



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

ANNOUNCEMENT OF INTERIM RESULTS 2007

The Board of Directors (the “Board”) of China Aerospace International Holdings Limited (the “Company”) announces that the unaudited results and financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2007 together with the comparative figures of the same period in 2006 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Six months ended	
		30.6.2007	30.6.2006
		(Unaudited)	(Unaudited)
	<i>NOTES</i>	HK\$'000	HK\$'000
Turnover	3	727,523	705,775
Cost of sales		<u>(547,961)</u>	<u>(516,761)</u>
Gross profit		179,562	189,014
Other income		140,213	12,745
Selling and distribution expenses		(22,877)	(24,692)
Administrative expenses		(103,380)	(98,970)
Fair value changes of investment properties		13,812	850
Finance costs		(5,916)	(9,495)
Share of results of jointly controlled entities		<u>(8,410)</u>	<u>(3,793)</u>
Profit before taxation	4	193,004	65,659
Taxation	5	<u>(34,055)</u>	<u>(12,109)</u>
Profit for the period		<u>158,949</u>	<u>53,550</u>
Attributable to:			
Equity holders of the Company		157,806	53,473
Minority interests		<u>1,143</u>	<u>77</u>
		<u>158,949</u>	<u>53,550</u>
Earnings per share – Basic	6	<u>HK6.8 cents</u>	<u>HK2.3 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2007

	30.6.2007	31.12.2006
	(Unaudited)	(Audited)
<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	657,616	634,124
Prepaid lease payments	63,325	61,888
Investment properties	157,509	160,562
Interests in jointly controlled entities	57,933	63,831
Available-for-sale investments	117,395	101,331
Pledged bank deposits	110,560	110,560
	1,164,338	1,132,296
Current assets		
Inventories	177,754	134,106
Trade and other receivables	439,777	267,198
Prepaid lease payments	2,220	2,153
Loans receivable	70,269	70,269
Held-for-trading investments	1,591	–
Taxation recoverable	1,225	1,400
Pledged bank deposits	45,252	–
Bank balances and cash	638,810	658,756
	1,376,898	1,133,882
Assets classified as held for sale	28,041	20,300
	1,404,939	1,154,182
Current liabilities		
Trade and other payables	682,300	591,307
Amounts due to associates	1,050	1,050
Amount due to a major shareholder	104,537	116,161
Taxation payable	70,522	40,927
Obligations under finance leases		
– amount due within one year	1,225	2,634
Secured bank loans	42,235	65,172
Other loans	7,389	7,167
	909,258	824,418
Net current assets	495,681	329,764
Total assets less current liabilities	1,660,019	1,462,060

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*
AT 30 JUNE 2007

	30.6.2007 (Unaudited) <i>HK\$'000</i>	31.12.2006 (Audited) <i>HK\$'000</i>
Non-current liabilities		
Secured bank loans	158,901	166,401
Deferred taxation	26,243	22,616
Obligations under finance leases		
– amount due after one year	–	44
	185,144	189,061
	1,474,875	1,272,999
Capital and reserves		
Share capital	214,242	214,242
Reserves	1,204,252	1,006,170
Equity attributable to equity holders of the Company	1,418,494	1,220,412
Minority interests	56,381	52,587
	1,474,875	1,272,999

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34, Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

Business segments

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

Six months ended 30 June 2007

	Turnover			Segment result HK\$'000
	External sales HK\$'000	Inter- segment sales HK\$'000	Total HK\$'000	
Manufacturing				
Plastic products	282,922	35,739	318,661	33,442
Liquid crystal display	128,625	–	128,625	11,936
Printed circuit boards	95,309	–	95,309	16,731
Intelligent chargers	210,726	–	210,726	34,878
Other products	–	–	–	(4,058)
	<u>717,582</u>	<u>35,739</u>	<u>753,321</u>	<u>92,929</u>
Property	8,105	4,318	12,423	36,750
Trading	1,836	–	1,836	(698)
	<u>727,523</u>	<u>40,057</u>	<u>767,580</u>	<u>128,981</u>
Eliminations	–	(40,057)	(40,057)	(9,759)
	<u>727,523</u>	<u>–</u>	<u>727,523</u>	<u>119,222</u>
Unallocated corporate income				111,647
Unallocated corporate expense				(23,539)
				<u>207,330</u>
Finance costs				(5,916)
Share of results of jointly controlled entities				(8,410)
				<u>193,004</u>
Profit before taxation				193,004
Taxation				(34,055)
				<u>158,949</u>

Inter-segment sales are charged at prevailing market prices.

Six months ended 30 June 2006

	Turnover			Segment result <i>HK\$'000</i>
	External sales <i>HK\$'000</i>	Inter- segment sales <i>HK\$'000</i>	Total <i>HK\$'000</i>	
Manufacturing				
Plastic products	277,172	34,915	312,087	32,336
Liquid crystal display	123,463	–	123,463	9,852
Printed circuit boards	104,227	–	104,227	24,686
Intelligent chargers	193,341	–	193,341	27,971
Other products	2,327	–	2,327	(3,453)
	<u>700,530</u>	<u>34,915</u>	<u>735,445</u>	<u>91,392</u>
Property	5,242	4,969	10,211	8,666
Trading	3	–	3	(300)
	<u>705,775</u>	<u>39,884</u>	<u>745,659</u>	<u>99,758</u>
Eliminations	–	(39,884)	(39,884)	(10,253)
	<u>705,775</u>	<u>–</u>	<u>705,775</u>	<u>89,505</u>
Unallocated corporate income				6,501
Unallocated corporate expense				(17,059)
				<u>78,947</u>
Finance costs				(9,495)
Share of results of jointly controlled entities				(3,793)
				<u>65,659</u>
Profit before taxation				65,659
Taxation				(12,109)
				<u>53,550</u>

Inter-segment sales are charged at prevailing market prices.

4. PROFIT BEFORE TAXATION

Six months ended	
30.6.2007	30.6.2006
<i>HK\$'000</i>	<i>HK\$'000</i>

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

Amortisation of prepaid lease payments	1,079	1,045
Depreciation of property, plant and equipment	23,277	22,029
Gain on disposal of assets classified as held for sale	(3,005)	–
Gain on disposal of held-for-trading investments	(1,640)	(2,068)
Gain on disposal of prepaid lease payments at nil cost	(16,214)	–
Interest income	(7,035)	(5,557)
Service income (Note)	(105,187)	–
	<u>1,079</u>	<u>1,045</u>

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

5. TAXATION

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	3,784	2,160
PRC Enterprise Income Tax	27,937	9,216
	31,721	11,376
Deferred tax	2,334	733
Income tax expense	34,055	12,109

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

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

On 16 March 2007, the People's Republic of China ("PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC which will take effect on 1 January 2008. However, the detailed implementation rules regarding the New Tax Law have yet to be made public. Consequently, the Group is not able to make an estimate of the expected financial effect of the New Tax Law on the Company's condensed consolidated financial statements in the coming year. The enactment of the New Tax Law is not expected to have any significant financial effect on the amounts accrued in the condensed consolidated balance sheet in respect of taxation payable and deferred taxation.

6. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company for the period is based on the profit for the period attributable to the equity holders of the Company of HK\$157,806,000 (2006: HK\$53,473,000) and on 2,310,925,000 shares (2006: 2,310,925,000 shares) in issue during the period and have been adjusted for the effect of open offer of 428,483,980 offer shares at a price of HK\$0.90 per offer share subsequent to 30 June 2007.

7. DIVIDEND

No dividend was paid by the Company during the period. The directors do not recommend payment of an interim dividend.

8. TRADE AND OTHER RECEIVABLES

At 30 June 2007, included in trade and other receivables are trade receivables of HK\$236,575,000 (31.12.2006: HK\$229,827,000). The Group allows an average credit period of 90 days to its trade customers.

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

	30.6.2007	31.12.2006
	HK\$'000	HK\$'000
Within 90 days	236,575	221,637
Between 91-180 days	–	8,190
	236,575	229,827

9. TRADE AND OTHER PAYABLES

At 30 June 2007, included in trade and other payables are trade payables of HK\$326,721,000 (31.12.2006: HK\$268,350,000).

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

	30.6.2007 <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Within 90 days	293,715	236,508
Between 91-180 days	2,756	5,872
Between 181-365 days	4,645	348
Between 1 to 2 years	316	5,256
Over 2 years	25,289	20,366
	<hr/> 326,721 <hr/>	<hr/> 268,350 <hr/>

BUSINESS REVIEW

2007 is the beginning year for the Group's implementation of the new development strategies after assets restructuring and optimization. In the first half of the year, in order to cope with the Group's development strategies, the Company grasped the opportunity in the flourishing Hong Kong capital market to raise a capital of HK\$386 million by way of Open Offer. This fund raising activity obtained the strong support from our shareholders and achieved a satisfactory result. Meanwhile, the Group continued to enhance the efforts in market development, strengthen cost control and reduce finance costs, the principal businesses maintained a steady growth and the major financial ratios continued to improve.

In the first half of 2007, the Group's total turnover increased by approximately 3% as compared with the same period in last year. The Group's gross profit ratio slightly decreased by 2% as compared with the same period in last year, maintaining at the level of 25% in spite of the pressure from fierce market competition and increase in overall costs as faced by the hi-tech manufacturing business, such as the adverse factors of the increase in direct costs of wages and raw materials, the appreciation in the RMB and the changes in the policies on domestic processing enterprises in the Mainland. For the first half of 2007, the turnover of the hi-tech manufacturing business was approximately HK\$753,321,000, representing an increase of approximately 2.4% as compared with the same period in last year; the operating profit was HK\$92,929,000, representing an increase of approximately 1.7% as compared with the same period in last year. The performances of intelligent chargers and liquid crystal display were distinguished and their turnovers recorded at HK\$210,726,000 and HK\$128,625,000 respectively, representing an increase of 9.0% and 4.1% respectively as compared with the same period in last year; their operating profits were HK\$34,878,000 and HK\$11,936,000, representing an increase of 24.7% and 21.1% respectively when compared with the same period in last year. The turnover of plastic products was HK\$318,661,000, representing an increase of 2.1% as compared with the same period in last year; the operating profit was HK\$33,442,000, representing an increase of 3.4% as compared with the same period in last year. The sales of printed circuit boards declined during the first half of the year as affected by reduced orders and pressure from clients to reduce prices. It reported a turnover of HK\$95,309,000, representing a decrease of 8.5% as compared with the same period in last year; the operating profit was HK\$16,731,000, representing a decrease of 32.2% as compared with the same period in last year.

The Group's new factory extension in Huizhou Industrial Park commenced operations in the first half of 2007. The new factory space with an area of about 45,000 square meters primarily provides ancillary facilities for the further development of the hi-tech manufacturing business and serves as a new impetus to the future growth of the hi-tech manufacturing business.

The business of Shanghai Aerospace Technology Investment Company Limited (the "Joint Venture") had made a good progress. The Joint Venture was established jointly by the Group's wholly-owned subsidiary, CASIL New Century Technology Development (Shenzhen) Company Limited, and a wholly-owned subsidiary of the government of Minhang District in Shanghai. In the first half of 2007, the Joint Venture formulated and approved the planning of the Aerospace Technology Park, and also commenced the construction of the infrastructure projects. The Joint Venture will continue to introduce different enterprises and projects into the Aerospace Technology Park, including but not limited to such areas as new energy, rare earth motor and composite materials. It is anticipated that the Joint Venture will attract more potential high-tech enterprises to move into the Park in the future.

To cope with the booming economy and capital market in China, during the first half of the year, the Group, on the premise of strict control of investment risk, made certain investments in the Mainland's and Hong Kong's capital markets and provided related advisory services, and hence generated an additional income of approximately HK\$105 million.

The Company had acquired the entire shareholding of Dongguan Huadun Enterprises Limited ("Dongguan Huadun") under the assets swap agreement entered into with China Aerospace Science & Technology Corporation in 2006. Dongguan Huadun has been selling its land and property assets after the completion of the acquisition. In June 2007, the remaining land asset of Dongguan Huadun has been sold to an independent third party. The transaction is expected to be completed in the second half of 2007 and the profits arising therefrom will be reflected in the final results of 2007.

In June 2007, the Company announced that it proposes to raise about HK\$386 million by way of Open Offer of 428,483,980 Offer Shares at HK\$0.90 each on the basis of one Offer Share for every five shares held by the shareholders. With the strong support from the shareholders, the Open Offer was oversubscribed by 3 times. The Open Offer was completed in July 2007 and the details of which were set out in the announcements dated 6 June 2007 and 17 July 2007 and the circular to the shareholders dated 27 June 2007.

The Open Offer strengthened the financial position of the Group and offered to all shareholders an equal opportunity to increase their investment in the Company and to participate in the Company's future prospects. The net proceeds of the Open Offer, after expenses, amounted to approximately HK\$378 million, of which a sum of approximately HK\$80 million will be used to finance the development costs of the Aerospace Technology Park, a sum of approximately HK\$157 million will be used for the repayment of debts and the remaining as additional working capital.

LOOKING FORWARD

The Group has closely liaised with its major shareholder in relation to the directions and strategies of new business development and has established certain foundations thereof. At present, the Group has started to research the feasibility of projects related to the composition development of science and technology park and integrated property development. Looking forward to the second half of 2007, the Company, under the leadership of the Board of Directors, will continue to maintain stable development of its hi-tech manufacturing business and enhance sales performance and profitability. Meanwhile, the Group will try to achieve breakthrough in new business areas, in particular in science and technology park development and integrated property development projects, in hope of becoming the main growth point of the Group's future performance and enhance greater value for the shareholders' investment.

MANAGEMENT DISCUSSION AND ANALYSIS

The unaudited interim results of the Group for the six-month period ended 30 June 2007 was that the turnover was approximately HK\$727,523,000, representing an increase of approximately 3% as compared with the same period in last year. The administrative expenses were HK\$103,380,000, representing an increase of 4.4% as compared with the same period in last year. The finance costs were HK\$5,916,000, representing a substantial decrease of 37.7% as compared with the same period in last year. The profits attributable to shareholders were HK\$157,806,000, representing a remarkable increase of 195% as compared with that of HK\$53,473,000 for the same period of 2006. For the first half year of 2007, the Group's net asset yield was 11.12% and the earnings per share was HK\$0.068, based on the issued share capital of 2,310,925,000 shares after being adjusted for the effect of Open Offer of 428,483,980 Offer Shares. The Directors resolved not to declare any interim dividend in respect of the period ended 30 June 2007.

In the first half of 2007, the Group's turnover recorded a slight increase from the same period of 2006, which was mainly due to the pressure of the fierce market competition and the increased overall costs. The increase in administrative expenses from the same period of 2006 was a result of the rise in labor and management costs. The reduced finance costs as compared with that of the same period of 2006 was due to the reduction of amounts payable to the major shareholder, hence as well as the related interest expenses. The surge in overall profits as compared with the same period of 2006 was due to the profits gained on disposal of certain investment properties and a profit of HK\$105,187,000 arising from the provision of investment advisory services by a subsidiary.

As at 30 June 2007, the unaudited total assets of the Group were HK\$2,569,277,000, of which the non-current assets and the current assets were HK\$1,164,338,000 and HK\$1,404,939,000 respectively. The total liabilities were HK\$1,094,402,000, of which the non-current and the current liabilities were HK\$185,144,000 and HK\$909,258,000 respectively. The equity attributable to equity holders of the Company, after minority interests, was HK\$1,418,494,000 and the net assets per share was HK\$0.61, based on the adjusted issued share capital of 2,310,925,000 shares. The liabilities/assets ratio and the current ratio were 42.59% and 1.55 respectively, representing an improvement from 44.32% and 1.40 since the end of last year. Upon the completion of the Open Offer, the Company has received shareholders' funds of approximately HK\$386 million and the Company's current assets are hence increased accordingly. As the Company will utilise part of the proceeds for repayment of loans, the current liabilities will be reduced accordingly. It is expected that the finance costs of the Group in the second half of 2007 will be reduced substantially, leading to a further improvement of the financial ratios. Save as the litigation disclosed under the paragraph headed "Corporate Governance" in the 2007 interim report, the Group did not have any material contingent liabilities as at 30 June 2007.

The source of funding of the Group mainly relies on internal resources and banking facilities. The Group's cash and bank balance as at 30 June 2007 was HK\$794,622,000, most of which was in HK Dollars and the rest in RMB and US Dollars. The Group reviews its cash flow and financial position periodically and does not engage into any financial instruments or derivatives to hedge the exchange and the interest rate risks.

Certain of the Group's real estates and investments have been mortgaged to banks to secure financings with interest calculated at LIBOR plus margin. The remaining mortgage term is about 5 years.

The Group's remuneration policy is based on the employee's qualifications, experience and performance as well as by reference to market trends. The Group will continue to strengthen the level of human resources management, strictly implement the performance-based appraisal system to encourage employees to enhance their performance and contribute to the Group continuously. As at 30 June 2007, the Group has a total of about 6,300 staff members based in the Mainland and Hong Kong.

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

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the period.

CORPORATE GOVERNANCE

For the six months ended 30 June 2007, the Company had complied throughout the period with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Company currently has a membership comprising two Independent Non-Executive Directors, Mr Chow Chan Lum, Charles (the Chairman) and Mr Luo Zhenbang, and a Non-Executive Director, Mr Wang Yujun. The Audit Committee of the Company reviewed, discussed and approved the 2007 unaudited interim report that had been reviewed by the auditors, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company currently has a membership comprising three Independent Non-Executive Directors, Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, and two Non-Executive Directors, Ms Chan Ching Har, Eliza (the Chairman) and Mr Gong Bo. The major roles and functions of the Remuneration Committee are to formulate remuneration policy and to determine the remuneration of the Directors.

DIRECTORS' AND EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2007, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules. Having made specific enquiry of all the directors of the Company and in accordance with information provided, all the directors have complied with the provisions under the Model Code during the first half of 2007.

APPRECIATION

The Company would like to express its sincere gratitude to the shareholders, banks, business partners, people from various social communities, as well as all staff of the Group for their long-time support.

By order of the Board
Ma Xingrui
Chairman

Hong Kong, 31 August 2007

As of the date of this announcement, the Board of Directors of the Company comprises:

Executive Directors

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

Non-Executive Directors

Mr Ma Xingrui (Chairman)
Mr Gong Bo
Ms Chan Ching Har, Eliza
Mr Wang Yujun
Mr Xu Jianhua

Independent Non-Executive Directors

Mr Chow Chan Lum, Charles
Mr Luo Zhenbang
Mr Wang Junyan