limited, and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of subsidiaries for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Interests in associates

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

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 though the expected life of the financial asset to that asset's net carrying amount.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight line method.

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

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

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

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

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Impairment (other than goodwill)

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

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

Inventories

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

Borrowing costs

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

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 or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. Current tax liabilities are measured using tax rates that have been enacted substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases when 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 lessee

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

Retirement benefit schemes

Payments to the defined contribution retirement schemes are charged as an expense as they fall due.

Financial instruments

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and receivables, amounts due from related companies, amounts due from associates, bank balances and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in consolidated income statement 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group 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. The accounting policies adopted for specific financial liabilities are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowings costs.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies and amounts due to associates are subsequently measured at amortised cost, using the effective interest rate 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 contractual rights to receive cash flows from the assets expire or the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly 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. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in accumulated losses.

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 its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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

Goodwill and fair value adjustments arising on acquisition of foreign operations prior to 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange difference arising are recognised in the translation reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

Estimated impairment of trade receivables, amounts due from related companies and amounts due from associates

When there is objective evidence of impairment loss, the Group assesses impairment loss by taking into consideration the estimation of future cash flows and the latest available information of the financial position of the debtors. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated impairment of intangibles

The Group's net carrying amount of technology license right as at 31 December 2006 was approximately HK$9,800,000. The management estimates the recoverable amount of the intangibles by estimation of the future cash flows expected to arise and a suitable discount rate in order to calculate the present value. Change in the estimation may have a material impact on the recoverable amount of the intangibles.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, amounts due from related companies, amounts due from associates, bank balances and cash, trade and other payables, amounts due to related companies, amounts due to associates and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Credit risk

The Group's major financial assets are trade receivables, amounts due from associates, and amounts due from related companies, bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, amounts due from associates, and amounts due from related companies, the management of the Group reviews the recoverable amount of each individual trade debt, amounts due from associates and amounts due from related companies at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Interest rate risk

The Group's interest rate risk relates primarily to fixed-rate borrowings. The Group currently does not have policy to against its interest risk. However, the management monitors interest rate risk exposure and will consider implementing appropriate measures when significant interest rate exposure is anticipated.

6. TURNOVER

Turnover represents the gross invoiced value of goods sold less discounts and sales related taxes and revenue from service contracts. An analysis of the Group's revenue for the year from continuing and discontinued operation is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Continuing operations		
Sales of goods	134,690	165,713
Revenue from service contracts	6,585	7,765
	141,275	173,478
Discontinued operation		
Sales of goods	14,924	12,306
	156,199	185,784

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

For management purposes, the Group has been organised into the following divisions:

Communication Products, Intelligent Transportation Systems ("ITS"), Video Conference System, Broadband Wireless Access and Wind Energy Facilities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Communication Products	—	manufacture and distribution of telecommunication products
ITS	—	development, manufacture, distribution and installation of global positioning system application products
Video Conference System (Note)	—	development, manufacture, distribution and installation of video conference system
Broadband Wireless Access	—	development, distribution and installation of broadband system, equipment and accessories
Wind Energy Facilities	—	maintenance and operation of wind energy plants and facilities

Note: During the year, the Group has discontinued its operation in video conference system (see note 10).

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) Business segments *(Continued)*

(i) Segment information about these businesses for the year ended 31 December 2006 is presented below:

Income statement

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER									
External sales	55,506	32,073	53,696	–	–	–	141,275	14,924	156,199
RESULT									
Segment result	4,503	(1,115)	(62,892)	(520)	(117)	–	(60,141)	582	(59,559)
Unallocated corporate expenses							(13,851)	–	(13,851)
Unallocated corporate income							14,585	–	14,585
Gain (loss) on disposal and deemed disposal of subsidiaries							3,325	(684)	2,641
Finance costs							(9,370)	(77)	(9,447)
Share of results of associate	540	(671)	(723)	(446)	–	–	(1,300)	–	(1,300)
Loss before taxation							(66,752)	(179)	(66,931)
Taxation							1,751	(45)	1,706
Loss for the year							(65,001)	(224)	(65,225)

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) **Business segments** *(Continued)*

(i) Segment information about these businesses for the year ended 31 December 2006 is presented below: *(Continued)*

Balance sheet

	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	52,033	35,709	195,588	2,828	167	286,325
Interest in associates	530	1,320	3,423	73,675	5,916	84,864
Unallocated corporate assets						46,453
Consolidated total assets						417,642
LIABILITIES						
Segment liabilities	11,746	18,957	7,379	5	47	38,134
Unallocated corporate liabilities						287,222
Consolidated total liabilities						325,356

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) **Business segments** *(Continued)*

(i) Segment information about these businesses for the year ended 31 December 2006 is presented below: *(Continued)*

Other information

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions									
– Property, plant and equipment	–	4,758	4,817	–	–	25	9,600	187	9,787
Depreciation and amortisation									
– Property, plant and equipment	163	1,608	5,190	–	3	403	7,367	347	7,714
– Development costs	–	856	2,619	–	–	–	3,475	–	3,475
– Technology license right	–	–	9,425	–	–	–	9,425	–	9,425
Allowance for doubtful debts	–	–	22,170	–	–	–	22,170	–	22,170
Allowance for obsolete inventories	5	–	1,911	–	–	–	1,916	–	1,916
Loss on disposal of property, plant and equipment	–	48	–	–	–	–	48	–	48
Impairment loss recognised in respect of:									
– Development costs	–	207	146	–	–	–	353	–	353
– Technology license right	–	–	9,050	–	–	–	9,050	–	9,050
Impairment loss recognised in respect of goodwill	–	–	542	–	–	–	542	–	542
Gain (loss) on disposal of subsidiaries	–	980	2,345	–	–	–	3,325	(684)	2,641

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below:

Income statement

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER									
External sales	39,284	35,399	98,795	–	–	–	173,478	12,306	185,784
Inter-segment sales*	–	469	11,156	–	–	(11,625)	–	–	–
Total	39,284	35,868	109,951	–	–	(11,625)	173,478	12,306	185,784
RESULT									
Segment result	(904)	(893)	23,209	–	(1,533)	–	19,879	(4,680)	15,199
Unallocated corporate expenses							(38,925)	–	(38,925)
Finance costs							(5,803)	(86)	(5,889)
Share of results of associates	–	(259)	–	–	–	–	(259)	–	(259)
Loss before taxation							(25,108)	(4,766)	(29,874)
Taxation							439	71	510
Loss for the year							(24,669)	(4,695)	(29,364)

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below: *(Continued)*

Balance sheet

	Communication Products	**ITS**	**Video Conference System**	**Broadband Wireless Access**	**Wind Energy Facilities**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	14,849	39,607	19,134	251,562	—	372	325,524
Interest in associates	—	1,010	—	—	7,640	—	8,650
Unallocated corporate assets							18,182
Consolidated total assets							352,356
LIABILITIES							
Segment liabilities	16,356	17,790	3,175	41,511	—	594	79,426
Unallocated corporate liabilities							118,300
Consolidated total liabilities							197,726

7. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

(A) **Business segments** *(Continued)*

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below: *(Continued)*

Other information

	Continuing operations							Discontinued operation	
	Communication Products	ITS	Broadband Wireless Access	Wind Energy Facilities	Others	Eliminations	Total	Video Conference System	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions									
– Property, plant and equipment	493	1,995	10,508	–	787	–	13,783	63	13,846
– Development costs	–	–	2,418	–	–	–	2,418	–	2,418
Depreciation and amortisation									
– Property, plant and equipment	119	1,334	4,902	–	13	410	6,778	425	7,203
– Development costs	–	944	1,560	–	–	–	2,504	250	2,754
– Technology license right	–	–	2,262	–	–	–	2,262	–	2,262
(Reversal of) allowance for doubtful debts	–	(48)	3,561	–	–	–	3,513	1,665	5,178
Allowance for amount due from an associate	–	–	–	–	–	27,633	27,633	–	27,633
Allowance for obsolete inventories	–	274	–	–	–	–	274	–	274
Loss on disposal of property, plant and equipment	–	35	10	–	–	–	45	–	45
Impairment loss recognised in respect of goodwill	–	–	–	–	–	–	–	2,668	2,668
Write-off of development costs	–	228	–	–	–	–	228	–	228

7. BUSINESS AND GEOGRAPHICAL SEGMENTS ***(Continued)***

(B) Geographical segments

The Group's operations are located in Hong Kong and other parts of the PRC.

(i) The following table provides an analysis of the Group's sales by geographical market:

	Turnover	
	2006	**2005**
	HK$'000	*HK$'000*
PRC	71,715	141,775
Hong Kong	14,100	15,919
United States of America	69,191	25,783
Others	1,193	2,307
	156,199	185,784

(ii) The following is an analysis of the carrying amount of the segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		**Additions to property, plant and equipment and intangible assets**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	186,514	269,905	7,860	15,739
Hong Kong	99,811	55,619	1,927	525
	286,325	325,524	9,787	16,264

8. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on:						
Bank borrowings						
— wholly repayable within five years	2,367	3,161	77	86	2,444	3,247
— not wholly repayable within five years	—	494	—	—	—	494
Other loans						
— wholly repayable within five years	7,003	—	—	—	7,003	—
— not wholly repayable within five years	—	2,148	—	—	—	2,148
	9,370	5,803	77	86	9,447	5,889

9. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tax credit (charge) for the year comprises:						
Current tax:						
Hong Kong	(330)	—	—	—	(330)	—
Other regions in the PRC	(104)	—	—	—	(104)	—
	(434)	—	—	—	(434)	—
(Under)overprovision in prior years:						
Hong Kong	(13)	(19)	—	—	(13)	(19)
Other regions in the PRC	(19)	—	(45)	71	(64)	71
	(32)	(19)	(45)	71	(77)	52
Deferred tax credit (note 27)	2,217	458	—	—	2,217	458
	1,751	439	(45)	71	1,706	510

9. **TAXATION** *(Continued)*

The reconciliation of tax credit for the year to the loss before taxation is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Loss before taxation		
Continuing operations	(66,752)	(25,108)
Discontinued operation	(179)	(4,766)
	(66,931)	(29,874)
Tax credit at Hong Kong Profits Tax of 17.5% (2005: 17.5%)	11,713	5,228
Share of results of associates	(228)	(45)
Tax effect of expenses not deductible for tax purpose	(977)	(1,243)
Tax effect of temporary differences not recognised	(823)	—
Tax effect of income not taxable for tax purpose	889	497
Tax effect of losses not recognised	(10,317)	(11,561)
Utilisation of tax losses previously not recognised	2,319	366
Effect of different tax rates of subsidiaries operating in other regions in the PRC	(739)	(320)
(Under)over provision in prior year	(77)	52
Tax effect of tax exemption granted to a PRC subsidiary	—	7,530
Others	(54)	6
Tax credit for the year	1,706	510

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

9. TAXATION *(Continued)*

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

10. DISCONTINUED OPERATION

On 22 November 2006, the Group entered into a sale and purchase agreement in respect of the disposal of a subsidiary, CASTEL Videotech (Hong Kong) Limited ("CASTEL Videotech"), 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 loss for the year from the discontinued operation is analysed as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Profit (loss) of video conference system operation for the year	460	(4,695)
Loss on disposal of video conference system operation *(see note 30)*	(684)	—
	(224)	(4,695)

10. DISCONTINUED OPERATION *(Continued)*

The results of the video conference system operation for the year up to the date of disposal, which have been included in the consolidated income statement, were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Turnover	14,924	12,306
Cost of sales	(9,625)	(8,922)
Other income	460	189
Distribution costs	(1,530)	(888)
Administrative expenses	(3,647)	(7,365)
Finance costs	(77)	(86)
Profit (loss) before taxation	505	(4,766)
Taxation	(45)	71
Profit (loss) for the year	460	(4,695)
Loss on disposal of video conference system operation	(684)	—
	(224)	(4,695)

During the year, the video conference system operation paid HK$5,771,000 (2005: HK$1,145,000) to the Group's net operating cash flows, paid HK$205,000 (2005: HK$54,000) in respect of investing activities and contributed HK$5,000,000 (2005: nil) in respect of financing activities.

The carrying amounts of the assets and liabilities of the discontinued operation at the date of disposal are disclosed in note 30.

11. LOSS FOR THE YEAR

	Continuing operations		Discontinued operation		Total	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the year has been arrived at after charging:						
Directors' emoluments	1,164	3,774	—	—	1,164	3,774
Other staff costs	23,672	18,282	2,718	2,017	26,390	20,299
Other staff's retirement benefits scheme contributions	1,338	860	64	47	1,402	907
	26,174	22,916	2,782	2,064	28,956	24,980
Amortisation of intangible assets *(Note)*	12,900	4,766	—	250	12,900	5,016
Auditors' remuneration	1,629	1,195	—	5	1,629	1,200
Cost of inventories recognised as an expense	118,832	100,964	7,784	8,921	126,616	109,885
Depreciation of property, plant and equipment	7,367	6,778	347	425	7,714	7,203
Loss on disposal of property, plant and equipment	48	45	—	—	48	45
Loss on disposal and deemed disposal of subsidiaries	—	—	684	—	684	—
Impairment loss recognised in respect of goodwill (included in administration expenses)	542	—	—	2,668	542	2,668
Minimum lease payments paid under operating leases in respect of land and buildings	3,725	3,352	89	97	3,814	3,449
Research and development expenses	1,620	696	—	—	1,620	696
Allowance for doubtful debts	22,170	3,513	—	1,665	22,170	5,178
Allowance for obsolete inventories	1,916	274	—	—	1,916	274
Write-off of development costs	—	228	—	—	—	228
Exchange loss recognised	1,247	248	—	—	1,247	248
and crediting:						
Interest income	559	145	8	9	567	154
Write-back of interest payable *(see note 26)*	14,585	—	—	—	14,585	—
Gain on disposal and deemed disposal of subsidiaries	3,325	—	—	—	3,325	—

11. LOSS FOR THE YEAR *(Continued)*

Note: During the year, amortisation of intangible assets of approximately HK$12,900,000 (2005: HK$4,264,000) and nil (2005: HK$752,000) were included in cost of sales and administrative expenses respectively.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the fourteen (2005: nine) directors were as follows:

	2006				**2005**			
		Other emoluments				**Other emoluments**		
			Retirement				**Retirement**	
		Salaries	**benefits**			**Salaries**	**benefits**	
		and other	**scheme**			**and other**	**scheme**	
	Fees	**benefits**	**contribution**	**Total**	**Fees**	**benefits**	**contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wang Xiaodong	—	814	12	826	—	1,053	12	1,065
Han Jiang*	—	67	2	69	—	755	12	767
Zhou Xiaoyun*	—	67	2	69	—	747	12	759
Xu Jian Hua*	—	—	—	—	—	711	12	723
Ma Yucheng*	—	—	—	—	—	260	—	260
Liang Xiaohong	—	—	—	—	—	—	—	—
Wu Yansheng	—	—	—	—	—	—	—	—
Li Guang	—	—	—	—	—	—	—	—
Han Shuwang	—	—	—	—	—	—	—	—
Tang Guohong	—	—	—	—	—	—	—	—
Moh Kwen Yung	50	—	—	50	50	—	—	50
Zhu Shixiong	50	—	—	50	50	—	—	50
Wong Fai, Philip	50	—	—	50	50	—	—	50
Yiu Ying Wai	50	—	—	50	50	—	—	50
Total	200	948	16	1,164	200	3,526	48	3,774

* These directors were resigned during the year ended 31 December 2006. The amount shown above represents the directors' emoluments paid during their period of services as directors.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals included three (2005: four) directors, two (2005: nil) of whom resigned during the year and became employees of the Group.

The emoluments of the five highest paid individuals were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	3,227	3,939
Retirement benefits scheme contribution	60	60
	3,287	3,999

The aggregate emoluments paid to each of the highest paid individuals during the year did not exceed HK$1,000,000.

13. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2006, nor has any dividend been proposed since the balance sheet date (2005: nil).

14. LOSS PER SHARE — BASIC

From continuing operations

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

	2006	2005
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share	(64,562)	(29,781)
Less: Loss for the year from discontinued operations	224	4,695
Loss for the purpose of basic loss per share from continuing operations	(64,338)	(25,086)

	Number of shares	
	2006	2005
Weighted average number of shares for the purpose of basic loss per share	1,017,139,763	1,017,139,763

From discontinued operation

Basic loss per share for the discontinued operation is HK0.02 cents per share (2005: HK0.46 cents per share), based on the loss for the year from the discontinued operation of HK$224,000 (2005: HK$4,695,000) and the denominators detailed above for basic loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant, equipment and machinery HK$'000	Moulds and tools HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2005	15,075	31,732	1,007	18,872	3,696	70,382
Exchange adjustment	290	616	12	102	40	1,060
Additions	7,133	2,890	144	3,015	664	13,846
Reclassifications	—	(2,087)	2,052	5	30	—
Disposals	—	(199)	(146)	(357)	—	(702)
At 31 December 2005	22,498	32,952	3,069	21,637	4,430	84,586
Exchange adjustments	668	972	79	239	63	2,021
Additions	1,161	3,469	25	4,007	1,125	9,787
Disposed of on disposal and deemed disposal of subsidiaries	(8,388)	(2,939)	(129)	(6,958)	(1,023)	(19,437)
Disposals	(3,758)	(323)	—	(308)	(288)	(4,677)
At 31 December 2006	12,181	34,131	3,044	18,617	4,307	72,280
DEPRECIATION						
At 1 January 2005	2,713	5,669	310	12,630	1,858	23,180
Exchange adjustment	53	121	5	55	10	244
Provided for the year	684	3,501	595	1,937	486	7,203
Reclassifications	—	(163)	132	29	2	—
Eliminated on disposals	—	(164)	(47)	(262)	—	(473)
At 31 December 2005	3,450	8,964	995	14,389	2,356	30,154
Exchange adjustment	103	260	23	105	22	513
Provided for the year	616	3,927	592	2,067	512	7,714
Eliminated on disposal and deemed disposal of subsidiaries	(51)	(1,068)	(45)	(3,089)	(556)	(4,809)
Eliminated on disposals	(3,758)	(69)	—	(242)	(102)	(4,171)
At 31 December 2006	360	12,014	1,565	13,230	2,232	29,401
NET BOOK VALUES						
At 31 December 2006	11,821	22,117	1,479	5,387	2,075	42,879
At 31 December 2005	19,048	23,988	2,074	7,248	2,074	54,432

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold land and buildings	4 – 5% or over the unexpired lease terms
Plant, equipment and machinery	9 – 15%
Moulds and tools	25%
Furniture and office equipment	10 – 25%
Motor vehicles	18 – 25%

At 31 December 2005, the Group has pledged land and buildings having a net book value of approximately HK$10,280,000 (2006: nil) to secure general banking facilities granted to the Group.

The Group's property interests shown above were held under medium term leases in the PRC.

16. GOODWILL

	HK$'000
COST	
At 1 January 2005 and 31 December 2005	4,275
Elimination on disposal and deemed disposal of subsidiaries	(1,065)
At 31 December 2006	3,210
IMPAIRMENT	
At 1 January 2005	—
Impairment loss recognised for the year	2,668
At 31 December 2005	2,668
Impairment loss recognised for the year	542
At 31 December 2006	3,210
CARRYING VALUES	
At 31 December 2006	—
At 31 December 2005	1,607

17. INTANGIBLE ASSETS

	Development costs *HK$'000*	Technology license right *HK$'000*	Total *HK$'000*
COST			
At 1 January 2005	14,444	35,100	49,544
Exchange adjustment	122	—	122
Additions	2,418	—	2,418
Write-off	(457)	—	(457)
At 31 December 2005	16,527	35,100	51,627
Exchange adjustment	139	—	139
Disposed of on disposal and deemed disposal of subsidiaries	(8,048)	—	(8,048)
At 31 December 2006	8,618	35,100	43,718
AMORTISATION AND IMPAIRMENT			
At 1 January 2005	8,590	4,563	13,153
Exchange adjustment	53	—	53
Amortised for the year	2,754	2,262	5,016
Eliminated on write-off	(229)	—	(229)
At 31 December 2005	11,168	6,825	17,993
Exchange adjustment	62	—	62
Amortised for the year	3,475	9,425	12,900
Disposed of on disposal and deemed disposal of subsidiaries	(6,440)	—	(6,440)
Impairment loss recognised	353	9,050	9,403
At 31 December 2006	8,618	25,300	33,918
NET BOOK VALUES			
At 31 December 2006	—	9,800	9,800
At 31 December 2005	5,359	28,275	33,634

17. INTANGIBLE ASSETS *(Continued)*

Intangible assets are amortised on a straight line basis over the following periods:

Development costs	3 – 5 years
Technology license right	3 years

Development costs are internally generated. Technology license right, which included the right of distribution of broadband products, was acquired from third party. During the year, the directors reconsidered the useful life of the technology license right and changed the estimate from 15 years to 3 years based on the expected years of benefit to be generated. The change in estimate has resulted in an increase in loss of HK$7,085,000 per annum in current year and future years.

During the year, the directors conducted a review of the Group's intangible assets and determined that certain intangible assets were impaired due to cessation of certain self-development activities of the broadband products. Accordingly, impairment losses of HK$353,000 and HK$9,050,000 respectively have been recognised in respect of the development costs and technology license right. The remaining intangible assets after such cessation represents the Group's right of distribution of broadband products, the recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use is 11%.

18. INTEREST IN ASSOCIATES

	2006	**2005**
	HK$'000	*HK$'000*
Cost of unlisted investments	86,572	9,058
Share of post-acquisition losses	(1,708)	(408)
Share of net assets	84,864	8,650

18. INTEREST IN ASSOCIATES *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Unrecognised share of profit of associates for the year	530	576
Accumulated unrecognised share of losses of associates	(78,492)	(79,022)

The summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	*HK$'000*
Total assets	1,513,265	67,144
Total liabilities	1,221,662	122,306
Net assets (liabilities)	291,603	(55,162)
Revenue	15,207	38,578
(Loss) profit for the year	(5,101)	547

Details of the principal associates of the Group at 31 December 2006 are set out in note 36.

19. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	2,019	9,814
Work-in-progress	11,091	15,878
Finished goods	49,800	23,116
	62,910	48,808

20. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$82,615,000 (2005: HK$155,577,000). The Group allows credit periods ranging from 45 days 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 the 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 at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Within 30 days	44,039	37,642
Between 31 — 90 days	2,682	21,741
Between 91 — 180 days	649	77,649
Between 181 — 365 days	832	7,647
Over 1 year	34,413	10,898
	82,615	155,577

The fair values of the Group's trade and other receivables at the balance sheet date approximate to the corresponding carrying amounts.

21. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts represent amounts due from/to China Aerospace International Holdings Limited ("CASIL") and its subsidiaries. CASIL is an associate of CASC.

The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company are of the opinion that their fair values at the balance sheet date approximate to the carrying amounts.

22. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company are of the opinion that their fair values at the balance sheet date approximate to the carrying amounts.

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks for general banking facilities granted to the Group. The deposits carried fixed interest rate at 3.15% (2005: 3.1%) per annum. The fair values of bank deposits at balance sheet date approximate to the carrying amounts.

24. BANK BALANCES AND CASH

Bank balances and cash comprise demand deposits at an average rate of 3.2%. The directors of the Company are of the opinion that the fair values at the balance sheet date approximate to the carrying amounts.

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$19,844,000 (2005: HK$31,023,000). The following is an aged analysis of trade payables at the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Within 30 days	14,576	14,641
Between 31 – 90 days	1,167	8,651
Between 91 –180 days	901	1,753
Between 181 – 365 days	84	1,120
Over 1 year	3,116	4,858
	19,844	31,023

The fair values of the Group's trade and other payables at the balance sheet date approximate to the corresponding carrying amount.

26. BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loans – secured	—	7,157
Bank loans – unsecured	—	24,387
Bank overdrafts – unsecured	—	14,528
Total bank borrowings	—	46,072
Other loans *(note a)*	56,756	59,580
Short term shareholder's loan *(note b)*	40,594	—
Long term shareholder's loan *(note c)*	168,317	—
Total other loans	265,667	59,580
Total borrowings	265,667	105,652
Less: Amount due within one year included under current liabilities	(97,350)	(98,998)
Amount due after one year	168,317	6,654

The maturity of the Group's borrowings is as follows:

	2006	2005
On demand or within one year	97,350	98,998
Between one to two years	—	536
Between two to five years	168,317	1,837
Over five years	—	4,281
	265,667	105,652

26. BORROWINGS *(Continued)*

On 26 October 2006, the Group entered into an agreement with a bank in respect of the Group's outstanding bank borrowings (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Group has discharged all the liabilities in respect of the outstanding loans (including interest payable) by the repayment of HK$39,000,000. Accordingly, the interest payable brought forward amounting to approximately HK$14,585,000 has been written-back in the consolidated income statement during the year.

Notes:

(a) The amount in 2006 (2005: HK$54,773,000) represents advance from China Great Wall Industry Corporation, a wholly-owned subsidiary of CASC, and the respective interests accrued. Such advances are unsecured, bears interest at 4.25% (2005: 4.25%) per annum and are repayable on demand. The interests accrued of HK$9,957,000 (2005: HK$7,973,000) is unsecured, non-interest bearing and repayable on demand. The remaining balance of other loans in 2005 represented advance from an independent third party with interest rate at 5.8% per annum.

(b) The amount represents loan advanced from CALT through 航天科技財務有限責任公司 ("CASIL Finance") as the trustee. The amount is unsecured, bears interest at 5.10% per annum and repayable in full on 29 August 2007. CASIL Finance is a subsidiary of CASC.

(c) The amount represents loan advanced from CALT through CASIL Finance as the trustee. The amount is unsecured, bears interest at 5.04% per annum and repayable in full on 29 August 2011.

The Group had variable-rate borrowings at 31 December 2005 which carried interest at 2% to 3% above prime rate.

In the opinion of the directors of the Company, the fair value of the Group's borrowings at the balance sheet date approximates to the corresponding carrying amount.

27. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group:

	Accelerated tax depreciation	Development costs	Technology license right	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	477	104	5,344	(3,250)	2,675
(Credit) charge for the year	(134)	(34)	(396)	106	(458)
At 31 December 2005	343	70	4,948	(3,144)	2,217
(Credit) charge for the year	(191)	(70)	(3,233)	1,277	(2,217)
At 31 December 2006	152	—	1,715	(1,867)	—

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

At 31 December 2006, the Group has unused tax losses of approximately HK$247,758,000 (2005: HK$231,436,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$10,669,000 (2005: HK$17,970,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$237,089,000 (2005: HK$213,466,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$67,937,000 (2005: HK$55,000,000) that may be carried forward indefinitely. The remaining unrecognised tax losses will be expired within five years.

At the balance sheet date, the Group has deductible temporary difference of HK$4,705,000 (2005: nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

28. SHARE CAPITAL

	Number of shares 2006 & 2005	Amount 2006 & 2005 *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At beginning and end of the year	10,000,000,000	1,000,000
Issued and fully paid:		
At beginning of the year and at end of the year	1,017,139,763	101,714

29. SHARE OPTION SCHEMES

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. Pursuant to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "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. The options granted must be accepted within 28 days from date of grant. Upon acceptance of an offer of options, an amount of HK$1 by way of consideration is payable by the employee. Options may be exercised at any time for a period to be determined by the directors of the Company, which shall not exceed ten years from the adoption of the 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.

No share option under the CASTEL Scheme was granted to the directors or employees of the Company or its subsidiaries at 31 December 2005 and 31 December 2006.

30. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES

On 30 June 2006, CASTEL Qihua Hi-Tech Investments Limited ("CASTEL Qihua"), a subsidiary of the Company, entered into an agreement 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") and that Spaceinet HK would allot 1,020,000 shares to Concord Pacific and 979,998 shares to CASTEL Qihua respectively. Upon the completion of the transaction, Concord Pacific owned as to 51% of the total issued shares of Spaceinet HK. Spaceinet HK was engaged in the development, distribution and installation of Global Position System application and related product and a gain on disposal of HK$980,000 was recognised.

On 30 September 2006, CASTEL Broadband Holdings Limited and 航天科技通信(深圳)有限公司, wholly-owned subsidiaries of the Company, entered into an agreement with Hao Hsin Trading and Investment Company Limited ("Hao Hsin"), an independent third party, under which Hao Hsin agreed to invest HK$15,000,000 in 航天無線通信技術開發(深圳)有限公司 ("CASTEL Wireless"). Upon completion of the transaction, the share capital of CASTEL Wireless was increased from HK$5,006,781 to HK$20,006,781, and Hao Hsin owned as to 75% of the total enlarged issued shares of CASTEL Wireless. Accordingly, CASTEL Wireless and its subsidiaries (collectively referred to as "CASTEL Wireless Group"), became an associate of the Group. CASTEL Wireless Group was principally engaged in the development, distribution and installation of broadband system, equipment and accessories. A gain on disposal of HK$2,345,000 was recognised from this transaction.

On 22 November 2006, the Company, entered into an agreement with Brightness International Holding Limited ("Brightness"), an independent third party, under which Brightness agreed to acquire 40% equity interests of CASTEL Videotech at a consideration of HK$4,100,000 from the Company. Brightness further agreed to subscribe 2,505,000 new shares for a consideration of HK$4,000,000, representing 20% of the total issued shares of CASTEL Videotech after completion of the transaction. CASTEL Videotech became an associate of the Group upon completion of the above transactions. CASTEL Videotech was principally engaged in the development, manufacture, distribution and installation of video conference system and a loss on disposal of HK$684,000 was recognised. The above disposal of CASTEL Videotech constituted a discontinued operation of the Group as CASTEL Videotech and its subsidiary contributed to the Group's development, manufacture, distribution and installation of video conference system before the disposal *(see note 10).*

30. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

	Spaceinet HK	CASTEL Wireless	CASTEL Videotech	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NET ASSETS DISPOSED OF				
Property, plant and equipment	1,906	11,775	947	14,628
Intangible assets	—	1,608	—	1,608
Inventories	172	1,328	9,724	11,224
Trade and other receivables	279	7,765	6,101	14,145
Bank balances and cash	153	1,254	494	1,901
Trade and other payables	(2,510)	(15,692)	(7,421)	(25,623)
Bank borrowings	—	(6,453)	—	(6,453)
Taxation	—	—	(130)	(130)
	—	1,585	9,715	11,300
Attributable goodwill	—	—	1,065	1,065
Exchange reserve realised	—	216	(84)	132
	—	1,801	10,696	12,497
Gain (loss) on disposal	980	2,345	(684)	2,641
Total consideration	980	4,146	10,012	15,138
Satisfied by:				
Interest in associates	980	4,146	5,912	11,038
Cash	—	—	2,100	2,100
Other receivables	—	—	2,000	2,000
	980	4,146	10,012	15,138
Net cash (outflow) inflow arising on disposals:				
Cash consideration received	—	—	2,100	2,100
Bank balances and cash disposed of	(153)	(1,254)	(494)	(1,901)
	(153)	(1,254)	1,606	199

30. DISPOSAL AND DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

There was no significant impact on the Group's results and cash flows in the current year in respect of the disposal of Spaceinet HK.

During the year, CASTEL Wireless paid HK$6,355,000 to the Group's net operating cash flows, contributed HK$10,906,000 in respect of investing activities and paid HK$5,511,000 in respect of financing activities. CASTEL Wireless contributed turnover of HK$6,273,000 and profit for the year of HK$1,630,000 to the Group.

31. CAPITAL COMMITMENTS

At 31 December 2006, the Group was committed to capital expenditure of approximately HK$54 million (2005: HK$108 million) for the investment of two sino-foreign joint ventures of the Group. The sino-foreign joint ventures are engaged in the operation of wind energy plants and facilities power in the Jiangsu and Jilin Province of the PRC respectively and are owned as to 25% by the Group.

In addition, the Group was also committed to capital expenditure of approximately HK$25 million (2005: nil) for the investment of a joint venture of the Group. The joint venture is engaged in the operation of wind energy plants and facilities in the Liaoning Province of the PRC. The joint venture is owned as to 40% by the Group.

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments payable under operating leases in respect of land and buildings as set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,498	3,118
In the second to fifth years inclusive	440	1,477
	1,938	4,595

Leases are generally negotiated for an average term of two years and rentals are fixed for the lease period.

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "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 contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

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

34. RELATED PARTY TRANSACTIONS/BALANCES

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

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods to associates	444	1,794
Purchase of goods from associates	9,853	15,158

Other than the above, the Group also has balances with related parties disclosed in note 21 and note 22.

(b) Compensation of key management personnel

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

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	3,427	4,399
Post-employment benefits	60	60
	3,487	4,459

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

34. RELATED PARTY TRANSACTIONS/BALANCES *(Continued)*

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

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

Apart from the 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 deposits placements, borrowings and other general banking facilities with certain banks, which are stated-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.

(d) On 30 August 2006, 航天科技通信(深圳)有限公司 ("CATSZ"), a wholly-owned subsidiary of the Company, entered into two loan agreements for a sum of RMB41,000,000 (approximately HK$40,594,000) and RMB170,000,000 (equivalent to approximately HK$168,317,000) with CALT through CASIL Finance as the trustee. These loans are unsecured, bear interest at 5.10% and 5.04% per annum and are repayable on 29 August 2007 and 29 August 2011 respectively.

35. POST BALANCE SHEET EVENT

On 15 February 2007 and 27 March 2007, the Company, Astrotech and Advanced Grade Holdings Limited ("Advanced Grade") entered into a sale and purchase agreement and a supplemental agreement 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 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.

Advanced Grade is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Astrotech. It is an investment holding company and will hold the entire equity interest in Beijing Wan Yuan Industry Corporation ("Beijing Wan Yuan") after completion of the transaction. Beijing Wan Yuan is an investment holding company which, upon completion of restructuring, will hold a 49% equity interest in Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd., a 40% equity interest in Beijing Wanyuan GDX Automotive Sealing Products Co., Ltd., a 29% equity interest in Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd., a 45% equity interest in Nantong CASC Wanyuan Accoina Wind Turbine Manufacture Corporation Ltd., and a 45% interest in Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd. (collectively referred to as the "Target Associates").

The Target Associates are mainly engaged in automotive engine management systems and components manufacturing, automotive sealing products manufacturing, elevator motor manufacturing, wind turbine manufacturing and renewable energy projects.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the principal subsidiaries and associates of the Group at 31 December 2006 are as follows:

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity attributable to the Group %	Principal activities
Subsidiaries				
Incorporated and operating in Hong Kong:				
China Aerospace Telecommunications Limited	HK$10,000	100	—	Distribution of broadband business
CASTEL Intelligent Transportation System Limited	HK$11,600,000	—	70	Distribution of ITS business
China Aerospace Telecommunications (Hong Kong) Limited	HK$10,000	—	100	Distribution of broadband business
CASTEL Qihua Hi-Tech Investments Limited	HK$8,000,000	—	70	Investment holding
Hung Nien Electronics Limited	HK$30,001,000	—	100	Distribution of telecommunication products

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(Continued)*

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity attributable to the Group %	Principal activities
Subsidiaries *(Continued)*				
Registered and operating in the PRC:				
Beijing Qihua Communications Co., Ltd.#	US$1,239,000	—	55	Distribution of ITS business
CASTEL Intelligent Transportation System (Beijing) Ltd.##	HK$8,000,000	—	70	Distribution of ITS business
航天航通科技(北京)有限公司##	RMB15,000,000	—	100	Distribution of broadband business
航天科技通信(深圳)有限公司##	HK$20,000,000	—	100	Distribution of broadband business
成都航天星網通訊有限公司##	RMB3,000,000	—	36	Distribution of ITS business

Sino-foreign joint equity enterprise registered in the PRC

Wholly foreign-owned enterprise registered in the PRC

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(Continued)*

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity attributable to the Group %	Principal activities
Associates				
Registered and operating in the PRC:				
航天無線通信技術開發(深圳)有限公司#	HK$20,000,000	—	25	Distribution of broadband business
CASTEL Intelligent Transportation System (Shenzhen) Ltd. #	RMB5,000,000	—	25	Distribution of ITS business
CASTEL Spaceinet (Shenzhen) Co. Ltd. #	RMB1,071,000	—	25	Distribution of broadband business
CASIL Telecommunications (Shenzhen) Co., Ltd.##	HK$10,000,000	—	40	Manufacture and distribution of telecommunication products
Southern Telecommunication Development Company Limited#	US$8,400,000	—	41	Manufacture and distribution of telecommunication products

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(Continued)*

Name of company	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company	Percentage of equity attributable to the Group	Principal activities
		%	%	
Associates *(Continued)*				
上海航天信網通訊有限公司 #	RMB5,000,000	—	21	Distribution of ITS business
江蘇龍源風力發電有限公司 #	RMB211,610,000	—	25	Maintenance and operation of wind energy plants and facilities
吉林龍源風力發電有限公司 #	RMB269,020,000	—	25	Construction of wind energy plants and facilities in progress
航天龍源(本溪)風力發電有限公司 #	RMB93,800,000	—	40	Construction of wind energy plants and facilities in progress

Sino-foreign joint equity enterprise registered in the PRC

Wholly foreign-owned enterprises registered in the PRC

Except for the companies established in the PRC, the classes of shares held by the Group in the above companies are ordinary shares issued by those companies.

The above table lists the subsidiaries and associates of the Company which, in the opinion of the directors, principally affected the results or assets or form a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates 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.

37. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	2006	2005
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	1,011	1,389
Interest in subsidiaries	20	30
Interest in associates	3,604	—
	4,635	1,419
Current assets		
Trade and other receivables	3,023	801
Amounts due from subsidiaries	77,885	159,567
Amounts due from associates	30,710	—
Amounts due from related companies	41	41
Bank balances and cash	2,163	701
	113,822	161,110
Current liabilities Trade and other payables	3,546	8,148
Amounts due to subsidiaries	13,029	8,047
Amounts due to related companies	7,647	7,647
Borrowings	—	20,945
	24,222	44,787
Net current assets	89,600	116,323
Total assets	94,235	117,742
Capital and reserves		
Share capital	101,714	101,714
(Deficit) reserves	(7,479)	16,028
Total equity	94,235	117,472

Loss of the Company for the year ended 31 December 2006 amounted to HK$23,507,000 (2005: HK$48,007,000).

3. INDEBTEDNESS

At the close of business on 30 April 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information in respect of the indebtedness of the Group, save for the unsecured loans of approximately HK$211,000,000 from CALT and of HK$57,419,000 from a wholly-owned subsidiary of CASC, the Group had no outstanding bank borrowings in terms of any bank loans and bank overdrafts outstanding at that date.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 April 2007.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30 April 2007.

The Directors are not aware of any material adverse change in the indebtedness, contingent liabilities and commitments of the Group since 30 April 2007.

4. WORKING CAPITAL

On 15 February 2007 and 27 March 2007, Astrotech, CALT and the Company entered into a sale and purchase agreement and a supplemental agreement (collectively referred as "Sale and Purchase Agreements") respectively, 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. At Completion, the Consideration is to be satisfied by (1) HK$130,000,000 in cash and (2) the allotment and issue of 2,200,000,000 Consideration Shares to Astrotech at the Issue Price of HK$0.35 each. The cash consideration will be financed by the proceeds from the Open Offer.

Pursuant to the Sale and Purchase Agreements, the time for fulfillment of the conditions precedent of the Sale and Purchase Agreements is no later than 30 September 2007.

The Directors are of the opinion that after taking into account:

(1) the net proceeds from the Open Offer of approximately HK$136 million out of which HK$130 million will be utilized for the cash consideration of the Proposed Acquisition; and the remaining balance for the general working capital of the Group;

(2) the continuous provision of long term loans to the Group from CALT catering for the working capital required for the Group;

(3) the internal resources of the Group; and

(4) the existing available banking facilities of the Group;

the Group has sufficient working capital for its present requirements in respect of the next 12 months from the date of this circular.

5. MATERIAL CHANGE

The Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP

(1) For the year ended 31 December 2004

RESULTS SUMMARY

For the year ended 31 December 2004, as compared to the last year, the Group's turnover was increased by 2.8% to HK$148 million and profit for the year was increased by approximately 142% to HK$5.37 million respectively.

BUSINESS REVIEW AND PROSPECTS

During the year the Group had continuously concentrated resources on broadband wireless communication technology and its application. The Group had fully fostered and supported Broadband Wireless Communication Business, Intelligent Transportation System Business, Video Conferencing System Business and Communication Products Business, resulting in the lucrative Broadband Wireless Communication Business amounting to approximately 67% of the Group's total turnover that the Group's profit during the year was significantly increased by 142% as compared to its increase in its total turnover for the year by 2.8%, by effective means of exploring new markets, applying cost control and expense cutting.

The Group was, after appraisal in 2004, ranked in the 500 enterprises with the fast innovation and growing technology in the Asia Pacific Region by Deloitte Touche Tohmatsu.

Broadband Wireless Communication Business

The Group's products of broadband wireless access systems had been continuously selected as network construction equipment by large operators and internet service provider (ISP) during the year, such as China Telecom, China Netcom, China Unicom, China Mobile, China Railcom and CETC Communications. Business orders had been placed in the region of Greater China, such as Beijing, Shanghai, Guangdong, Jiangsu, Henan, Jiangxi, Sichuan, Guizhou, Yunnan, Gansu, Qinghai, Hong Kong, Macau and Taiwan.

The Group's CB-ACCESS broadband wireless access system and its successfully self-developed CB-MUX series product, used for voice and data comprehensive assessing, had been launched, installed and operated in a commercially influential scale. In terms of commercially reliable applications, good functionality and economic price, those products had maintained a clear competitive edge in the communication market.

In order to adapt to highly competitive conditions, the Group had planned and instituted effective measures as follows: strengthening the popularity of broadband wireless products and enhancing the acceptability of sales service in overall together with adequate adjustment in the pricing policy in order to consolidate and maintain its market share; actively forming a win-win cooperation with some innovative organizations, with the objectives of mutual benefits and development, to broaden the Group's broadband wireless communication product chain and to continuously launch new products to the communication market; attracting strategic partners to establish a highly autonomous research centre, via self-owned intellectual properties, to quicken the launch of newly self-developed products to the market.

Intelligent Transportation System Business

The Group had, during the year, utilized two types of self-developed product, namely, the mobile control unit based on GSM/GPRS communication network and the software of vehicle despatching and control system based on internet-related operation centres, providing the total solutions as well as operation services to the public.

The Group had, on the schedule, actualized the agreed projects of China General Administration of Customs like IC card management system, electronic guardrail system and GPS vehicle control throughout Customs in China.

In order for product segmentation to provide tailor-made services, the Group would, under the brand name HangTianQiHua, provide the mobile vehicle monitoring and despatching services to the target clientele of taxi and rented vehicle in the region of Beijing and Tangshan. The Group would also, under the band name SpaceiNet, serve the target clientele of privately owned vehicles in the region of Shanghai, Shenzhen and Hong Kong.

Video Conferencing System Business

The Group's Video Conferencing System Business had, during the year, launched new products based on MPEG4 technique, together with existing MPEG2 video conferencing system, which constituted MPEG2/MPEG4 dual-mode system to fulfil different requirements of end-users and the product chain of video conferencing systems. The Group will continuously consolidate the existing market foundation and aggressively promote the specialized system concurrently.

Communication Products Business

In terms of strict quality control and in time delivery, the Group had, during the year, finished the clients' orders smoothly so as to maintain good working relationship with oversea buyers and to achieve the prescribed business indicators.

In order to fit for better development in the future and to enhance the Group's profile in a position to be the representative of China Aerospace Science and Technology Corporation in Hong Kong, which is the ultimate shareholder of the Company, the Group had deployed itself into two parts: the Principal Place of Business was located in Central Plaza while its R & D component was shifted to Hong Kong Science Park. The reason why the Group disposed its old Principal Place of Business was to reallocate net proceeds generated from this disposal to better opportunities with higher returns and to have a fair asset management. The new profile of the Group will be appeared in Hong Kong after the change of Principal Place of Business and deployment in practice during the year.

Human Resources and Remuneration Policy

As at 31 December 2004, the Group has 46 employees (2003: 38 employees) in the Hong Kong head office and 260 employees (2003: 231 employees) in the China Mainland offices. Remuneration of employees is determined by 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 related 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 31 December 2004 was HK$99,189,000 (2003: HK$101,328,000), of which HK$52,789,000 (2003: HK$50,800,000) was fixed-rate borrowings and the remaining was 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) at the year end was 55% (2003: 75%).

Pledge of Assets

As at 31 December 2004, certain assets of the Group of HK$11,927,000 (2003: HK$31,020,000) have been pledged to secure borrowings from banks and financial institutions.

Exchange and Other Exposures

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

The Group did not have any contingent liabilities at the year end.

(2) For the year ended 31 December 2005

RESULTS SUMMARY

As of 31 December 2005, the Group's turnover in 2005 was HK$185.78 million, representing a loss of HK$29.78 million. It was mainly due to a prior provision of amounts due from associated companies by the Group. The Group's turnover and profit in 2004 were HK$148.12 million and HK$5.368 million respectively.

BUSINESS REVIEW AND PROSPECTS

Group Reorganisation

On 22 January 2005, China Aerospace International Holdings Limited ("CASIL") and China Academy of Launch Vehicle Technology Limited ("CALT") entered into a Sale and Purchase Agreement for the purpose of effecting the group reorganisation. Pursuant to the Sale and Purchase Agreement, for an aggregate cash consideration of HK$143,758,081, CASIL agreed to sell, and CALT agreed to purchase, CASIL's entire 100% equity interest in and the entire shareholder's loan due from Astrotech, which, in turn, holds 449,244,000 ordinary shares (representing approximately 44.17% equity interest) in CASTEL. Upon completion of the Sale and Purchase Agreement on 10 July 2005, CASIL will no longer hold any direct or indirect equity interest in CASTEL.

Pursuant to the Sale and Purchase Agreement, after China Academy of Launch Vehicle Technology Limited attained control over CASTEL, CASTEL establishes its unique profile in the market following the addition of new businesses.

Major Transaction

The joint venture contracts in respect of Jilin Sanyuan and Jiangsu Longyuan were entered into by Crownplus, a wholly owned subsidiary of the Group, in respect of the building, maintenance and operation of wind energy plants and facilities in the PRC respectively on 15 April 2005.

1) Jilin Sanyuan (a Sino-foreign equity joint venture enterprise to be established in Jilin Province, the PRC)

Business scope:	wind power generation; wind field survey and design and construction works; full-set installation, testing and maintenance and repairs of wind-driven generators; sale of electricity; related technical consultancy and training.
Authorized term of operations:	25 years
Construction size:	100 megawatt
Total investment:	RMB811,960,000 (equivalent to HK$766,000,000)

Total registered capital:	RMB269,020,000 (equivalent to HK$253,792,453) (Attributable to Crownplus under the Group: 25% HK$63,448,113)
Return from operations:	prior to the production of 30,000 hours of electricity, Jilin Sanyuan would be entitled to an electricity rate of RMB0.509 per hour for each kilowatt. After the production of electricity has reached 30,000 hours until the end of the authorised term of operations, the electricity price will be calculated according to the average local grid electricity rate. The actual rate would be determined by the relevant pricing authority.

2) Jiangsu Longyuan (a Sino-foreign equity joint venture enterprise to be established in Jiangsu Province, the PRC)

Business scope:	wind power generation; wind field survey and design and construction works; full-set installation, testing and maintenance and repairs of wind-driven generators; sale of electricity; related technical consultancy and training.
Authorized term of operations:	25 years
Construction size:	100.5 megawatt
Total investment:	RMB872,620,000 (equivalent to HK$823,226,415)
Total registered capital:	RMB211,610,000 (equivalent to HK$199,632,075) (Attributable to Crownplus under the Group: 25% HK$49,908,019)
Return from operations:	prior to the production of 30,000 hours of electricity, Jiangsu Longyuan would be entitled to an electricity rate of RMB0.519 per hour for each kilowatt. After the production of electricity has reached 30,000 hours until the end of the authorised term of operations, the electricity price will be calculated according to the average local grid electricity rate. The actual rate would be determined by the relevant pricing authority.

The Group would benefit from the entering into of the above Joint Venture Contracts, as the transactions will widen the business scope and earning base of the Group. Given the shortage of electricity supplies in the PRC and the global trend towards renewable energy for environment reasons, the investment by the Company into such power supply project is also fulfilling the Group's corporate responsibility and social obligations.

BUSINESS OPERATIONS

During the year of 2005, the Group had continued deploying resources on broadband wireless communication technology and its application to strive for development and had fully fostered and supported Intelligent Transportation System Business, Video Conferencing System Business and Communication End-products Business, resulting in the lucrative Broadband Wireless Communication Business amounting to approximately 59.2% of the Group's total turnover which during the year was HK$185,780,000, increased by 25.4% as compared to the previous year, by effective means of exploring new markets, applying cost control and expense cutting. The loss of the Group for the year mainly resulted from a provision of receivables relating to the expiry of operating term of Southern Telecommunication Development Company Limited, an associated company of the Group, all investors of which have currently agreed to apply to the respective local government for renewal of its operating term. To be accountable to the shareholders, provisions was being made by the Group in respect of the amounts due from such associated company to the Group before obtaining the approval from the government.

The Group's products of broadband wireless access systems had been continuously selected as network construction equipment by large operators and various internet service providers (ISP), such as China Telecom, China Netcom, China Unicom, China Mobile, China Railcom and CETC Communications. New business orders had been placed in the region of Greater China, such as Beijing, Shanghai, Guangdong, Jiangsu, Henan, Jiangxi, Sichuan, Guizhou, Yunnan, Gansu, Qinghai, Hong Kong, Macau and Taiwan.

The Group's CB-ACCESS broadband wireless access system and its successfully self-developed CB-MUX series product, used for image, data and voice comprehensive assessing, had been launched, widely installed and applied in a commercially influential scale. In terms of commercially reliable applications, good functionality and economic price, the products had maintained a comparative competitive edge in the communication market.

The Group had utilized its self-developed products, namely, the GPS mobile control unit based on GSM/GPRS communication network and the software of vehicle despatching and control system based on internet-related operation centres for its Intelligent Transportation System Business, providing the total solutions in respect of system integration as well as operation services of mobile information for various vehicles to the public.

In order for product segmentation and professionalized operation to provide tailor-made information services, the Group would, under the brand name HangTianQiHua, provide the mobile vehicle monitoring and despatching services to the target clientele of taxi and rented vehicle in the region of Beijing and Tangshan. The Group would also, under the band name SpaceiNet, serve the target clientele of privately or collectively owned vehicles in such regions as Shanghai, Shenzhen and Hong Kong with mobile information business. In addition, such business has been successfully introduced into the regions outside Greater China including Indonesia by the Group.

The Group's GPS vehicle service oriented clientele base was significantly widened from 2,000 units for the last year end to 12,000 units or above for the time being, as the taxi business of the Group in the region of Beijing was rapidly developed.

The Group's Video Conferencing System Business had, during the year, launched new products based on MPEG4 technique, together with existing and marketed high-clear MPEG2 video conferencing and image transmission system, 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 the achievement of the design in core parts regarding MPEG2/MPEG4 encoder, the cost of video conferencing and image transmission system will be significantly reduced, thus consolidating the existing market foundation and aggressively promoting the promising specialized system concurrently.

In terms of strict quality control, in time delivery and valued services, the Group continued to maintain and develop good business relationship with customers overseas in respect of communication end-products business so as to maintain its business of consigned product design and product manufacturing business.

Human Resources and Remuneration Policy

As at 31 December 2005, the Group has 41 employees (2004: 46 employees) in the Hong Kong head office and 531 employees (2004: 260 employees) in the China Mainland offices. Remuneration of employees is determined by 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 related 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 31 December 2005 was HK$105,652,000 (2004: HK$99,189,000), of which HK$58,765,000 (2004: HK$54,284,000) was fixed-rate borrowings and the remaining was 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) at the year end was 70% (2004: 55%).

Pledge of Assets

As at 31 December 2005, certain assets of the Group of HK$10,280,000 (2004: HK$10,663,000) have been pledged to secure borrowings from banks and financial institutions.

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 have not engaged in any hedging activities.

At 31 December 2005, the Group was committed to investment of approximately HK$108,000,000 for the capital contribution into two Sino-foreign joint ventures regarding wind facilities in the PRC. Details of the transaction were set out in an announcement made by the Company on 18 April 2005.

(3) For the year ended 31 December 2006

RESULTS SUMMARY

As of 31 December 2006, the Group's turnover for the year 2006 amounted to HK$156.20 million with a loss of HK$65.23 million in contrast to those for the year 2005 of HK$185.78 million and HK$29.36 million respectively. The loss for the year was mainly attributable to various allowances relating to the telecommunication business made whereas there were expense increases upon the investment and development period of wind energy projects.

BUSINESS REVIEW AND PROSPECTS

While the Group continued the sales of communication equipment and the application services of Global Positioning System (GPS) for the year 2006, the Group also continued increasing its investments in wind energy plant intensively, in order to broaden its business scope and earning base. In addition to continuation of increasing the investments in wind energy plant project with the total accumulated investments to date of HK$100 million, the Group on 15 February 2007 and 27 March 2007 entered into agreements whereby the Group will further acquire from its parent company, China Academy of Launch Vehicle Technology ("CALT"), its businesses comprising research and development and production of wind energy facilities, automotive engine management systems and components manufacturing, automotive sealing products manufacturing, rare-earth-permanent magnetic motors manufacturing, at the purchase consideration of HK$900 million. The details of the proposed acquisition that will be completed by 30 September 2007 were set out in an announcement made by the Company on 2 April 2007.

Telecommunication Business

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 these operators as well as those in the markets of Europe and America with communication equipment of high capability/price value. However, due to the reduction of investment in infrastructure of 5.8GHz wireless access network by those major operators and the drop in profit margin in consequence of the keen competition, the sales of communication products for the year recorded a decrease as compared with last year.

On 22 November 2006, the Company entered into an agreement with Brightness International Holdings Ltd. whereby it disposed of 60% of the entire equity interests in CASTEL Videotech (Hong Kong) Ltd. in disposing its 60% interest of its video conferencing business in effect in the course of introduction of new capital injection in the business and acquiring the experience of the said purchaser in the PRC distribution network with a view to extending the sales in PRC market.

Wind Energy Projects

On 30 March 2006, Crownplus International Ltd., 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. This is the third wind energy plant project following those in Jiangsu and Jilin, PRC.

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.

Others

The Group has made an announcement on 2 April 2007 that the Group entered into acquisition agreement with its parent company, CALT, in diversifying its investments in wind energy projects, new materials and automotive component.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2006, the Group had 37 employees (2005: 41 employees) in the Hong Kong head office and 428 employees (2005: 531 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 31 December 2006 were HK$265,667,000 (2005: HK$105,652,000), which were fixed rate borrowings (2005: HK$58,765,000). 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 31 December 2006 was 294% (2005: 70%).

Pledge of Assets

As at 31 December 2006, certain assets of the Group of HK$1,537,000 (2005: HK$11,631,000) have been pledged to secure bank facility.

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 31 December 2006.

The following is the text of a report, prepared for the purpose of incorporation in this circular, from Moores Rowland in respect of the accountants' report on Advanced Grade as set out in this appendix:

Moores Rowland
摩斯倫會計師事務所

1 June 2007

The Directors
CASIL Telecommunications Holdings Limited
Suite 4701, 47th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Advanced Grade Holdings Limited ("Advanced Grade") for the period from 13 December 2006 (date of incorporation) to 31 December 2006 (the "Relevant Period") prepared on the basis as set out in Section E below (the "Financial Information"), for inclusion in the circular of CASIL Telecommunications Holdings Limited ("the Company") dated 1 June 2007 (the "Circular") in connection with its proposed very substantial acquisition of a 100% equity interest in Advanced Grade, pursuant to the Sale and Purchase Agreement and a Supplemental Agreement dated 15 February 2007 and 27 March 2007 respectively entered into among the Company and Astrotech Group Limited, a direct controlling shareholder of the Company.

Advanced Grade was incorporated in the British Virgin Islands on 13 December 2006 as a limited liability company and has been dormant since its incorporation. Advanced Grade has adopted 31 December as its financial year end date. No statutory audited financial statements of Advanced Grade have been prepared since its date of incorporation and there is no statutory requirement for Advanced Grade to prepare audited financial statements.

For the purpose of this report, the director of Advanced Grade has prepared the Financial Information of Advanced Grade for the Relevant Period in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The director is responsible for the preparation and the true and fair presentation of these Financial Information in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the purpose of this report, we have undertaken an independent audit of the underlying Financial Information of Advanced Grade for the Relevant Period in accordance with the Hong Kong Standards on Auditing and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary to adjust the Financial Information.

In our opinion the Financial Information give a true and fair view of the state of affairs of Advanced Grade as at 31 December 2006 and of its result for the period then ended in accordance with HKFRS.

A. INCOME STATEMENT

Period from 13 December 2006 (date of incorporation) to 31 December 2006

	Note	**2006** *HK$*
Turnover	*2*	—
Other expenses		—
Result before taxation		—
Taxation	*4*	—
Result for the period		—

B. BALANCE SHEET

At 31 December 2006

	Note	**2006** *HK$*
Current assets		
Cash and bank balances		8
NET ASSETS		8
Capital and reserves		
Share capital	*5*	8
		8

C. STATEMENT OF CHANGES IN EQUITY

Period from 13 December 2006 (date of incorporation) to 31 December 2006

	HK$
At beginning of period	—
Issue of share capital	8
At end of period	8

D. CASH FLOW STATEMENT

No cash flow statements of Advanced Grade for the Relevant Period have been presented as Advanced Grade did not have any other cash flow activity apart from the issue of share capital during the Relevant Period.

E. NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong.

Basis of measurement

The measurement basis used in the preparation of these Financial Information is historical cost.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Future changes in HKFRS

At the date of authorisation of these Financial Information, Advanced Grade has not early adopted the new/revised standards and interpretations issued by HKICPA that are not yet effective for the current period. The directors anticipate that the adoption of these HKFRS in the future periods will have no material impact on the result of Advanced Grade.

2. TURNOVER

Advanced Grade has been dormant since its incorporation and therefore no revenue was generated during the Relevant Period.

3. DIRECTOR'S EMOLUMENTS

None of the director of Advanced Grade receives or will receive any fees or emoluments in respect of his service to Advanced Grade during the Relevant Period.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. TAXATION

Hong Kong Profits Tax has not been provided as Advanced Grade had no assessable profit for the period.

5. SHARE CAPITAL

	2006	
	No. of shares	*HK$*
Authorised		
50,000 ordinary shares of US$1 each	50,000	400,000
Issued		
1 ordinary share of US$1 each	1	8
At balance sheet date	1	8

Advanced Grade was incorporated in British Virgin Islands with limited liability on 13 December 2006 with US$50,000 authorised share capital of 50,000 ordinary shares of US$1 each. On incorporation, 1 ordinary share of US$1 each was issued at par for cash consideration to provide initial working capital for Advanced Grade.

6. POST BALANCE SHEET EVENTS

On 15 February 2007, China Academy of Launch Vehicle Technology ("CALT") entered into a deed of assignment to assign its 100% direct shareholdings in Beijing Wan Yuan Industry Corporation ("Wan Yuan Industry") to Advanced Grade. The assignment has yet to complete as at the date of this report. CALT estimated that the assignment to be completed on or before 30 June 2007.

The Company and Astrotech Group Limited ("Astrotech") entered into a sale and purchase agreement and a supplemental agreement on 15 February 2007 and 27 March 2007 respectively. Pursuant to which Astrotech conditionally agreed to sell the entire issued share capital of Advanced Grade to the Company for a consideration of HK$900,000,000.

Yours faithfully
Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, from Moores Rowland in respect of the accountants' report on Wan Yuan Industry as set out in this appendix:

Moores Rowland
摩斯倫會計師事務所

1 June 2007

The Directors
CASIL Telecommunications Holdings Limited
Suite 4701, 47th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to the Beijing Wan Yuan Industry Corporation ("Wan Yuan Industry") in Sections A to E below (the "Financial Information"), including the balance sheets as at 31 December 2004, 2005 and 2006, the income statements, the statements of changes in equity and the cash flow statements for each of the years in the three-year period ended 31 December 2006 (the "Relevant Periods"), and the notes thereto, for inclusion in the circular of CASIL Telecommunications Holdings Limited ("the Company") dated 1 June 2007 (the "Circular").

Wan Yuan Industry was established in the People's Republic of China (the "PRC") with limited liabilities on 26 December 1984 and is principally engaged in investment holding. Wan Yuan Industry and the Company are both controlled by China Academy of Launch Vehicle Technology ("CALT").

Pursuant to the restructuring, Wan Yuan Industry transferred certain assets and liabilities, other than equity interests in one associate and four jointly controlled entities, to a fellow subsidiary. At the same time, Wan Yuan Industry was assigned further equity interests of the associate from a fellow subsidiary at no consideration. Consequently, Wan Yuan Industry became an investment holding company which only holds equity interests of one associate and four jointly controlled entities.

For the purpose of this report, the management of Wan Yuan Industry ("Management") have prepared financial statements of Wan Yuan Industry for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have performed an independent audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA of the financial statements for the Relevant Periods. We have examined the audited financial statements of Wan Yuan Industry for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information as set out in this report has been prepared from the audited financial statements without adjustments. The Management is responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion solely to you.

In our opinion, the Financial Information, for the purposes of this report and on the basis of presentation set out in Section E Notes 3 and 4, gives a true and fair view of the state of affairs of Wan Yuan Industry as at 31 December 2004, 31 December 2005 and 31 December 2006 and of the results and cash flows for each of the Relevant Periods.

A. INCOME STATEMENTS

The following are the results of Wan Yuan Industry for the Relevant Periods, which are prepared on the basis set out in Section E below:

		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*5*	—	—	—
Other income		204	721	—
Share of results of:				
— Associate		(860)	(1,028)	(1,876)
— Jointly-controlled entities		112,296	84,301	98,580
Profit before taxation		111,640	83,994	96,704
Taxation	*7*	—	—	—
Profit for the year		111,640	83,994	96,704

B. BALANCE SHEETS

The following are the balance sheets of Wan Yuan Industry as at the end of each of the Relevant Periods, which are prepared on the basis set out in Section E below:

		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Interest in an associate	*9*	1,950	9,243	8,572
Interest in jointly controlled entities	*10*	337,737	341,544	423,593
		339,687	350,787	432,165
Current asset				
Cash and cash equivalents		—	—	4,500
NET ASSETS		339,687	350,787	436,665
CAPITAL AND RESERVES				
Owner's equity		339,687	350,787	436,665

C. STATEMENTS OF CHANGES IN EQUITY

	Owner's equity
	RMB'000
As at 1 January 2004	286,594
Net profit for the year	111,640
Distributions to equity holder	(58,547)
As at 31 December 2004	339,687
Net profit for the year	83,994
Distributions to equity holder	(127,394)
Contributions from equity holder	54,500
As at 31 December 2005	350,787
Net profit for the year	96,704
Distributions to equity holder	(16,560)
Contributions from equity holder	5,734
As at 31 December 2006	436,665

D. CASH FLOW STATEMENTS

	Note	2004 RMB'000	2005 RMB'000	2006 RMB'000
OPERATING ACTIVITIES				
Cash from operations	11	—	—	—
Net cash from operating activities		—	—	—
INVESTING ACTIVITIES				
Payment for additional investment in an associate		—	(5,000)	—
Acquisition of investment in jointly controlled entities		—	(49,500)	—
Advance to an associate		—	(2,600)	—
Dividends received from jointly controlled entities		58,547	129,994	16,560
Net cash from investing activities		58,547	72,894	16,560
FINANCING ACTIVITIES				
Contributions from equity holder		—	54,500	4,500
Distributions to equity holder		(58,547)	(127,394)	(16,560)
Net cash used in financing activities		(58,547)	(72,894)	(12,060)
Net increase in cash and cash equivalents		—	—	4,500
Cash and cash equivalents at beginning of year		—	—	—
Cash and cash equivalents at end of year		—	—	4,500

E. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Wan Yuan Industry is a state-owned enterprise incorporated in PRC on 26 December 1984. The parent of Wan Yuan Industry is China Academy of Launch Vehicle Technology ("CALT"). The principal activity of Wan Yuan Industry is investment holding. Prior to the group restructure, Wan Yuan Industry has more than twenty investments which activities ranged from the manufacturing of wind turbine, electronic and automation control systems and equipment, mechanical equipment, medical equipment, and automotive parts, and the operation of wind energy plant.

2. RESTRUCTURING

On 28 December 2006, CALT, Wan Yuan Industry, Beijing Wan Yuan Sealing Device Factory, Beijing CASC Wan Yuan Science & Technology Corporation ("Wan Yuan Science & Technology") and a subsidiary of CALT entered into a set of deeds of assignment for the purpose of effecting a restructuring exercise (the "Restructuring") whereby:

(a) apart from the equity interests in one associate, namely Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co. Ltd. ("Hangzhou REPM") and four jointly controlled entities, namely Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd. ("Beijing Delphi"), Wanyuan GDX Automotive Sealing Products Co., Ltd. ("Wanyuan GDX "), Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corporation Ltd. ("Nantong Acciona"), and Beijing CASC Wanyuan Acciona Renewable Energy Corporation Ltd. ("Beijing Acciona") ("Acquired businesses"), all of Wan Yuan Industry's investments and businesses (the "Non-acquired Businesses") were assigned to Wan Yuan Science & Technology;

(b) a further 3% equity interest in Hangzhou REPM was assigned from a subsidiary of CALT to Wan Yuan Industry;

(c) CALT's entire equity interest in Beijing Wan Yuan Sealing Device Factory was assigned to Wan Yuan Science & Technology (note); and

(d) the 40% equity interest in Wanyuan GDX was previously held by Beijing Wan Yuan Sealing Device Factory, was assigned to Wan Yuan Industry (note).

The above mentioned assignments are expected to be completed on or before 30 June 2007.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

2. RESTRUCTURING *(Continued)*

Note:

In 1998, CALT issued a notice (the "Notice") to assign certain businesses/investments, including its interest in Beijing Wan Yuan Sealing Device Factory, to Wan Yuan Industry. Although Wan Yuan Industry has not taken appropriate actions to complete the legal procedures for the assignment of interest in Beijing Wan Yuan Sealing Device Factory, the corresponding risk and rewards were transferred to and taken up by Wan Yuan Industry in accordance with the Notice. Accordingly, Wan Yuan Industry had become the ultimate beneficial owner of 100% equity interest in Beijing Wan Yuan Sealing Device Factory which principal assets was a 40% equity interest in Wanyuan GDX. During the Restructuring, the 40% equity interest in Wanyuan GDX previously held by Beijing Wan Yuan Sealing Device Factory was assigned to Wan Yuan Industry.

CALT had undertaken to indemnify the Company for any debts or claims arising from the Non-acquired Businesses before completion of the Restructuring for a period of five years commencing from completion of the sale and purchase agreements. Also as part of the restructuring exercise, on 15 February 2007, CALT entered into a deed of assignment to assign its 100% direct shareholdings in Wan Yuan Industry to Advanced Grade Holdings Limited ("Advanced Grade"). The Restructuring is yet to be completed as at the date of this report. CALT estimates the Restructuring to be completed on or before 30 June 2007.

Upon completion of the Restructuring, Wan Yuan Industry will not carry on any business or have any material assets, other than the holding of a 49% equity interest in Beijing Delphi, a 40% equity interest in Wanyuan GDX, a 29% equity interest in Hangzhou REPM, a 45% equity interest in Nantong Acciona and a 45% equity interest in Beijing Acciona.

Advanced Grade is a limited liability company incorporated in the British Virgin Islands on 13 December 2006 and does not carry on any business or have any material assets. After the completion of the Restructuring, Advanced Grade will hold the entire equity interest in Wan Yuan Industry.

After Completion, Advanced Grade and Wan Yuan Industry will become the wholly-owned subsidiaries of the Company and their results will be consolidated into the accounts of the Company and its subsidiaries (the "Group"). Also, the Group will hold less than 50% equity interests in the respective companies which will become either associate or jointly controlled entities of the Company and their results will be equity accounted for in the accounts of the Group.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. BASIS OF PRESENTATION

The Financial Information for each of the years ended 31 December 2004, 31 December 2005 and 31 December 2006 presents the results of Wan Yuan Industry as if the Restructuring had taken place and Wan Yuan Industry had been in operation on a stand alone basis as of the earliest date presented and had been in existence throughout the Relevant Periods.

4. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the principal accounting policies adopted by Wan Yuan Industry is set out below:

The measurement basis used in the preparation of the Financial Information is historical cost.

Impairment loss

At each balance sheet date, a review of internal and external sources of information to determine whether the carrying amounts of the investment in associate and jointly controlled entities have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication of impairment exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit) is estimated.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associate

An associate is an entity in which Wan Yuan Industry has significant influence and which is neither a subsidiary nor a joint venture.

Wan Yuan Industry's investment in associate is accounted for under the equity method of accounting. The income statement includes Wan Yuan Industry's share of the post-acquisition results of the associate for the year. The balance sheet includes Wan Yuan Industry's share of the net assets of the associates and also goodwill. Unless Wan Yuan Industry has incurred obligations or guaranteed obligations in respect of the associates, equity accounting is discontinued when Wan Yuan Industry's share of losses of associates equals or exceeds the carrying amount.

Jointly controlled entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangement which involves the establishment of a separate entity in which each venturer has an interest is referred to as jointly controlled entity.

Wan Yuan Industry's interest in jointly controlled entity is accounted for under the equity method of accounting. The income statement includes Wan Yuan Industry's share of the post-acquisition results of the jointly controlled entity for the year. The balance sheet includes Wan Yuan Industry's share of the net assets of the jointly controlled entities and also goodwill on acquisition of the jointly controlled entities.

Goodwill

Goodwill on acquisition of associate or jointly controlled entities is initially measured at cost, being the excess of the cost of the acquisition over Wan Yuan Industry's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity acquired. Goodwill on acquisitions of associate or jointly controlled entities is included in interests in associate or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss on goodwill is not reversed.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

On acquisition of associate or jointly controlled entity, if the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities being acquired recognised at the date of acquisition exceeds the cost of acquisition, the acquirer reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities being acquired and the measurement of the cost of acquisition, and recognised immediately in income statement any excess remaining after that reassessment.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Cash equivalents

For the purpose the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRS

At the date of authorisation of these Financial Information, the HKICPA has issued a number of new/revised HKFRS that are not yet effective. Wan Yuan Industry has not early adopted these HKFRS and the Management anticipates that the adoption of these HKFRS in the future accounting periods will have no material impact on the result of Wan Yuan Industry.

5. TURNOVER AND REVENUE

Wan Yuan Industry did not earn any income during the Relevant Periods.

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

During the Relevant Periods, none of the directors and senior management received any emoluments from Wan Yuan Industry.

7. TAXATION

Provision for Hong Kong profits tax has not been made as Wan Yuan Industry did not generate any assessable profits in Hong Kong during the Relevant Periods. All the income of Wan Yuan Industry is dividend generated in the PRC which is exempted from PRC income tax.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

8. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

9. INTEREST IN AN ASSOCIATE

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	6,950	11,643	10,972
Due to associate	(5,000)	(2,400)	(2,400)
	1,950	9,243	8,572

The amount due to associate is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

Investment in an associate represents 29% (2005: 26%, 2004: 30%) of the registered capital of Hangzhou Aerospace Wan Yuan REPM Motor Application Technology Co., Ltd., a company incorporated in the PRC and engaged in the development and manufacture of rare-earth-permanent magnet motors for elevator.

Summary of financial information of the associate is as follows:

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	5,076	6,861	10,906
Current assets	18,491	39,877	43,043
Non-current liabilities	—	—	—
Current liabilities	(403)	(1,957)	(16,115)

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Revenue	511	3,019	12,668
Loss for the year	(2,517)	(3,716)	(6,947)

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

10. INTEREST IN JOINTLY CONTROLLED ENTITIES

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	330,591	334,398	416,447
Goodwill	7,146	7,146	7,146
	337,737	341,544	423,593

Details of the jointly controlled entities at the balance sheet date are as follows:

Name of jointly controlled entities	Principal place of operation/ place of incorporation	Proportion of registered capital held by Wan Yuan Industry	Principal activities
Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd	PRC	49%	Manufacture of automotive engine, management systems (EMS) and components, after-sale services and technical consultancy
Beijing Wanyuan GDX Automotive Sealing Products Co., Ltd	PRC	40%	Development and manufacture of car body sealing system, vessel sealing system and accessories, technical consultancy and training
Nantong CASC Wanyuan Acciona Wind Turbine Manufacture Corporation Ltd.	PRC	45%	Sale and manufacture of wind turbine
Beijing CASC Wanyuan Acciona Renewable Energy Corporation Ltd.	PRC	45%	Development of renewable energy projects, research and development of related technologies and equipment, especially those of wind power marketing, blades, biomass and biofuel for the market of PRC, management, human resource training.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

10. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Summary of financial information of Wan Yuan Industry's interest in jointly controlled entities.

	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Share of jointly controlled entities' assets and liabilities:			
Non-current assets	85,066	91,088	125,336
Current assets	449,362	589,855	810,567
Non-current liabilities	—	—	—
Current liabilities	(203,837)	(346,545)	(519,585)

	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Share of jointly controlled entities' revenue and profit:			
Revenue	748,682	660,032	1,043,435
Profit for the year	112,296	84,302	98,580

Goodwill of RMB7,146,000 is attributable to one of the jointly controlled entities, Beijing Delphi.

During the years, the Management determines that there was no impairment of the goodwill.

For the purpose of assessing whether there was any impairment of goodwill, the recoverable amounts of Beijing Delphi was firstly determined based on value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected dividend income from Beijing Delphi.

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

11. CASH FROM OPERATIONS

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	111,640	83,994	96,704
Other income	(204)	(721)	—
Share of results of associate	860	1,028	1,876
Share of results of jointly-controlled entities	(112,296)	(84,301)	(98,580)
Cash from operations	—	—	—

12. COMMITMENTS

Wan Yuan Industry's share of capital expenditure commitments of jointly controlled entities

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for, net of deposit paid	6,887	4,239	387
Authorised but not contracted for	—	7,517	—

Capital contribution commitments of Wan Yuan Industry

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for	—	18,000	18,000

E. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

13 FINANCIAL GUARANTEE

At the balance sheet dates, Wan Yuan Industry had the following outstanding guarantee:

	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Guarantee given by Wan Yuan Industry to a bank in respect of banking facilities utilised by a jointly controlled entity	5,000	—	—

14. SEGMENT INFORMATION

No segment information has been disclosed as all the revenue and assets were related to investments in associates and jointly controlled entities.

No geographical segment information has been disclosed as all income was derived in the PRC.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Wan Yuan Industry is exposed to fair value risk in respect of its equity investments in associate and jointly controlled entities. The Management continues to monitor the operation of investment in associate and the jointly controlled entities.

Yours faithfully
Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is a letter, prepared for the sole purpose of inclusive in this circular, received from the independent reporting accountants, Moores Rowland, Chartered Accountants, Certified Public Accountants, Hong Kong.

Moores Rowland
摩斯倫會計師事務所

1 June 2007

The Directors
CASIL Telecommunications Holdings Limited
Suite 4701, 47th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of CASIL Telecommunications Holdings Limited (the "Company" or the "Group"), Beijing Wan Yuan Industry Corporation ("Wan Yuan Industry") and Advanced Grade Holdings Limited ("Advanced Grade") (collectively "the Enlarged Group") set out in Appendix IV on pages IV-3 to IV-8 of the circular dated 1 June 2007 (the "Circular") under the heading of "Unaudited pro forma financial information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in connection with the proposed acquisition of Wan Yuan Industry and Advanced Grade (the "Proposed Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, to provide information about how the Proposed Acquisition might have affected the financial information presented for inclusion in Appendix IV of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page IV-3 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2006 or any future date;
- the result and cash flows of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group ; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong

1. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the entire issued share capital of Advanced Grade Holdings Limited ("Advanced Grade"), which holds the entire equity interest in Wan Yuan Industry. At 31 December 2006, Advanced Grade Holdings Limited only had US$1.00 cash representing the paid up capital of Advanced Grade. In view of the insignificant amount involved, the financial information of Advanced Grade has not been separately shown in the unaudited Pro Form Financial Information.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on the audited income statement and cash flow statement of the Group for the year ended 31 December 2006 as extracted from the annual report of the Company and the proforma adjustment on the income statement and cash flow statement of Wan Yuan Industry was extracted from the accountants' report as set out in Appendix III to this circular as if the Proposed Acquisition has been completed at the beginning of the financial year ended 31 December 2006.

The unaudited pro forma balance sheet of the Enlarged Group is prepared based on the audited balance sheet of the Group as at 31 December 2006 as extracted from the annual report of the Company and the proforma adjustment on the balance sheet of Wan Yuan Industry was extracted from the accountants' report as set out in Appendix III to this circular as if the Proposed Acquisition has been completed on 31 December 2006.

For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the financial information of Wan Yuan Industry is translated at the exchange rate of HK$1.00 = RMB1.00.

2. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP

	The Group 31 December 2006	Pro forma adjustments: Advanced Grade/ Wan Yuan Industry	Pro forma adjustments		The Enlarged Group 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets					
Property, plant and equipment	42,879				42,879
Goodwill	—		1,255,335	(a)	1,264,335
			9,000	(b)	
Intangible assets	9,800				9,800
Interest in associates	84,864	8,572			93,436
Interest in jointly controlled entities	—	423,593			423,593
	137,543				1,834,043
Current assets					
Inventories	62,910				62,910
Trade and other receivables	92,615				92,615
Amount due from related companies	15,291				15,291
Amount due from associates	25,969				25,969
Pledged bank deposits	1,537				1,537
Bank balances and cash	81,777	4,500	136,000	(c)	83,277
			(130,000)	(a)	
			(9,000)	(b)	
	280,099				281,599
Current liabilities					
Trade and other payables	41,587				41,587
Amount due to related companies	4,407				4,407
Amount due to associates	13,365				13,365
Taxation	330				330
Borrowings					
— amount due within one year	97,350				97,350
	157,039				157,039
Net current assets	123,060				124,560
Total assets less current liabilities	260,603				1,958,603
Non-current liabilities					
Borrowings					
— amount due after one year	168,317				168,317
	92,286				1,790,286
Capital and reserves					
Share capital	101,714		40,686	(c)	362,400
			220,000	(a)	
Reserves	(11,440)	436,665	95,314	(c)	1,425,874
			1,342,000	(a)	
			(436,665)	(a)	
Equity attributable to equity holders of the Company	90,274				1,788,274
Minority interests	2,012				2,012
Total equity	92,286				1,790,286

3. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP

		Pro forma adjustments			
	The Group 31 December 2006	**Advanced Grade/ Wan Yuan Industry**			**The Enlarged Group** 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Continuing operations					
Turnover	141,275				141,275
Cost of Sales	(134,495)				(134,495)
Gross Profit	6,780				6,780
Other income	20,775				20,775
Distribution costs	(9,458)				(9,458)
Administrative expenses	(74,795)				(74,795)
Impairment loss recognised in respect of intangible assets	(9,403)				(9,403)
Reversal of amount due from an associate	10,019				10,019
Finance costs	(9,370)				(9,370)
Share of result of associates	(1,300)	(1,876)			(3,176)
Share of result of jointly controlled entities	—	98,580			98,580
(Loss) Profit before taxation	(66,752)				29,952
Taxation	1,751				1,751
(Loss) Profit for the year from continuing operations	(65,001)				31,703
Discontinued operation					
Loss for the year from discontinued operation	(224)				(224)
(Loss) Profit for the year	**(65,225)**				**31,479**
Attributable to :					
Equity holders of the Company	(64,562)	96,704			32,142
Minority interests	(663)				(663)
	(65,225)				**31,479**

4. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group 31 December 2006 *HK$'000*	Pro forma adjustments: Advanced Grade/ Wan Yuan Industry *HK$'000*	*HK$'000*	*Notes*	The Enlarged Group 31 December 2006 *HK$'000*
Cash flows from operating activities	(66,931)	96,704			29,773
Loss before taxation					
Adjustments for:					
Interest income	(567)				(567)
Interest expenses	9,447				9,447
Share of result of associates	1,300	1,876			3,176
Share of result of jointly controlled entities	—	(98,580)			(98,580)
Amortization of intangible assets	12,900				12,900
Depreciation of property, plant and equipment	7,714				7,714
Loss on disposal of property, plant and equipment	48				48
Impairment loss recognised in respect of intangible assets	9,403				9,403
Gain on disposal and deemed disposal of subsidiaries	(2,641)				(2,641)
Impairment loss recognised in respect of goodwill	542				542
Allowance for doubtful debts	22,170				22,170
Reversal of amount due from an associate	(10,019)				(10,019)
Allowance for obsolete inventories	1,916				1,916
Write-back of interest payable	(14,585)				(14,585)
Effect of foreign exchange rate changes on intercompany balances	(3,531)				(3,531)
Operating cash flows before movements in working capital	(32,834)				(32,834)
Increase in inventories	(25,903)				(25,903)
Decrease in trade and other receivables	43,941				43,941
Increase in amounts due from associates	(15,601)				(15,601)
Decrease in trade and other payables	(5,382)				(5,382)
Increase in amounts due to associates	13,316				13,316
Cash used in operations	(22,463)				(22,463)
Income taxes paid	(118)				(118)
Net cash used in operating activities	(22,581)				(22,581)

	The Group 31 December 2006 *HK$'000*	Pro forma adjustments Advanced Grade/ Wan Yuan Industry *HK$'000*	*HK$'000*	*Notes*	The Enlarged Group 31 December 2006 *HK$'000*
Investing activities					
Capital contribution to associates	(66,476)				(66,476)
Purchase of Acquired Businesses	—		(1,692,000)	(a)	(1,701,000)
			(9,000)	(b)	
Purchase of property, plant and equipment	(9,787)				(9,787)
Increase in pledged bank deposits	(175)				(175)
Proceeds on disposal of property, plant and equipment	458				458
Net cash inflow in respect of disposal and deemed disposal of subsidiaries	199				199
Interest received	567				567
Dividend received from jointly controlled entities	—	16,560			16,560
Net cash used in investing activities	(75,214)				(1,759,654)
Financing activities					
Proceeds from open offer	—		136,000	(c)	136,000
Issues of consideration shares	—		1,562,000	(a)	1,562,000
New loans raised	208,911				208,911
Repayments of bank loans	(44,800)				(44,800)
Interest paid	(7,463)				(7,463)
Contributions from equity holder	—	4,500			4,500
Distributions to equity holder	—	(16,560)			(16,560)
Net cash generated from financing activities	156,648				1,842,588
Net increase in cash and cash equivalents	58,853				60,353
Effect of foreign exchange rate changes	537				537
Cash and cash equivalents at beginning of the year	22,387				22,387
Cash and cash equivalents of the year, representing bank balances and cash	81,777				83,277

5. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) Pursuant to a sale and purchase agreement and a supplemental agreement on 15 February 2007 and 27 March 2007 respectively, the Company conditionally agreed to acquire the entire issued share capital of Advanced Grade for a consideration of HK$900,000,000, which are to be satisfied by (1) cash of HK$130 million and (2) the issue and allotment of 2,200,000,000 ordinary shares of HK$0.10 each of the Company (the "Consideration Shares") at a reference price of HK$0.35 per Consideration Share. The adjustment reflects the Acquisition at the Purchase Price of HK$1,692 million, which include cash of HK$130 million and the allotment and issue of the Consideration Shares at HK$0.71 each as if the transaction completed on 30 April 2007 for the purpose of the unaudited pro forma balance sheet.

HKFRS 3 Business Combinations requires Consideration Shares be recorded in the financial statements at their fair values at the acquisition date (i.e. the date on which the acquirer effectively obtains control over the acquiree) and all the fair values of identifiable assets and liabilities (including contingent liabilities) be assessed at the acquisition date. The difference between the cost of the Acquisition and the net fair value of the identifiable assets and liabilities so recognised will be accounted for as goodwill, or excess on acquisition, if any , as the case may be. Hence, any changes in their fair values will be assessed, which will affect the unaudited pro forma financial information, including the goodwill as detailed in note (d) below.

(b) The adjustment reflects the professional services fee of HK$9,000,000 paid or payable for the Proposed Acquisitions which was deemed to be paid by 31 December 2006.

(c) The adjustment reflects the net cash of HK$136 million received from Open Offer of 406,855,905 Offer Shares of HK$0.35 each, which was deemed to have been received by the Group at 31 December 2006.

(d) The goodwill arising from the acquisition is arrived at as follows:

	HK$'000
Total purchase consideration *(Note (a))*	1,692,000
Less : Net assets acquired	(436,665)
	1,255,335
Add : Professional fee directly related to the Proposed Acquisition *(Note (b))*	9,000
	1,264,335

Based on a discounted cash flow forecast of Advanced Grade and its subsidiaries, the corresponding value in use is higher than the carrying value of the goodwill arising from this acquisition. Accordingly, the Directors consider that there is no impairment in the value of goodwill.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration, and there are no other facts the omission of which would make any statement misleading.

2. SHARE CAPITAL

The authorised and issue share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Open Offer and Completion are expected to be, as follows:

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.10 each	1,000,000,000
Issued and fully paid:		*HK$*
1,017,139,763	Shares of HK$0.10 each	101,713,976
406,855,905	Offer Shares of HK$0.10 each to be issued pursuant to the Open Offer	40,685,591
2,200,000,000	Consideration Shares of HK$0.10 each to be issued pursuant to the Sale and Purchase Agreements	220,000,000
3,623,995,668	Shares in issue immediately following Completion *(Note)*	362,399,567

Note: — This assumes no Shares are issued other than the Offer Shares and the Consideration Shares to be issued pursuant to the Open Offer and the Sale and Purchase Agreements.

— No Share has been issued by the Company from 31 December 2006, the date to which the latest audited accounts were made up, to the date of this circular.

All Shares in issue rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

All Offer Shares and Consideration Shares shall rank pari passu with all the Shares in issue in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of issue.

The Company did not have any other options (except the share option scheme adopted by the Company on 23 July 1997), warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange (i) at the end of each of the six calendar months immediately preceding the date of the Announcement; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date:

Date	**Closing Price** *(HK$)*
31 October 2006	0.57
30 November 2006	0.53
29 December 2006	0.50
31 January 2007	0.65
28 February 2007 (Note)	N/A
31 March 2007 (Note)	N/A
Last Trading Day	0.78
Latest Practicable Day	1.39

Note: The trading of the Shares was suspended during the period from 13 February 2007 to 3 April 2007.

The lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the period between the beginning of the six months preceding the date of the Announcement and the Latest Practicable Date were HK$0.41 on 3 October, 4 October, 5 October and 6 October 2006, and HK$1.53 on 28 May 2007 respectively.

4. DISCLOSURE OF INTERESTS

(A) Interests of Directors and chief executive

(a) As at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interest or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and 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 the 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 Listing Rules.

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since the date to which the latest published audited accounts of the Company was made up, acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of by or leased to the Enlarged Group.

(c) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group.

(B) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the persons/entities (other than the Directors 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 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
CASC	Interest of a controlled corporation *(Note 2)*	449,244,000 (L)	44.17%
CALT	Interest of a controlled corporation *(Note 3)*	449,244,000 (L)	44.17%
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 or the chief executive of the Company, there is no other person/entity (other than a Director or the chief executive of the Company) who, as at the Latest Practicable Date, 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 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 or in any option in respect of such capital.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with the Company or any member of the Group (except those expiring or determinable by the Company within a year without payment of compensation other than statutory compensation).

6. COMPETING INTEREST OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code.

7. MATERIAL CONTRACTS

In addition to the Sale and Purchase Agreements for the Proposed Acquisition, deeds of assignment for the Restructuring and the Underwriting Agreement dated 2 April 2007 for the Open Offer, the following contracts have been entered into by members of the Enlarged Group (otherwise than in the ordinary course of business) within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date and are or may be material:

(a) a joint venture agreement dated 30 March 2006 entered into between Crownplus International Limited (a wholly-owned subsidiary of the Company), Longyuan Electric Group Corporation and Wan Yuan Industry in respect of building, maintenance and operation of wind energy plants and facilities in the Liaoning Province of the PRC, in relation to which Crownplus International Limited's 40% share of investment in share capital of the joint venture company amounts to RMB37,520,000 out of the total capital of RMB93,800,000;

(b) a trust loan contract entered into on 30 August 2006 of RMB41 million from CALT through the trustee, 航天科技財務有限責任公司 ("CASIL Finance") to 航天科技通信(深圳)有限公司 ("CTSZ") (a wholly-owned subsidiary of the Company), being unsecured and bearing interest at 5.10% per annum;

(c) a settlement agreement dated 26 October 2006 between the Bank of China (Hong Kong) Ltd., Hung Nien Electronics Limited (a wholly-owned subsidiary of the Company) and the Company in relation to the complete settlement of all of the indebtednesses due to the Bank of China (Hong Kong) Ltd. by the Company and Hung Nien Electronics Limited by payment of HK$39 million;

(d) an agreement of 22 November 2006 between the Company and Brightness International Holdings Ltd ("Brightness") in relation to Brightness' acquisition of 40% equity interest of CASTEL Videotech (Hong Kong) Ltd ("CASTEL Videotech") at a consideration of HK$4.2 million and Brightness' subscription of 2,505,000 new shares for a consideration of HK$4 million, representing 20% of the total issued shares of CASTEL Videotech after completion of the transaction; and

(e) a long term trust loan contract entered into on 28 November 2006 of RMB170 million from CALT through the trustee, CASIL Finance to CTSZ, being unsecured and bearing interest at 5.04% per annum.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Enlarged Group) have been entered into by any member of the Enlarged Group within the two years preceding the date of this circular.

8. EXPERTS AND CONSENT

(a) The qualification of each of the experts who have given opinion or advice which are contained in this circular is as follows:

Name	**Qualification**
Partners Capital International Limited ("Partners Capital")	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Moores Rowland ("Moores Rowland")	Certified Public Accountants
Guantao Law Firm (觀韜律師務所) ("Guantao")	Practising lawyers in the PRC

(b) As at the Latest Practicable Date, none of Guantao, Moores Rowland and Partners Capital had any shareholding in the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Enlarged Group, nor did any of them have any interest, direct or indirect, in any assets which had been since the date to which the latest published audited financial statements of the Company was made up, acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of by or leased to the Enlarged Group.

(c) Each of Partners Capital, Moores Rowland and Guantao has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report and references to its name in the form and context in which they appear.

9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 80 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least five members present in person or by proxy and entitled to vote; or

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

(d) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which they have been paid up sums in aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Pursuant to Article 85 of the Articles of Association of the Company, at any general meeting on a show of hands every member who is present in person or by proxy (or, in the case of a member being a corporation by its duly authorized representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register. On a poll a member entitled to more than one vote is under no obligation to cast all his votes in the same way.

An announcement will be made by the Company following the conclusion of the EGM to inform the Shareholders of the results of the EGM.

10. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

11. GENERAL

(a) The company secretary of the Company is Mr. Au-Yeung Keung Steve LLB LLM, who is a fellow member of Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

(b) The qualified accountant of the Company is Mr. Han Jiang, who is a Certified Public Accountant of American Institute of Certified Public Accountants (as required under Rule 3.24 of the Listing Rules).

(c) The registered office of the Company is Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

(d) The principal place of business of the Company is Suite 4701, 47th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text.

(f) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.

(g) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

(h) As at the Latest Practicable Date, no benefit will be given to any Director as compensation for loss of office or otherwise in connection with the Whitewash Waiver (other than statutory compensation).

(i) As at the Latest Practicable Date, there was no agreement or arrangement existed between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver or otherwise connected therewith.

(j) As at the Latest Practicable Date, there was no material contract entered into by Astrotech which any Director has a material personal interest.

(k) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between Astrotech or any person acting in concert with it and any of the Directors or recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Whitewash Waiver.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company within 14 days from the date of this circular up to the date of the EGM (both dates inclusive):

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for the two years ended 31 December 2006;

(d) the accountants' reports on Advanced Grade and Wan Yuan Industry from Moores Rowland as set out in Appendix II and III to this circular;

(e) the report from Moores Rowland on the unaudited financial information of the Enlarged Group as set out in Appendix IV to this circular;

(f) PRC legal opinion referred to in this circular;

(g) the letter from the Independent Board Committee as set out in pages 38 to 39 of this circular;

(h) the letter from the Independent Financial Adviser as set out in pages 40 to 59 of this circular;

(i) the letters of consents referred to under the paragraph headed "Experts and consents" in this Appendix;

(j) the Sale and Purchase Agreements; and

(k) the material contracts referred to the paragraph headed "Material Contracts" in this Appendix.

The above documents will be available on the website of the SFC at www.sfc.hk and the Company's website at www.castelecom.com from the date of this circular up to (and including) the date of the EGM in accordance with Note 1 to Rule 8 of the Takeovers Code.

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1185)

NOTICE OF THE EGM

NOTICE IS HEREBY GIVEN that an EGM of CASIL Telecommunications Holdings Limited (the "**Company**") will be held at Hall 1B, G/F., No.1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on 18 June 2007 at 11:00 a.m. for the purposes of considering and, if thought fit, passing the ordinary resolutions set out as follows:—

ORDINARY RESOLUTION

1. "**THAT:**

(a) the conditional sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 15 February 2007 and the supplemental agreement dated 27 March 2007 (the "**Supplemental Agreement**") entered into between the Company, Astrotech Group Limited ("**Astrotech**") and China Academy of Launch Vehicle Technology (a copy of each of the Sale and Purchase Agreement and the Supplemental Agreement is tabled at the meeting and marked "**A**" and "**B**" respectivley and initialed by the chairman of the meeting for identification purposes) pursuant to which the Company will acquire from Astrotech the entire issued share capital of Advanced Grade Holdings Limited for a total consideration of HK$900,000,000 (the "**Acquisition**"), be and is hereby approved, confirmed and ratified; and

(b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Consideration Shares (as defined in the announcement of the Company dated 2 April 2007), the issue of the Consideration Shares to Astrotech to satisfy part of the consideration for the Acquisition be and is hereby confirmed and approved; and

** For identification purpose only*

(c) the execution of the Sale and Purchase Agreement and the Supplemental Agreement be and is hereby confirmed and ratified and any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to do all such things and take all other steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in and for completion of the Acquisition."

2. "**THAT** subject and pursuant to Note 1 to the "Notes on dispensations from Rule 26" of the Hong Kong Code on Takeovers and Mergers, the Whitewash Waiver (as defined and more particularly described in the circular of the Company dated 1 June 2007) be and is hereby approved."

By order of the board of directors of
CASIL Telecommunications Holdings Limited
Au-Yeung Keung Steve
Secretary

Hong Kong, 1 June 2007

Notes:

1. Any member of the Company entitled to attend and vote at the meeting of the Company by the above notice shall be entitled to appoint another person as his/her proxy to attend and vote instead of such member. A proxy need not be a member of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

3. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notary certified copy of such power or authority must be delivered to the office of Standard Registrars Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong or by way of notice to or in any document accompanying the notice convening the meeting not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.

4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. In the case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

6. The votes to be taken at the meeting of the Company by the above notice will be taken by poll.

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