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# CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

## 中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 31)

### ANNOUNCEMENT OF INTERIM RESULTS 2010

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 2010 together with the comparative figures of the same period in 2009 are as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTES	Six months ended	
		30.6.2010 (Unaudited) HK\$'000	30.6.2009 (Unaudited) HK\$'000
Turnover	3	869,172	548,805
Cost of sales		<u>(675,194)</u>	<u>(431,147)</u>
Gross profit		193,978	117,658
Other income		48,789	26,934
Selling and distribution expenses		(19,996)	(18,172)
Administrative expenses		(98,448)	(91,907)
Fair value changes of investment properties		223,373	249,886
Finance costs		(529)	(960)
Share of results of jointly controlled entities		<u>(74)</u>	<u>89</u>
Profit before taxation	4	347,093	283,528
Taxation	5	<u>(73,076)</u>	<u>(68,298)</u>
Profit for the period		<u>274,017</u>	<u>215,230</u>
Attributable to:			
Owners of the Company		209,881	139,305
Non-controlling interests		<u>64,136</u>	<u>75,925</u>
		<u>274,017</u>	<u>215,230</u>
Earnings per share — basic	6	<u>HK7.1 cents</u>	<u>HK5.4 cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2010**

	<b>Six months ended</b>	
	<b>30.6.2010</b>	30.6.2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit for the period	<u>274,017</u>	<u>215,230</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	36,803	606
Available-for-sale investments	(16,065)	38,926
Increase in fair value of land and buildings transferred to investment properties	7,169	—
Deferred tax liability arising on revaluation of properties	<u>(1,434)</u>	<u>—</u>
Other comprehensive income for the period	<u>26,473</u>	<u>39,532</u>
Total comprehensive income for the period	<u><u>300,490</u></u>	<u><u>254,762</u></u>
Total comprehensive income attributable to:		
Owners of the Company	228,046	178,503
Non-controlling interests	<u>72,444</u>	<u>76,259</u>
	<u><u>300,490</u></u>	<u><u>254,762</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AT 30 JUNE 2010*

	<i>NOTES</i>	<b>30.6.2010</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31.12.2009 <b>(Audited)</b> <b>HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		635,803	655,264
Prepaid lease payments		43,579	43,006
Investment properties		1,606,648	1,327,476
Interests in jointly controlled entities		61,335	61,409
Available-for-sale investments		177,947	194,012
Prepayment for land development	8	181,076	—
Land development expenditure	8	<u>31,684</u>	<u>12,151</u>
		<u>2,738,072</u>	<u>2,293,318</u>
<b>Current assets</b>			
Inventories		199,967	128,685
Trade and other receivables	9	395,607	289,018
Prepaid lease payments		1,683	1,660
Loans receivable		70,269	70,269
Financial assets at fair value through profit or loss		2,539	2,926
Taxation recoverable		9,784	5,294
Pledged bank deposits		54,771	125,083
Bank balances and cash		<u>1,439,972</u>	<u>1,208,827</u>
		<u>2,174,592</u>	<u>1,831,762</u>
<b>Current liabilities</b>			
Trade and other payables	10	606,199	565,810
Amount due to an associate		1,050	1,050
Taxation payable		74,574	53,484
Secured bank loans		—	131,401
Other loan		8,238	8,126
Obligations under a finance lease		<u>748</u>	<u>730</u>
		<u>690,809</u>	<u>760,601</u>
<b>Net current assets</b>		<u>1,483,783</u>	<u>1,071,161</u>
<b>Total assets less current liabilities</b>		<u>4,221,855</u>	<u>3,364,479</u>
<b>Non-current liabilities</b>			
Deferred taxation		190,672	131,763
Obligations under a finance lease		<u>454</u>	<u>832</u>
		<u>191,126</u>	<u>132,595</u>
		<u>4,030,729</u>	<u>3,231,884</u>
<b>Capital and reserves</b>			
Share capital		308,502	257,090
Reserves		<u>3,108,329</u>	<u>2,433,340</u>
<b>Equity attributable to owners of the Company</b>		<u>3,416,831</u>	<u>2,690,430</u>
<b>Non-controlling interests</b>		<u>613,898</u>	<u>541,454</u>
		<u>4,030,729</u>	<u>3,231,884</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 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 with the Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

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 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — INT 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for change in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim periods in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Result of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

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

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

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Right Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for first-time adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK (IFRIC) — INT 14 (Amendment)	Prepayments of a minimum funding requirement <sup>4</sup>
HK (IFRIC) — INT 19	Extinguishing financial liabilities with equity instrument <sup>3</sup>

- 1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
- 2 Effective for annual periods beginning on or after 1 February 2010
- 3 Effective for annual periods beginning on or after 1 July 2010
- 4 Effective for annual periods beginning on or after 1 January 2011
- 5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

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

### 3. SEGMENT INFORMATION

The identification of the Group’s operating segment reviewed by the President, the chief operating decision maker of the Group, that are used to make strategic decisions has changed in September 2009. Prior to September 2009, segment information reported to the President was analysed on the basis of business nature including segments of manufacturing and distribution, property investment, trading, financial service and securities trading. From September 2009, information reported to the President for the purpose of resource allocation and assessment of performances focuses more specifically on the nature of industry by the following operating segments: Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and the related industrial property investment), Aerospace and Aerospace Service (including property investment in Shenzhen Aerospace International Centre and land development in Hainan Launching Site Complex Zone) and Other Business, which represent the major industries the Group engaged.

Information regarding these segments is presented below. The segment information reported for the prior period has been restated to conform with the Group’s current identification of operating segment reviewed by the President.

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

**For the six months ended 30 June 2010**

	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>	
Hi-Tech Manufacturing Business				
Plastic products	326,908	35,525	362,433	39,213
Liquid crystal display	135,208	—	135,208	7,103
Printed circuit boards	179,039	—	179,039	44,503
Intelligent chargers	222,369	—	222,369	16,785
Industrial property investment	<u>5,625</u>	<u>6,465</u>	<u>12,090</u>	<u>6,257</u>
	<u>869,149</u>	<u>41,990</u>	<u>911,139</u>	<u>113,861</u>
Aerospace and Aerospace Service				
Property investment in Shenzhen Aerospace International Centre	—	—	—	218,100
Land development in Hainan Launching Site Complex Zone	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,975)</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>215,125</u>
Other Business	<u>23</u>	<u>—</u>	<u>23</u>	<u>(1,872)</u>
	869,172	41,990	911,162	327,114
Elimination	<u>—</u>	<u>(41,990)</u>	<u>(41,990)</u>	<u>—</u>
	<u>869,172</u>	<u>—</u>	<u>869,172</u>	327,114
Unallocated corporate income				47,547
Unallocated corporate expenses				<u>(28,670)</u>
				345,991
Reversal of impairment loss recognised in respect of loans receivable				1,705
Share of results of jointly controlled entities				(74)
Finance costs				<u>(529)</u>
Profit before taxation				<u>347,093</u>

For the six months ended 30 June 2009

	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>	
Hi-Tech Manufacturing Business				
Plastic products	235,036	16,459	251,495	21,702
Liquid crystal display	103,181	—	103,181	2,546
Printed circuit boards	103,809	—	103,809	10,121
Intelligent chargers	100,677	—	100,677	5,620
Industrial property investment	6,012	6,340	12,352	5,711
	548,715	22,799	571,514	45,700
Aerospace and Aerospace Service				
Property investment in Shenzhen Aerospace International Centre	—	—	—	261,866
Land development in Hainan Launching Site Complex Zone	—	—	—	(364)
	—	—	—	261,502
Other Business	90	—	90	(19,463)
	548,805	22,799	571,604	287,739
Elimination	—	(22,799)	(22,799)	—
	548,805	—	548,805	287,739
Unallocated corporate income				12,320
Unallocated corporate expenses				(28,281)
				271,778
Reversal of impairment loss recognised in respect of loans receivable				12,621
Share of results of jointly controlled entities				89
Finance costs				(960)
Profit before taxation				283,528

Segment result represents the profit/loss earned/incurred by each segment without allocation of interest income, change in fair value of financial assets at fair value through profit or loss, reversal of impairment loss recognised on loans receivable, share of results of jointly controlled entities, interest expenses and other corporate income and corporate expenses. This is the measure reported to the President for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market prices.

#### 4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	631	630
Depreciation of property, plant and equipment	32,031	25,831
Interest income	(5,105)	(7,295)
Reversal of impairment loss recognised in respect of loans receivable	(1,705)	(12,621)
Change in fair value of financial assets at fair value through profit or loss	744	(1,287)
Waiver of debts ( <i>Note</i> )	<u>(31,063)</u>	<u>—</u>

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

#### 5. TAXATION

	Six months ended	
	30.6.2010	30.6.2009
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	8,032	1,475
PRC Enterprise Income Tax	<u>10,100</u>	<u>3,546</u>
	18,132	5,021
Deferred tax		
Current period	<u>54,944</u>	<u>63,277</u>
Income tax charge	<u>73,076</u>	<u>68,298</u>

Hong Kong Profits Tax and PRC Enterprise Income Tax have been calculated at 16.5% and 25% respectively of the estimated assessable profit for the periods under review.

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

#### 6. EARNINGS PER SHARE — BASIC

The calculation of basic earnings per share attributable to the owners of the Company for the period is based on the profit for the period attributable to the owners of the Company of HK\$209,881,000 (2009: HK\$139,305,000) and on 2,948,681,000 weighted average number of shares (2009: 2,570,904,000 shares in issue) during the period.

#### 7. DIVIDEND

2009 final dividend of HK2 cents per share (2009: 2008 final dividend of nil) amounting to HK\$61,700,000 was paid by the Company during the period. The directors do not recommend payment of an interim dividend for the year 2010.



## 8. PREPAYMENT FOR LAND DEVELOPMENT AND LAND DEVELOPMENT EXPENDITURE

Pursuant to a land development agreement entered into between the Group and the Wenchang Government on 20 August 2008 in relation to the land development in Hainan Launching Site Complex Zone (“Land Development Project”), the Group has advanced HK\$181,076,000 at 30 June 2010 to Wenchang Government for the demolition and resettlement works carried out by Wenchang Government for the Land Development Project in accordance with expenditure requirement on the Land Development Project. Details of the Land Development Project are disclosed in the circular of the Company dated 10 September 2008.

Land development expenditure represents the development cost incurred in relation to the Land Development Project.

## 9. TRADE AND OTHER RECEIVABLES

At 30 June 2010, included in trade and other receivables are trade receivables of HK\$335,488,000 (31.12.2009: HK\$266,838,000). 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:

	<b>30.6.2010</b>	31.12.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>322,734</b>	255,506
Between 91–180 days	<b>11,644</b>	11,332
Between 181–365 days	<b>1,110</b>	—
	<b><u>335,488</u></b>	<b><u>266,838</u></b>

## 10. TRADE AND OTHER PAYABLES

At 30 June 2010, included in trade and other payables are trade payables of HK\$263,077,000 (31.12.2009: HK\$218,740,000).

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

	<b>30.6.2010</b>	31.12.2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>236,409</b>	201,534
Between 91–180 days	<b>11,510</b>	4,227
Between 181–365 days	<b>2,781</b>	1,311
Over 1 year	<b>12,377</b>	11,668
	<b><u>263,077</u></b>	<b><u>218,740</u></b>

## RESULTS

The unaudited turnover for the six months ended 30 June 2010 of the Company and its subsidiaries was HK\$869,172,000, representing an increase of approximately 58.38% as compared with that of HK\$548,805,000 for the same period of 2009. Profit for the period was HK\$274,017,000, representing an increase of approximately 27.31% as compared with that of HK\$215,230,000 for the same period of 2009. Profit attributable to owners of the Company was HK\$209,881,000, representing an increase of approximately 50.66% as compared with that of HK\$139,305,000 for the same period of 2009. Basic earnings per share attributable to shareholders were approximately HK\$0.071, representing an increase of approximately 31.48% as compared with that of HK\$0.054 for the same period of 2009.

After the impact of the financial tsunami in 2008, our hi-tech manufacturing business had gradually recovered and became a key factor of the improvement in results. The Shenzhen Aerospace International Centre under construction recorded an increase in its fair value, which was also another key factor for the growth in the results for the first half of the year. In view of the capital requirements for the existing developments by the Company, the Board of Directors does not propose an interim dividend.

## BUSINESS REVIEW

According to the new business development plan of the Company, each key development project was in smooth progress. On the foundation of the stable development of the hi-tech manufacturing business, both the project of the Complex Zone of the Launching Site in Hainan Province, representing the aerospace service business, and the development of the Shenzhen Aerospace International Centre with the objective of laying the foundation of aerospace business had entered into an actual construction stage.

On 4 February 2010, the Company successfully placed a total of 514,118,000 shares to institutional investors at HK\$1.13 per share by way of placing and subscription of shares and raised the gross amount of approximately HK\$580,953,000. The proceeds raised will be used in the Complex Zone of the Launching Site in Hainan Province as well as the aerospace business related projects under planning.

### Hi-tech Manufacturing

Under the recovery of the global economy and the rapid economic development of the PRC, the hi-tech manufacturing business had achieved a satisfactory performance in the first half of the year. For the six months ended 2010, the turnover of the hi-tech manufacturing business was approximately HK\$869,149,000, representing an increase of 58.40% as compared with the same period of last year. The operating profit was HK\$113,861,000, representing a substantial increase of 149.15% as compared with the same period of last year. Businesses including the intelligent chargers and the printed circuit boards performed remarkably well with a turnover of HK\$222,369,000 and HK\$179,039,000 respectively, representing an increase of 120.87% and 72.47% as compared with the same period of last year. The turnover from the major customers of the intelligent chargers business also increased significantly, while the turnover of the printed circuit boards business in overseas, Hong Kong and Mainland markets recorded a greater growth at the same time.

The plastic products business maintained a steady growth with a turnover of HK\$326,908,000, representing an increase of 39.09% as compared with the same period of last year. Though the sales of liquid crystal display business in Mainland dropped slightly as compared with the

same period of last year, the sales in Hong Kong and overseas markets increased as compared with the same period of last year. The turnover was HK\$135,208,000, representing an increase of 31.04% as compared with the same period of last year.

The profit before tax for each hi-tech manufacturing business recorded a substantial growth. As compared with the same period of last year, the printed circuit boards business realized an operating profit of HK\$44,503,000, representing a significant increase of 339.71%; the intelligent chargers business realized an operating profit of HK\$16,785,000, representing an increase of 198.67%; the plastic products business realized an operating profit of HK\$39,213,000, representing an increase of 80.69%; the liquid crystal display business realized an operating profit of HK\$7,103,000, representing an increase of 178.99%.

### **The Shenzhen Aerospace International Centre**

The construction of the foundation works of the Shenzhen Aerospace International Centre has already been commenced. On the basis of the works done last year, certain works of the project including construction design and site clearance, etc. had been completed, while retaining and protecting for foundation excavation and earthworks were commenced comprehensively. Meanwhile, six tenders for price consultation, tendering agency, monitoring on retaining and protecting for foundation excavation, monitoring on the construction, retaining and protecting for foundation, excavation and earthworks, and inspection on the structure of retaining and protecting for foundation excavation, were completed and the tender for the master construction contract was also commenced. In addition, administrative approvals for temporary land use, road, sewage, fire control, energy saving, retaining and protecting for foundation excavation and earthworks, as well as combined use of three parcels of land were obtained. The submission and approval procedures for the project's construction plan are in progress. To match with the work of marketing upon completion of the project, a team comprising professional consultants was engaged to make thorough studies on the market positioning and early stage market development.

### **The Complex Zone of the Launching Site in Hainan Province**

Since the commencement of construction of the Launching Site in Hainan Province in September 2009, the preparation work for land expropriation of the Complex Zone of the Launching Site was commenced thereupon. In March 2010, the Land Environment and Resources Bureau of Wenchang City, Hainan Province issued a notice of land expropriation, which marked the official launch of land expropriation. Currently, the main working team of 海南航天投資管理有限公司 (Hainan Aerospace Investment Management Company Limited)\* (“Hainan Aerospace”) has established its base in Wenchang City and the government has already accelerated the progress of land expropriation. In June 2010, the Hainan provincial government has included the development of the Complex Zone of the Launching Site as one of the key development projects to be incorporated in the “Development Plan for the Hainan International Tourism Island” and high attention are paid by the governments at both provincial and municipal levels. The approval of each item of the project is progressing in a faster manner. The Company has confirmed the initial development model for the project, and all preparatory works for the first development project within the Complex Zone of the Launching Site, an aerospace theme park, are being processed in order. Meanwhile, the approval for the control detailed planning of the Complex Zone of the Launching Site is about to complete.

航天時代置業發展有限公司 (Aerospace Times Properties Development Limited) (“Aerospace Times”), the shareholder of 35% equity interests in Hainan Aerospace, has decided to cease to hold the equity interests of Hainan Aerospace as a result of its adjustment of the development strategies. Pursuant to the relevant requirements in the PRC, the disposal of such equity interests by Aerospace Times had to go through the public tendering process of the China Beijing Equity Exchange. After thorough review, the Board of the Company decided to acquire the 35% interests in Hainan Aerospace being held by Aerospace Times. 航科新世紀科技發展(深圳)有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited)\* (“New Century”), a wholly-owned subsidiary of the Company, as the sole bidder, won the bid at the bid price to acquire the equity interests and entered into the Property Right Transfer Agreement with Aerospace Times on 4 August 2010 on a conditional basis (the details of which were set out in the announcements dated 4 August 2010 and 24 August 2010 and the circular dated 24 August 2010 of the Company). The acquisition is pending the approval of the Independent Shareholders of the Company at the Extraordinary General Meeting to be held on 10 September 2010. It is believed that consolidating all the equity interests of Hainan Aerospace by the Company will be beneficial to the development of the Complex Zone of the Launching Site in Hainan Province and bring along greater revenue and returns to the Company.

## **PROSPECT**

Looking forward to the second half of the year, China Aerospace Industrial Limited, a wholly-owned subsidiary of the Company, will continue to enhance various kinds of integration and establish internal regulatory system after its corporate restructure, and strive to achieve synergy in operations. In respect of business development, the hi-tech manufacturing business will put greater efforts on marketing with an aim to acquire and explore new customers. Necessary management measures will be adopted to improve the remuneration of staff and implement production safety, facilitating the stability of the staff team. Though uncertainties still exist in the macro-economic environment, the Board is optimistic about the performance of the hi-tech manufacturing business in the second half of the year.

The pace of the construction of the Shenzhen Aerospace International Centre will be increased and the tendering for the retaining and protecting for foundation excavation and earthworks and the master construction contract will be completed as scheduled, while tendering works for specific projects such as steel structural work, curtain walls and lighting design and pile inspection as well as the construction and inspection of piling will be launched. It is expected that permit of construction planning and permit of construction commencement will be obtained by the end of the year. Meanwhile, 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-tech Investment Management Company Limited)\* (“Shenzhen Aerospace”) will commence studies on the future marketing strategies and positioning of the project, and start preliminary marketing and operation so as in line with the progress of the construction. Furthermore, Shenzhen Aerospace will negotiate and finalize the construction plan for issues such as the access to Shenzhen Metro and the construction of Metro station with the local government and Shenzhen Metro.

In the second half of the year, the Company will further enhance the communications and co-operations with the government of Hainan Province at both provincial and municipal levels to proactively facilitate the pace of land expropriation and strive for a breakthrough within the year. On the foundation of the optimization of the business model of the project, early stage preparatory works for the space theme park, the first project within the Complex Zone, will be carried out, and strategic partners would be introduced when appropriate.

To strengthen the corporate governance and support future development, the Board of Directors and the management team of the Company underwent partial adjustment in May this year. Over more than three months, the new management team had made researches and deployment for each business and key development projects for the Company and made adjustment to the structure of the head office, which enhances the management of all business subsidiaries and further optimizes the management system for finance, human resources, performance appraisal system, etc. Simultaneously, the Company starts to draft its medium to long term development plan so as to establish a principal business scope which will be in line with that of its substantial shareholder, China Aerospace Science & Technology Corporation (“CASC”).

## **MANAGEMENT DISCUSSION & ANALYSIS**

### **Results Performance**

The unaudited turnover for the six months ended 30 June 2010 of the Company and its subsidiaries was HK\$869,172,000, representing an increase of 58.38% as compared with that of HK\$548,805,000 for the same period of 2009. Profit for the period was HK\$274,017,000, representing an increase of 27.31% as compared with that of HK\$215,230,000 for the same period of 2009.

### **Profit Attributable to Owners of the Company and Operating Profit**

Profit attributable to owners of the Company was HK\$209,881,000, representing an increase of 50.66% as compared with that of HK\$139,305,000 for the same period of 2009.

Based on 2,948,681,000 weighted average number of shares, after being adjusted for the effect of Placing of 514,118,000 shares in February 2010, the basic earnings per share was HK\$0.071, representing an increase of 31.48% as compared with that of HK\$0.054 for the same period of 2009.

### **Results of Each Core Business**

Core businesses of the Company and its subsidiaries are hi-tech manufacturing, and aerospace and aerospace service.

## *Hi-tech Manufacturing*

For the six months ended 30 June 2010, the turnover of the hi-tech manufacturing business was approximately HK\$869,149,000, representing an increase of 58.40% as compared with the same period of last year; the gross profit margin was 22.32%, representing a slight increase as compared with that of 21.44% for the same period of last year. Relying on high proficient management, strict cost control and good marketing efforts, the hi-tech manufacturing business recorded an operating profit of HK\$113,861,000, representing a significant increase of 149.15% as compared with the same period of last year. The analysis of turnover and profit of each of the major manufacturing hi-tech business is shown as below:

HK\$	Turnover			Operating Profit		
	First Half of 2010	First Half of 2009	Change (%)	First Half of 2010	First Half of 2009	Change (%)
Plastic Products	<b>326,908,000</b>	235,036,000	39.09%	<b>39,213,000</b>	21,702,000	80.69%
Printed Circuit Boards	<b>179,039,000</b>	103,809,000	72.47%	<b>44,503,000</b>	10,121,000	339.71%
Intelligent Chargers	<b>222,369,000</b>	100,677,000	120.87%	<b>16,785,000</b>	5,620,000	198.67%
Liquid Crystal Display	<b>135,208,000</b>	103,181,000	31.04%	<b>7,103,000</b>	2,546,000	178.99%
Industrial Property Investment	<b>5,625,000</b>	6,012,000	(6.44%)	<b>6,257,000</b>	5,711,000	9.56%
Total	<b><u>869,149,000</u></b>	<b><u>548,715,000</u></b>	58.40%	<b><u>113,861,000</u></b>	<b><u>45,700,000</u></b>	149.15%

Despite the hi-tech manufacturing business of the Company showed a good performance in the first half of 2010, the global economy has not yet been fully recovered, each of the hi-tech manufacturing enterprise will keep on strengthening its management and strictly controlling the position of account receivables and inventories in order to maintain the trend of growth of the business, so as to reduce risks that may be brought along by unstable economy.

## *Aerospace and Aerospace Service Business*

### *The Complex Zone of the Launching Site in Hainan Province*

The comprehensive development of the Complex Zone of the Launching Site in Hainan Province is still in a preparatory stage. Hainan Aerospace recorded a loss of HK\$2,975,000 in the first half of 2010, which was mainly due to the payment of cost of preparatory works, administrative expenses and professional fees etc.

### *The Shenzhen Aerospace International Centre*

The Shenzhen Aerospace International Centre, being an investment property under construction, recorded a fair value gain of HK\$220,497,000 in the first half of 2010 due to the rise in property market value. Shenzhen Aerospace recorded a profit of HK\$218,100,000 in the first half of 2010 after deducting the operating expenses. Implementation of construction works will start in full swing in 2011.

## **Assets**

As at 30 June 2010, the total assets of the Company and the subsidiaries were HK\$4,912,664,000, representing an increase of 19.09% as compared with that of HK\$4,125,080,000 for the end of 2009, of which the non-current assets were HK\$2,738,072,000, representing an increase of 19.39% as compared with that of HK\$2,293,318,000 for the end of 2009, the current assets were HK\$2,174,592,000,

representing an increase of 18.72% as compared with HK\$1,831,762,000 for the end of 2009. The huge increase in non-current assets was mainly due to an increase in fair value of the investment property, the Shenzhen Aerospace International Centre, being a property under construction, and the increase in prepayment of land development and land development cost of the Complex Zone of the Launching Site in Hainan Province. The equity attributable to owners of the Company, after non-controlling interests, was HK\$3,416,831,000, increased by about 27.00%, as compared with that of HK\$2,690,430,000 for the end of 2009.

The net asset per share attributable to shareholders was HK\$1.16, based on 2,948,681,000 weighted average number of shares after being adjusted for the effect of Placing of 514,118,000 shares in February 2010, representing an increase of 10.48% as compared with the net asset per share attributable to shareholders of HK\$1.05, based on the issued share capital of 2,570,904,000 shares as at 31 December 2009.

### **Liabilities**

As at 30 June 2010, the total liabilities of the Company and the subsidiaries were HK\$881,935,000, representing a slight decrease in comparing with HK\$893,196,000 for the end of 2009, of which the non-current liabilities were HK\$191,126,000, representing an increase of 44.14% as compared with that of HK\$132,595,000 for the end of 2009. This was mainly due to the increase in deferred tax. The current liabilities were HK\$690,809,000, representing a plunge of 9.18% as compared with that of HK\$760,601,000 for the end of 2009. This was mainly due to the early full repayment of a bank loan by a subsidiary of the Company in the first half of 2010 which resulted in further reduction in liability ratio of the Company. The Company does not have any outstanding bank debt for the time being.

### **Operating Expenses**

The administrative expenses of the Company and the subsidiaries in the first half of 2010 were HK\$98,448,000, being more or less the same as compared with that of HK\$91,907,000 for the same period last year. The finance costs were HK\$529,000, representing a decrease of 44.90% as compared with that of HK\$960,000 for the same period last year. The reduction was mainly due to the repayment of a bank loan during the period and thus relative decrease in interest expense.

### **Contingent Liabilities**

A subsidiary of the Company made an early full repayment of a bank loan in the first half of 2010 and therefore all of the repayment obligations of borrowers and the guarantee obligations of the guarantor under the loan were released.

As at 30 June 2010, save for bank deposits of HK\$54,771,000 is pledged by a subsidiary of the Company as guarantee in obtaining banking credit facilities, the Company and the subsidiaries did not have any other material contingent liabilities.

### **Financial Ratios**

For the six months ended 30 June 2010, the consolidated gross profit margin of the Company was 22.32%, representing a slight increase as compared with that of 21.44% for the same period of 2009. The return on net assets ratio was 6.80%, representing a slight decrease as compared with that of 7.55% for the period end of 2009. The liabilities/assets ratio was 17.95%, recording a further drop as compared with that of 21.65% for the end of 2009, it was mainly because the Company and the subsidiaries had a greater increment in assets and the

early full repayment of a bank loan by the Company's subsidiary which resulted in reduction in liabilities. The current ratio and the quick ratio were 3.15 and 2.86 respectively, being increased as compared with 2.41 and 2.24 respectively for the end of 2009.

The financial ratios of the Company and the subsidiaries were maintained in a satisfactory level. This was resulted from the Company's and the subsidiaries' policies of continuous assets optimization, strengthened management and forward movement of business development.

Following the launch of the construction works of the Shenzhen Aerospace International Centre and the development of the Complex Zone of the Launching Site in Hainan Province, the Company's investment size will gradually be enlarged. Besides the use of current internal resources, the Company will consider, including but not limited to, the necessity of increasing long term bank debt to finance the related project costs.

### **Liquidity**

The source of fund of the Company and the subsidiaries mainly relies on internal resources and banking facilities. The Company's and the subsidiaries' cash and bank balance as at 30 June 2010 was HK\$1,439,972,000, most of which was in Hong Kong Dollars, Renminbi and US Dollars.

The Company placed a total of 514,118,000 shares at HK\$1.13 per share on 4 February 2010. The net proceed was about HK\$560,000,000, of which HK\$178,000,000 had already been used in the specified purpose and the remaining HK\$382,000,000 is being deposited in banks.

### **Capital Expenditure and Investment Commitment**

As at 30 June 2010, the Company's and the subsidiaries' capital commitments contracted for but not provided in the consolidated financial statements were HK\$80,009,000, which represented the acquisition of property, plant and equipment and the preliminary input in the construction of the Shenzhen Aerospace International Centre. Capital expenditure of approximately HK\$1,309,156,000, having been authorized but not contracted for, was mainly the estimated construction works of the Shenzhen Aerospace International Centre. The Company and certain subsidiaries have committed investments of approximately HK\$1,166,550,000 for the investment commitment in the land development project of the Complex Zone of the Launching Site in Hainan Province, though not having been provided in the consolidated financial statements.

On 4 August 2010, the Company announced that it, through its wholly-owned subsidiary New Century, acquired 35% interest in the equity capital of Hainan Aerospace through a public tender at the tendered purchase price of RMB45,583,400 (approximately HK\$52,394,713). The transaction is yet to be confirmed by the approval of independent shareholders at the Extraordinary General Meeting on 10 September 2010. Upon completion of the acquisition under the Property Right Transfer Agreement and transactions thereunder, Hainan Aerospace will become the Company's indirectly wholly-owned subsidiary. The Company will by itself undertake all investment commitments of Hainan Aerospace.

### **Dividend**

The Board of the Company had proposed the distribution of 2009 final dividend of HK\$0.02 per share in March 2010 and was approved by shareholders at the annual general meeting held in May 2010, warrants of which were dispatched to all shareholders on 3 June 2010.



## **Financial Risks**

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

## **Human Resources and Remuneration Policies**

The Company's and the subsidiaries' remuneration policy is based on the employee's qualifications, experience and performance as well as by reference to market trends. The Company and the subsidiaries will continue to strengthen the level of human resources management, strictly implement the performance-based appraisal system to encourage employees to have continuous improvement in their performance and contributions to the Company.

As at 30 June 2010, the Company and the subsidiaries have a total of about 7,000 staff mainly 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 2010, the Company had complied throughout the period with the provisions of the *Code on Corporate Governance Practice* as set out in Appendix 14 of the Listing Rules.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES**

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules as the required standard for the Directors of the Company to trade the securities of the Company. 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.

As at 30 June 2010, 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*.

## **AUDIT COMMITTEE**

The Audit Committee of the Company currently has a membership comprising two Independent Non-Executive Directors, Mr Chow Chan Lum, Charles (Chairman) and Mr Luo Zhenbang, and a Non-Executive Director, Mr Zhou Qingquan. The major responsibilities of the Audit Committee include serving as a focal point for communication between the Directors and external auditors in reviewing the Company's financial information as well as overseeing the Company's financial reporting system and internal control procedures.

The Audit Committee of the Company reviewed, discussed and approved this 2010 unaudited interim report that had been reviewed by the auditor, 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, Dr Chan Ching Har, Eliza (Chairman) and Mr Chen Xuechuan. The responsibilities of the Remuneration Committee are to study and suggest the remuneration policy and to determine the remuneration of the Directors and senior management of the Company.

## **PLACING AND SUBSCRIPTION OF SHARES**

On 4 February 2010, the Company, Burhill Company Limited, a substantial shareholder of the Company, and CITIC Securities Corporate Finance (HK) Limited, the placing agent, entered into the Placing and Subscription Agreement in respect of a top-up placement of 514,118,000 shares at HK\$1.13 per share. The net proceed of approximately HK\$560,000,000 will be applied towards funding the project of the Complex Zone of the Launching Site in Wenchang City, Hainan Province, and the related projects of the aerospace business under planning. The top-up placement was completed on 18 February 2010. The details of which were set out in the announcement dated 4 February 2010.

## **EVENT AFTER THE END OF INTERIM PERIOD**

On 4 August 2010, New Century, a wholly-owned subsidiary of the Company, has acquired 35% of the equity capital of Hainan Aerospace through a public tender at the tendered purchase price of RMB45,583,400 (approximately HK\$52,394,713).

The acquisition constitutes a connected and discloseable transaction of the Company and is subject to the approval of Independent Shareholders at the forthcoming Extraordinary General Meeting held on 10 September 2010. CASC and its associates shall abstain from voting at the Extraordinary General Meeting. The details of which were set out in the announcements dated 4 August 2010 and 24 August 2010 and circular dated 24 August 2010.

The Company through its wholly-owned subsidiary, CASIL Hainan Holdings Limited, holds a 65% interest on Hainan Aerospace, and Hainan Aerospace will become an indirect wholly-owned subsidiary of the Company upon completion of the acquisition.

## APPRECIATION

In May this year, Mr Zhao Liqiang, due to the attempt of developing his own business, resigned as Executive Director and President, and Mr Li Hongjun was appointed as Executive Director and President. The Board would like to extend its highly praised gratitude to Mr Zhao Liqiang for his outstanding contributions to the Company's development during his tenure of services and extend a warm welcome to Mr Li Hongjun and Mr Shi Weiguo, who became the new Executive Director and President and the Non-Executive Director of the Company respectively.

The Company hereby expresses its sincere gratitude to all staff as well as its shareholders, banks, business partners, people from various social communities for their support on its development.

By order of the Board  
**Wu Zhuo**  
*Chairman*

Hong Kong, 24 August 2010

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

<b>Executive Directors</b>	<b>Non-Executive Directors</b>	<b>Independent Non-Executive Directors</b>
Mr Li Hongjun ( <i>President</i> ) Mr Jin Xuesheng	Mr Wu Zhuo ( <i>Chairman</i> ) Mr Chen Xuechuan Mr Shi Weiguo Dr Chan Ching Har, Eliza Mr Zhou Qingquan	Mr Chow Chan Lum, Charles Mr Luo Zhenbang Mr Wang Junyan

\* *This PRC entity does not have an English name. The English name is inserted herein for identification purpose only.*