
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you have sold all your shares in China Aerospace International Holdings Limited, you should at once hand this Circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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



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)

**MAJOR TRANSACTION
MAIN CONTRACTOR CONTRACT REGARDING
THE CONSTRUCTION OF THE SHENZHEN AEROSPACE SCIENCE &
TECHNOLOGY PLAZA
AND
CONNECTED TRANSACTION
PROVISION OF LAND MORTGAGE UNDER
THE FACILITY AGREEMENT WITH A SYNDICATE OF
FINANCIAL INSTITUTIONS
AND
RE-ELECTION OF DIRECTOR
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee of the Company
and the Independent Shareholders**

 **SOMERLEY LIMITED**

A notice convening the Extraordinary General Meeting of China Aerospace International Holdings Limited to be held at the Salon One, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Friday, 25 March 2011 at 10 a.m. is set out on pages 45 to 46 of this Circular.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the share registrar of the Company, Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

25 January 2011

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DEFINITIONS

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

“Aerospace Finance”	航天科技財務有限責任公司 (Aerospace Science & Technology Finance Company Limited) [#] , a subsidiary of CASC and its subsidiaries established in the PRC as a limited liability company and whose business activities are subject to the supervision of the China Banking Regulatory Commission;
“Board”	the Board of Directors of the Company;
“BOC Shenzhen”	中國銀行股份有限公司深圳南頭支行 (Bank of China, Shenzhen Nantou Sub-branch);
“CASC”	China Aerospace Science & Technology Corporation, a state-owned enterprise established in the PRC. As of the Latest Practicable Date, it held a 37.06% shareholding in the Company and is a controlling shareholder of the Company;
“Company”	China Aerospace International Holdings Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange;
“Construction Period”	the 30-month period from the commencement of the overall construction work as described in the section headed “The Shenzhen Aerospace Science & Technology Plaza”;
“Directors”	the Directors of the Company;
“Extraordinary General Meeting”	the extraordinary general meeting to be convened by the Company on Friday, 25 March 2011 at 10:00 a.m. at the Salon One, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong for the purpose of approving the Main Contractor Contract, the Facilities and the provision of the Land Mortgage and re-election of Director;
“Facilities”	the RMB1,500,000,000 facility for a period of 5 years, which will include a bank guarantee of up to RMB150,000,000 and advances of up to RMB1,350,000,000 pursuant to the syndicate loan agreement dated 14 January 2011 with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen, being members of the Finance Syndicate;
“Finance Syndicate”	Aerospace Finance, ICBC Shenzhen and BOC Shenzhen;
“Group”	the Company and its subsidiaries;

DEFINITIONS

“HK\$”	Hong Kong dollars, the legal currency of the Hong Kong Special Administrative Region of the PRC;
“ICBC Shenzhen”	中國工商銀行股份有限公司深圳深圳灣支行 (Industrial and Commercial Bank of China, Shenzhen Shenzhen Bay Sub-branch);
“Independent Board Committee”	an independent committee of the Board comprising Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, being all the independent non-executive Directors;
“Independent Financial Adviser”	Somerley Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Facilities;
“Independent Shareholders”	all Shareholders excluding CASC and its associates;
“Land Mortgage”	the mortgage of the land use right in respect of the parcel of land located in Shenzhen, on which the Shenzhen Aerospace Science & Technology Plaza is to be erected, in favour of the Finance Syndicate as security for the performance of the obligations by Shenzhen Aerospace under the Facilities;
“Latest Practicable Date”	24 January 2011, being the latest practicable date for ascertaining information for inclusion in this Circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Main Contractor”	中國建築股份有限公司 (China State Construction Engineering Corporation Limited);
“Main Contractor Contract”	the main contractor contract dated 23 January 2011 between Shenzhen Aerospace and the Main Contractor;
“PRC”	The People’s Republic of China (for the purpose of this announcement, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan);
“RMB”	Renminbi, the legal currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);

DEFINITIONS

“Share(s)”	the ordinary share(s) of par value of HK\$0.10 each in the share capital of the Company;
“Shareholders”	shareholders of the Company;
“Shenzhen Aerospace”	深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Technology Investment Company Limited) [#] (in the announcement of the Company dated 30 November 2007, it was originally proposed that the name of Shenzhen Aerospace be 深圳航天高科技投資管理有限公司 (Shenzhen Aerospace Technology Investment Company Limited) [#]); and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

For the purpose of this Circular, the exchange rate of RMB:HK\$ is RMB0.84754:HK\$1.00 (being the mid-rate quoted by the People’s Bank of China on 14 January 2011).

[#] *These PRC entities do not have English names, the English names set out herein are for identification purpose only.*



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)

Executive Directors:

Mr Li Hongjun (*President*)
Mr Jin Xuesheng

Non-executive Directors:

Mr Rui Xiaowu (*Chairman*)
Mr Wu Zhuo (*Vice Chairman*)
Mr Chen Xuechuan
Mr Shi Weiguo
Dr Chan Ching Har, Eliza
Mr Zhou Qingquan

Independent Non-Executive Directors:

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

Registered Office:

Room 1103-1107A
11th Floor, One Harbourfront
18 Tak Fung Street, Hung Hom
Kowloon
Hong Kong

25 January 2011

To the Shareholders of the Company,

Dear Sir or Madam,

**MAJOR TRANSACTION
MAIN CONTRACTOR CONTRACT REGARDING
THE CONSTRUCTION OF THE SHENZHEN AEROSPACE SCIENCE &
TECHNOLOGY PLAZA
AND
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LETTER FROM THE BOARD

INTRODUCTION

Further to the announcement and the circular dated 30 November 2007 and 18 December 2007 respectively in respect of the formation of Shenzhen Aerospace, an indirect 60% owned subsidiary of the Company and the announcement dated 14 March 2008 in respect of the acquisition by Shenzhen Aerospace in a public auction of a land use right of a parcel of land in Shenzhen, the PRC, the Board published announcements on 14 and 23 January 2011, respectively, that:

- (a) Shenzhen Aerospace has adopted a construction plan and budget cost as recommended by a professional project development consultant in respect of the Shenzhen Aerospace Science & Technology Plaza;
- (b) the Main Contractor Contract was entered into with the Main Contractor for the construction of the main structure of the Shenzhen Aerospace Science & Technology Plaza on 23 January 2011 at a consideration of RMB931,996,000 (equivalent to approximately HK\$1,099,700,000); and
- (c) a syndicate loan agreement and a supplemental agreement in respect of a RMB1,500,000,000 facility (which will include a bank guarantee of up to RMB150,000,000 and advances of up to RMB1,350,000,000) for a period of 5 years were entered into by Shenzhen Aerospace and the Finance Syndicate after the trading hours of 14 January 2011. The land use right of the Shenzhen Aerospace Science & Technology Plaza shall be mortgaged in favour of the Finance Syndicate as security and Shenzhen Aerospace shall take on insurance policies on its assets, the construction, third parties liabilities and all mandatory insurance as may be required by the relevant PRC authorities and law and name the Finance Syndicate as joint insured or beneficiaries in respect of all insurances relating to the development.

Further, on 10 December 2010, the Board announced that, with effect from 10 December 2010, Mr Rui Xiaowu was appointed as a Non-Executive Director and the Chairman of the Company. Pursuant to Code A.4.2 of Appendix 14 of the Listing Rules, all directors of listed issuers appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. As such, an ordinary resolution will be proposed at the Extraordinary General Meeting to approve the re-election of Mr Rui Xiaowu.

The purpose of this Circular is to provide you with further information regarding (1) the Main Contractor Contract, (2) the Facilities and the related land mortgage, (3) the recommendation of the Independent Board Committee, (4) the advice of the Independent Financial Adviser, (5) re-election of director and (6) the notice of Extraordinary General Meeting.

LETTER FROM THE BOARD

1. THE SHENZHEN AEROSPACE SCIENCE & TECHNOLOGY PLAZA

Proposed construction plan of Shenzhen Aerospace Science & Technology Plaza

The Shenzhen Aerospace Science & Technology Plaza (referred to as Shenzhen Aerospace International Centre in the Company's previous announcement and circular) is to be situated at the northern reclamation district of the east of Nanshan Houhai Centre District with a site area of approximately 12,619 square metres. The land use right is for a term of 50 years commencing from 14 March 2008 and is for commercial office purpose. Based on the valuation as at 30 June 2010, the land use right of the Shenzhen Aerospace Science & Technology Plaza was approximately RMB1,175,000,000. Shenzhen Aerospace has adopted a construction plan as recommended by a professional project development consultant of Shenzhen Aerospace. The construction plan comprises a twin-tower skyscraper office building, together with a 6-storey shopping complex and 4-storey underground shopping arcade and parking lots that will amount to a gross floor area of 196,405.51 square metres. It is estimated that the gross floor areas of the twin-tower skyscraper office building will be approximately 128,000 square metres, the aggregate gross floor area of the 6-storey shopping complex will be approximately 22,000 square metres, the gross floor area of the 4-storey underground constructions will be approximately 44,000 square metres while the remaining area will be public area. There will also be around 1,100 to 1,200 parking lots. It is currently intended a substantial part of the Shenzhen Aerospace Science & Technology Plaza will be leased out for rental and a small portion will be retained for self-use.

The Shenzhen Aerospace Science & Technology Plaza is intended to serve as an initiative and innovative aerospace technology transformation platform and the operating headquarter of CASC in southern China for the research and development centres of aerospace technology applications, centres of international economic technology co-operations, and operational and management centres.

The construction of the foundation works, construction design and site clearance, retaining and protecting for foundation excavation, and earthworks had been completed. 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 had been obtained. The submission and approval procedures for the construction plan are in progress. Barring any unforeseen circumstances, it is estimated that the construction of the Shenzhen Aerospace Science & Technology Plaza will be completed within 30 months from the commencement of the overall construction works.

According to the proposal of the price consultant employed by Shenzhen Aerospace, it is estimated that the construction costs of the Shenzhen Aerospace Science & Technology Plaza (excluding land costs and cost of design consultants but including the foundation works and site clearance) will amount to RMB1,401,000,000

LETTER FROM THE BOARD

(approximately HK\$1,653,000,000) to RMB1,409,000,000 (approximately HK\$1,662,000,000), based on current price of construction materials and labour cost etc..

The Main Contractor Contract

The Main Contractor Contract has been awarded by public tender to the Main Contractor, an independent third party PRC Company having premium class civil engineering general contract certificate qualification. As the value of the Main Contractor Contract exceeds 25% of the unaudited consolidated total assets of the Company of HK\$4,913,000,000 (approximately RMB4,164,000,000) and the market capitalisation of the Company, it constitutes a major transaction of the Company and is subject to Shareholders' approval in a general meeting.

Salient terms of the Main Contractor Contract are as follows:

Date: 23 January 2011

Parties: Shenzhen Aerospace (as the owner)
Main Contractor (as the contractor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Main Contractor and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

Specifications of the works under the Main Contract: The works cover an area of approximately 12,619 square metres and is categorised as type 1 (extra-high building). The structure of the building is a frame-tube structure and frame structure. The gross floor area will amount to approximately 196,000 square metres, including approximately 44,000 square metres of gross floor area of 4-storey underground constructions. The ground buildings comprise a 6-storey shopping complex with a 212.5 metres main tower (Building No. 1) and a 121.3 metres sub-tower (Building No. 2). The underground buildings comprise a basement for the purpose of civil air defence and parking lots, technical rooms and commercial rooms.

Scope of work: Construction works under the construction drawing of Main Contractor Contract, including but not limited to the foundation, main structural work, masonry and rudimentary decoration, electrical installation work, electrical engineering (light current), air-conditioning installation work, waterproof work, civil air defence work, termite-resistant work, subway paths, water supply and drainage work, fire engineering work, fine decoration, curtain-wall work, steel structure work, high/low voltage system etc..

LETTER FROM THE BOARD

Tender price:	RMB931,996,000 (equivalent to approximately HK\$1,099,700,000), inclusive of all labour and material and equipment costs, subcontractor fees, costs and expenses in respect of permits required for the development and construction works and repair works during warranty period.
Variation of scope of work:	Subject to the agreement by the parties, the scope of work and the related consideration may be adjusted.
Payment terms:	95%, within 14 days after the acceptance by the parties of the 竣工支付證書 (completion and payment certificate) in respect of the relevant work done. 5% as warranty, after 2 years of completion and acceptance of the work and delivery of a warranty guarantee by the Main Contractor.
Performance guarantee sum:	Equivalent to 15% of the tender price to be provided by the Main Contractor's bank, insurance company or guarantee company in favour of Shenzhen Aerospace within 15 days upon the Main Contractor Contract becomes effective.
Payment guarantee sum:	Equivalent to 15% of the tender price to be provided by Shenzhen Aerospace's bank, insurance company or guarantee company in favour of the Main Contractor within 15 days upon the Main Contractor Contract becomes effective.
Construction period:	828 days from the 工程樁的開工令 (the order of foundation engineering).
Effective Date of Main Contractor Contract:	After execution by the parties, filing with the relevant government authorities and approval by the Shareholders of the Company.
Progress report:	The Main Contractor shall provide monthly report on the progress of the construction.

LETTER FROM THE BOARD

Warranties and
warranty period:

The Main Contractor shall provide warranty of the quality in respect of the works covered under the Main Contract and its variation orders. In general, a period of 2 years for decorative, electrical, piping and air ventilation system work. For waterproof related matters, the warranty period is 5 years. For the foundation and the main structure, the warranty shall cover reasonable period of usage as per detailed design documentation. Warranty on other works shall be as required under the relevant PRC regulations.

Variation of scope of work

As it is normal that there will be minor alteration and adjustment of the scope of work under the Main Contractor Contract, the Company estimates that it will be normal for variation orders be issued by Shenzhen Aerospace. Based on the experience of the management of Shenzhen Aerospace, it is expected that there may be an upward adjustment to the total consideration payable under the Main Contractor Contract and an increase of 15% to 20% over the Tender Price on the basis of the current design of the Shenzhen Aerospace Science & Technology Plaza is considered a reasonable range.

In view of the above, the Directors consider that the terms of Main Contractor Contract are fair and reasonable and in the interests of the Shareholders as a whole.

Information on the Main Contractor

The Main Contractor is listed on the Shanghai Stock Exchange. According to the Main Contractor's website, it is engaged in building construction, international contracting, real estate development and investment, infrastructure, design and prospecting and is the largest construction conglomerate and the largest international main contractor in China.

Other Contracts

In addition to the Main Contractor Contract, there are other contracts in relation to the detailed design, supplies of construction materials and construction of the Shenzhen Aerospace Science & Technology Plaza which will be entered into during the Construction Period. Assuming that these contracts are entered into within a 12-month period, such contracts will be aggregated pursuant to rule 14.22 of the Listing Rules and the transactions contemplated under the other contracts will constitute a discloseable transaction of the Company based on the current fee estimate, which, barring any unforeseen circumstances, will not be subject to Shareholders' approval in a general meeting. As such, the Company will make further announcement as and when required under the Listing Rules.

LETTER FROM THE BOARD

It is expected that all these other contracts (including but not limited to design, supplies of construction materials and constructions) in respect of the Shenzhen Aerospace Science & Technology Plaza during the Construction Period will be entered into on the basis that:

- a. the aggregate value of the other contracts to be entered into is expected to be in the range of RMB469,000,000 to RMB477,000,000 under current price. Nevertheless, as these contracts will be spread out in the Construction Period, the final contract price will be subject to the then prevailing market price. According to the National Bureau of Statistics of China's report on 20 January 2011, the year-on-year growth of the purchase price of raw materials in 2010 was approximately 9.6% while the year-on-year growth of the wages and salary in 2010 was approximately 17.9%. Shenzhen Aerospace will use its best endeavour to keep the aggregate construction costs within a reasonable increment range;
- b. save for contracts of construction works below the value of RMB2,000,000, contracts of purchase of equipment and materials below the value of RMB1,000,000, contracts of construction services below the value of RMB500,000, and special cases which will be approved by the board of directors of Shenzhen Aerospace, the developer, all contracts will only be entered into by way of public tender, according to the relevant rules and regulations of Shenzhen and the PRC;
- c. in respect of contracts entered into by private invitation, the price will be set with reference to the then prevailing market price after consultation with qualified price consultant in the PRC; and
- d. in the event contracts are to be entered into with connected persons of the Company, the relevant requirements under the Listing Rules will be complied with.

In view of the above, the Directors consider that the terms of the proposed construction plan by Shenzhen Aerospace are fair and reasonable and in the interests of the Shareholders as a whole.

Funding

It is expected that the construction costs will be funded by internal resources of Shenzhen Aerospace, the Facilities and other facilities from financial and/or banking institutions. It is expected that the Company will not have to make further investment in Shenzhen Aerospace. The shareholders of Shenzhen Aerospace have already contributed a registered capital of RMB700,000,000, which had been approved by the Shareholders in 2008.

LETTER FROM THE BOARD

Financial effects of the transactions contemplated under the Main Contractor Contract and the development of the Shenzhen Aerospace Science & Technology Plaza

According to the proposal of the price consultant employed by Shenzhen Aerospace, it is estimated that the construction costs of the Shenzhen Aerospace Science & Technology Plaza (excluding land costs and cost of design consultants but including the foundation works, site clearance) will amount from RMB1,401,000,000 (approximately HK\$1,653,000,000) to RMB1,409,000,000 (approximately HK\$1,662,000,000), based on current price of construction materials and labour cost etc.. It is estimated that the construction of the Shenzhen Aerospace Science & Technology Plaza will be completed within 30-month period from the commencement of the overall construction works. It is expected that upon the Main Contractor Contract becomes effective, there will be an increase in the committed and contracted liabilities of the Company and its subsidiaries by RMB932,000,000 coupled with the payment guarantee of approximately RMB139,800,000 (being 15% of the tender price of the Main Contractor Contract) to be provided by a member of the Finance Syndicate. The value of the Shenzhen Aerospace Science & Technology Plaza will fluctuate during the course of the Construction Period and valuation of the work-in-progress is subject to the certification of completion verification and the then market value, the Company expects that the development of the Shenzhen Aerospace Science & Technology Plaza will bring positive effect to the earnings of the Company and its subsidiaries upon completion and during the construction, Shenzhen Aerospace will incur finance costs and expenses.

General Mandate

Given the entering into of the Main Contractor Contract, which constitutes a major transaction and will be subject to Shareholders' approval in general meeting and the other construction contracts will be spread out in the Construction Period and barring unforeseen circumstances, the estimated aggregate value of which will only constitute discloseable transactions, the general mandate for entering into of the contracts referred to in the Company's announcement of 14 January 2010 is no longer required.

LETTER FROM THE BOARD

2. THE FACILITIES AND THE LAND MORTGAGE

After the trading hours of 14 January 2011, Shenzhen Aerospace has entered into a syndicate loan agreement and a supplemental agreement with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen, being members of the Finance Syndicate, in respect of the Facilities.

The syndicate loan agreement

Pursuant to the syndicate loan agreement, a RMB1,500,000,000 facility which will include a bank guarantee of up to RMB150,000,000 and advances of RMB1,350,000,000 for construction purpose for a period of 5 years from the first drawdown date, will be provided by the Finance Syndicate. The commitments of Aerospace Finance, ICBC Shenzhen and BOC Shenzhen under the Facilities are RMB450,000,000, RMB300,000,000 and RMB750,000,000, respectively. The drawdown period shall be three years from the date of the first drawdown. Repayment shall be made from the fourth year of the Facilities by 8 equal quarterly installments. Interest will be equal to the base lending rate (as announced by the People's Bank of China) at the relevant date of advances and payable quarterly. Interest rate will be adjusted on 1 January of the subsequent year if there is any change of base lending rate. In case there is no reference rate available and the parties cannot agree on an interest rate, the latest interest rate under the Facilities shall apply. Default interest shall be 50% to 100% over the interest rate, depending on the type of default and breach.

Prepayment is permitted. No charges will be levied provided that not less than 30 business days prior notice is given to the Finance Syndicate by Shenzhen Aerospace. Prepayment is not subject to charges.

Aerospace Finance is the arranger of the Facilities and shall be entitled to receive an upfront one-off arranger fee equivalent 0.1% of the Facilities. ICBC Shenzhen is the agent bank of the Facilities and shall be entitled to receive an agency fee equivalent to 0.2% of the advance drawn down. Shenzhen Aerospace shall be responsible for all costs and expenses incurred by the Finance Syndicate (including legal fee and valuation fee) in respect of the negotiation and preparation of the legal documentation in respect of the Facilities and shall reimburse the Finance Syndicate for all losses, costs and expenses in respect of the enforcement of the Facilities.

The supplemental agreement

Pursuant to the supplemental agreement between Shenzhen Aerospace and the Finance Syndicate, prior to the repayment in full of the Facilities, up to 50% of the sale proceeds from the Shenzhen Aerospace Science & Technology Plaza should be deposited into a designated account maintained with BOC Shenzhen and that during period of temporary release of land mortgage (if so required by the PRC authorities or under relevant PRC law and regulations), all rental receipts shall be deposited with accounts maintained with Finance Syndicate.

LETTER FROM THE BOARD

The Land Mortgage

The land use right of the Shenzhen Aerospace Science & Technology Plaza shall be mortgaged in favour of the Finance Syndicate as security and Shenzhen Aerospace shall take on insurance policies on its assets, the construction, third parties liabilities and all mandatory insurance as may be required by the relevant PRC authorities and law and named the Finance Syndicate as joint insured or beneficiaries in respect of all insurances relating to the development.

The Facilities shall become effective on the later of (i) the signing of the agreement by the parties thereto with the company seal/chop duly attested; and (ii) the approval by the Independent Shareholders. It is one of the conditions precedent for the first drawdown of the advances that the resolutions of shareholders of Shenzhen Aerospace in respect of the loan documents (being the syndicate loan agreement, the supplemental agreement and the Land Mortgage) be submitted to the agent bank. It is the intention of the Board that the shareholders' resolution of Shenzhen Aerospace will only be passed after the Independent Shareholders have approved the Facilities and the provision of the Land Mortgage. Other condition precedent documents include the Main Contractor Contract, approvals by relevant PRC authorities in respect of the development (including environmental and planning) and the Facilities (if any), registration of the Land Mortgage, insurance policies with the Finance Syndicate as joint insured and PRC legal opinion. It is also a requirement of the Facilities that during the 5 year-period of the Facilities, the Company shall not hold less than 51% interests in Shenzhen Aerospace without the agent bank's prior consent.

The terms of the Facilities (including the fees and the provision of the Land Mortgage) are negotiated after arm's length negotiation. The Directors consider that a 5-year term for the Facilities provides flexibility to and allows Shenzhen Aerospace sufficient time to generate adequate cash flow for the purpose of repayment, and that is a general practice for similar development and is in the interests of the Company and its Shareholders. The Directors also consider that the terms of the Facilities and the Land Mortgage are on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Facilities and the Land Mortgage are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

Reasons for and benefit of construction of the Shenzhen Aerospace Science & Technology Plaza

Given that the prosperous development of property market in Shenzhen as a result of the acceleration of the structural change in industries in recent years and the substantial development of the four core industries, such as advance technology, finance, logistics and culture, that leads to a keen demand in high quality offices in the foreseeable future, it is anticipated that the Company would benefit from favourable return through the development, management and operations of the Shenzhen Aerospace Science & Technology Plaza by Shenzhen Aerospace. The development of Shenzhen Aerospace Science & Technology Plaza is expected to further strengthen the Company's property investment portfolio. In the long run, the Company will benefit from the provision of steady cash flow by Shenzhen Aerospace from the recurring rental income of the Shenzhen Aerospace Science & Technology Plaza.

Financial effects of the Facilities

The Facilities will provide sufficient fundings to satisfy the construction costs and other relevant costs of the Shenzhen Aerospace Science & Technology Plaza. Shenzhen Aerospace will incur an one-off upfront arranger fee of RMB1,500,000 (being 0.1% of the Facilities) payable to Aerospace Finance irrespective of whether the Facilities will be used or not and will incur agency fee which will be fixed at 0.2% of the advance drawn down payable to ICBC Shenzhen. Nevertheless, it is not expected that such payments will have any significant impact on the financial position of the Company and its subsidiaries. The provision of the Land Mortgage does not have any material impact on the financial position of the Company and its subsidiaries.

Information on the Company, Shenzhen Aerospace and members of the Finance Syndicate

The Company is an investment holding company and its subsidiaries are principally engaged in hi-tech manufacturing, aerospace and aerospace services.

Shenzhen Aerospace is a 60% indirectly owned subsidiary of the Company. The other 40% interests of Shenzhen Aerospace is owned by 航天科技投資控股有限公司 (Aerospace Technology Investment Holdings Limited)[#]; a wholly-owned subsidiary of CASC, the major shareholder of the Company, and 深圳航天科技創新研究院 (Shenzhen Science & Technology Institute)[#]. The approved business scope of Shenzhen Aerospace are development and transfer of technologies, provision of technological advisory and services, the establishment of enterprises, the research and manufacturing of satellite related products, development of infrastructure and related businesses, the management and leasing of properties. Its current project is the development of the Shenzhen Aerospace Science & Technology Plaza.

LETTER FROM THE BOARD

Aerospace Finance is a subsidiary of CASC and its subsidiaries whose approved business scope include (i) provision of finance and fund raising advisory, credit verification and related consultancy and agency services to members of the CASC group; (ii) provision of fund receiving and payment services for transactions conducted by members of the CASC group; (iii) approved insurance agency business; (iv) provision of guarantees for members of the CASC group; (v) provision of entrusted loans and entrusted investment services to members of the CASC group; (vi) acceptance and discounting of bills for members of the CASC group; (vii) settlement of transfers of fund between members of the CASC group and design of plans for related settlements and clearances; (viii) accepting deposits from members of the CASC group; (ix) dealing with loans and financing lease for members of the CASC group; (x) inter-bank lending; (xi) issue of finance company bonds with approval; (xii) underwriting enterprise bonds of members of the CASC group; (xiii) equity investment in financial institutions; (xiv) investment in marketable securities; and (xv) buyer credits and financing lease in respect of products of members of the CASC group.

BOC Shenzhen is a branch of Bank of China.

ICBC Shenzhen is a branch of Industrial and Commercial Bank of China.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of BOC Shenzhen and ICBC Shenzhen and their ultimate owner(s) is a third party independent of the Company and is not a connected person (as defined in the Listing Rules) of the Company.

Connected Transaction

Aerospace Finance, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the mortgage of the land use right of the Shenzhen Aerospace Science & Technology Plaza in favour of the Finance Syndicate as security constitutes a non-exempt continuing connected transaction of the Company. Accordingly, the Facilities are subject to the Independent Shareholders' approval and CASC and its associates shall abstain from voting on this resolution at the Extraordinary General Meeting.

LETTER FROM THE BOARD

3. RE-ELECTION OF DIRECTOR

On 10 December 2010, the Board announced that, with effect from 10 December 2010, Mr Rui Xiaowu was appointed as Non-Executive Director and Chairman of the Company. Pursuant to Code A.4.2 of Appendix 14 of the Listing Rules, all directors of listed issuers appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. As such, an ordinary resolution will be proposed at the Extraordinary General Meeting to approve the re-election of Mr Rui Xiaowu.

Mr Rui Xiaowu, aged 51, a Master's postgraduate. He was accredited as a Research Fellow in 1999 and was awarded by the State Council of China as the Winner of "Government Special Allowance" in 1996. In 1982, Mr Rui graduated from the National University of Defense Technology of China majoring in Computer Software and studied a Master's Degree in Computer Aided Design at the 710 Research Institute of the former Ministry of Space Industry of China during the period from 1982 to 1985, and participated works at the 710 Research Institute in the same year. Thereafter, he had been the Division Director of the Business Marketing Division, Vice President, President of the 710 Research Institute; he had been the Business Assistant to General Manager and Director General of the Business Planning & Investment Department, Business Assistant to General Manager and Director General of the Business Investment Department of China Aerospace Science & Technology Corporation since 2000; he had also been appointed as the Vice Chairman of Sino Satellite Communications Company Limited since 2001, the Assistant to General Manager of China Aerospace Science & Technology Corporation since 2002 and the Chairman of China Spacesat Company Limited (stock code: 600118), a company listed on the Shanghai Stock Exchange, during the period from 2002 to 2005. He had been appointed as the Deputy General Manager of China Aerospace Science & Technology Corporation during the period from 2005 to 2006, the General Manager of China Satellite Communications Corporation from June 2006 to March 2009, the Deputy General Manager of China Aerospace Science & Technology Corporation since April 2009, as well as the Chairman of NavInfo Company Limited (stock code: 002405), a company listed on the Shenzhen Stock Exchange, since January 2008.

Mr Rui had been appointed as the Chairman and President of the Company from 2002 to 2006. In the same period, he had been appointed as Chairman of the then CASIL Telecommunications Holdings Limited (stock code: 1185) (now known as China Enginere International (Holdings) Limited), a company listed on the Stock Exchange of Hong Kong Limited. Mr Rui has also been appointed as a Non-Executive Director and Chairman of APT Satellite Holdings Limited (stock code: 1045), a company listed on the Stock Exchange of Hong Kong Limited, since December 2006. Mr Rui, who is familiar with the operation of capital markets in both Hong Kong and China very well, has been involved in senior posts in listed companies for years and has extremely ample experience in management.

Mr Rui Xiaowu, if being re-elected, will resume the office of Chairman of the Company.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Mr Rui Xiaowu:

1. has confirmed that he does not have any interest in and does not hold any short position in any share or underlying share in or any debenture of the Company or any of its associated companies within the meaning of Part XV of the Securities and Futures Ordinance;
2. has confirmed that he has no relationships with any director, senior management or substantial or controlling shareholder of the Company (as defined in the Listing Rules), save as disclosed above;
3. has confirmed that he did not have any directorship in other listed public company in the past three years, save as disclosed above;
4. does not enter into any service contract with the Company and has a fixed term of two years and is subject to retirement by rotation and re-election at general meetings of the Company in accordance with the Articles of the Company; and
5. will entitle to a director's fee of HK\$150,000 per annum, which is based on his past experience, professional qualifications, the operations of the Company and the prevailing market condition.

Save as disclosed above, there is no other information that needs to be brought to the attention of the Shareholders or disclosed pursuant to Rule 13.51(2) of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

The notice of the Extraordinary General Meeting is set out on pages 45 to 46 of this Circular.

A form of proxy is enclosed with this document for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting, you are requested to complete and return the enclosed form of proxy to the share registrar of the Company, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

Pursuant to rule 13.39(4) of the Listing Rules, any votes of the shareholders at a general meeting must be taken by poll. Accordingly, the resolutions to be proposed at the Extraordinary General Meeting will be voted by way of a poll by the Shareholders. As of the Latest Practicable Date, CASC held a 37.06% shareholding in the Company and is a controlling shareholder of the Company. As such, CASC and its associates shall abstain from voting on resolution number 2 as set out in the notice of meeting at the Extraordinary General Meeting.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors are of the opinion that the entering into of the Main Contractor Contract, the Facilities and the provision of the Land Mortgage are in the best interests of the Company. Save for Mr Rui Xiaowu, Mr Wu Zhuo, Mr Chen Xuechuan and Mr Shi Weiguo who are currently the employees of CASC and have abstained from voting at the meeting of the Board approving the Facilities and the provision of the Land Mortgage, none of the Directors has a material interest in the Facilities and the Land Mortgage. As at the Latest Practicable Date, none of Mr Rui Xiaowu, Mr Wu Zhuo, Mr Chen Xuechuan and Mr Shi Weiguo held any interests in the Shares. The Directors recommend that all the Shareholders to vote in favour of the ordinary resolutions regarding the Main Contractor Contract and the re-election of Director and the Independent Shareholders to vote in favour of the ordinary resolution regarding the Facilities and the provision of the Land Mortgage to be proposed at the forthcoming Extraordinary General Meeting, respectively.

The Independent Board Committee, having reviewed the advice given by Somerley Limited, has recommended Independent Shareholders to vote in favour of the ordinary resolution regarding the Facilities and the provision of the Land Mortgage to be proposed at the forthcoming Extraordinary General Meeting.

Your attention is also drawn to the letters from the Independent Board Committee and Independent Financial Adviser for additional information in respect of the Facilities and the provision of the Land Mortgage. Further information of the Company and its subsidiaries is set out in the Appendices.

By order of the Board
Rui Xiaowu
Chairman



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)

25 January 2011

To the Independent Shareholders,

**CONNECTED TRANSACTION
PROVISION OF LAND MORTGAGE UNDER
THE FACILITY AGREEMENT WITH A SYNDICATE OF
FINANCIAL INSTITUTIONS**

We refer to the Circular of the Company dated 25 January 2011 (the “Circular”) of which this letter forms a part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board to consider the terms of the Facilities and the provision of the Land Mortgage and to advise and recommend the Independent Shareholders to vote on the Extraordinary General Meeting to be convened, details of which are contained in the Letter from the Board as set out on pages 4 to 18 of the Circular.

We have considered the various details of the Facilities and the provision of the Land Mortgage, in particular, the reasons and benefits of transaction and the effect thereof. We have also reviewed the advice given by Somerley Limited, the Independent Financial Adviser, on the terms of the Facilities and the provision of the Land Mortgage as set out in their letter reproduced on pages 20 to 29 of the Circular.

Having considered the information set out in the Letter from the Board and taking into account the advice from Somerley Limited, we consider the terms of the Facilities and the provision of the Land Mortgage are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders of the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution regarding the Facilities and the provision of the Land Mortgage as set out in the notice of the Extraordinary General Meeting.

Yours faithfully,

Chow Chan Lum, Charles

Luo Zhenbang
Independent Board Committee

Wang Junyan

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter from Somerley Limited to the Independent Board Committee and the Independent Shareholders for inclusion in this Circular.



SOMERLEY LIMITED

10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

25 January 2011

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONNECTED TRANSACTION
PROVISION OF LAND MORTGAGE UNDER
THE FACILITY AGREEMENT WITH A SYNDICATE OF
FINANCIAL INSTITUTIONS**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the entering into of the syndicate loan agreement and the supplemental agreement (together the “Syndicated Loan Agreements”) by Shenzhen Aerospace, a 60% indirectly owned subsidiary of the Company, with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen, being members of the Finance Syndicate, in respect of a RMB1,500 million facility for a period of five years.

Details of the Syndicated Loan Agreements are set out in the circular of the Company dated 25 January 2011 (the “Circular”) to its shareholders, of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Aerospace Finance is a subsidiary of CASC which in turn is the controlling shareholder of the Company. Accordingly, Aerospace Finance is considered a connected person of the Company under the Listing Rules and Shenzhen Aerospace’s entering into the Syndicated Loan Agreements with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen, which involve the mortgage of the land use rights of the Shenzhen Aerospace Science & Technology Plaza in favour of the Finance Syndicate as security and have a duration of longer than three years, constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders by way of poll at the Extraordinary General Meeting. CASC and its associates shall abstain from voting at the Extraordinary General Meeting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the three independent non-executive Directors, namely Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, has been formed to advise the Independent Shareholders in respect of the terms of the Syndicated Loan Agreements. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Company and have assumed that they are true, accurate and complete at the date of the Circular and will remain so up to the time of the Extraordinary General Meeting. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have assumed that all representations contained or referred to in the Circular are true as at the date of the Circular or the Latest Practicable Date (as the case may be) and will remain so up to the time of the Extraordinary General Meeting. However, we have not conducted any independent investigation into the business and affairs of the Company and its subsidiaries, or CASC, and their respective associates (including Shenzhen Aerospace and Aerospace Finance), nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Syndicated Loan Agreements are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for entering into the Syndicated Loan Agreements

(i) Background of the Company and CASC

The Company is currently owned as to approximately 37.06% by CASC, which is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and is the single largest shareholder of the Company. CASC focuses on the development of four core businesses including aerospace systems, aerospace services and aerospace technology applications and defense systems.

The Company is principally engaged in hi-tech manufacturing business, which contributes most of the turnover of the Company and its subsidiaries. Currently, the Company, taking into account the development strategy of CASC, is also engaged in developing aerospace and aerospace service businesses. Two related projects are currently in progress, one of which is the development of a large scale multi-purpose complex zone in Wenchang City, Hainan Province, and

the other one is the development of the Shenzhen Aerospace Science & Technology Plaza (the “Plaza”, referred to as Shenzhen Aerospace International Centre in the Company’s previous announcement and circular), which is the subject property development under the Syndicated Loan Agreements.

(ii) Background of Shenzhen Aerospace and the Plaza

On 30 November 2007, New Century, a wholly-owned subsidiary of the Company, entered into a promoters’ agreement with two subsidiaries of CASC, pursuant to which it was intended that a joint venture company would be established to develop the Plaza in Shenzhen to serve as an innovative aerospace technology transformation platform and the operating headquarter of CASC in southern China for the research and development centres of aerospace technology applications, centres of international economic technology co-operation, and operational and management centres. The joint venture company, Shenzhen Aerospace, was subsequently established in January 2008. According to the latest unaudited management account of Shenzhen Aerospace as at 31 December 2010, the only material assets of Shenzhen Aerospace are cash on hand and its interest in the development project of the Plaza.

On 14 March 2008, Shenzhen Aerospace won a bid at a public bid to acquire the land use right of an appropriate parcel of land at the consideration of RMB495 million. Accordingly, Shenzhen Aerospace entered into a confirmation and an agreement to transfer the land use right in Shenzhen with the Shenzhen Municipal Bureau of Land Resources and Housing Management.

The land, with a site area of approximately 12,619 square metres, is situated at the northern reclamation district of the east of Nanshan Houhai Centre District (the “Land”). The land use right of the Land is for a term of 50 years commencing from 14 March 2008 and is for commercial office purpose. Shenzhen Aerospace intends to adopt a construction plan as recommended by a professional project development consultant employed by Shenzhen Aerospace. The current construction plan comprises a twin-tower skyscraper office building, together with a 6-storey shopping complex and 4-storey underground shopping arcade and parking lots that are expected to have an aggregate gross floor area of approximately 196,406 square metres. It is currently intended that a substantial part of the Plaza will be leased out for rental and a small portion will be retained for self-use.

The development of the Plaza has been progressing smoothly since its inception. As at the Latest Practicable Date, early stage construction design, foundation and site preparation works had been completed. The submission and approval procedures for the construction plan are in progress. Barring any unforeseen circumstances, it is estimated that the construction of the Plaza will be completed within 30 months from the commencement of the overall construction

works. On 23 January 2011, Shenzhen Aerospace further entered into the Main Contractor Contract at a consideration of approximately RMB932 million, in relation to the construction of the main structure of the Plaza.

According to the proposal of the consultant employed by Shenzhen Aerospace, it is estimated that the construction costs of the Plaza (excluding land costs and cost of design consultants but including the foundation works and site clearance) will amount to RMB1,401 million (or approximately HK\$1,653 million) to RMB1,409 million (approximately HK\$1,662 million), mainly based on the current price of construction materials and labour cost.

(iii) Reasons for entering into the Syndicated Loan Agreements

As mentioned previously, early stage construction design, foundation and site preparation works have been completed and the submission and approval procedures for the construction plan are in progress. It is expected that the construction programme will commence soon.

In light of the imminent start of work, it is now necessary for Shenzhen Aerospace to arrange project financing of the construction costs. Recently, there has been a general tightening of bank credits in the PRC and companies have in general found it more difficult to obtain banking facilities. The entering into of the Syndicated Loan Agreements with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen allows Shenzhen Aerospace to finance the construction costs and alleviates the cash needs of Shenzhen Aerospace under such credit tightening environment.

In addition, it is believed that the regulatory control on PRC financial institutions in relation to credit approvals may become increasingly stringent in the near future. Aerospace Finance, as a member of the Finance Syndicate and a subsidiary of CASC, understands the businesses and operations of Shenzhen Aerospace and so would be in a good position to provide an important source of funding to Shenzhen Aerospace, together with ICBC Shenzhen and BOC Shenzhen.

Shenzhen Aerospace is not obliged to drawdown the Facilities and may choose not to utilise them if a better proposal is received from other sources. If the Facilities are drawn down, there are no prepayment conditions or penalties, so Shenzhen Aerospace is free to test the market for a possible refinancing when a more favourable borrowing environment returns.

2. Principal terms of the Syndicated Loan Agreements

As stated in the Letter from the Board in the Circular, the terms of the Facilities are negotiated arm's length. Other than the arranger fee and agency fee to be paid to Aerospace Finance and ICBC Shenzhen respectively as further detailed below, the terms of the Syndicated Loan Agreements are in general the same for all members of the Finance Syndicate, two of which (ICBC Shenzhen and BOC Shenzhen) are

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

independent third parties to the Company. This supports the view that the terms of the Syndicated Loan Agreements in general represent arm's length terms and would have been the same had the Facilities been provided in full by independent third parties.

The principal terms of the Syndicated Loan Agreements are summarised as follows:

(i) Members of the Finance Syndicate

- (a) Aerospace Finance, a subsidiary of CASC
- (b) ICBC Shenzhen, an independent third party to the Company
- (c) BOC Shenzhen, an independent third party to the Company

(ii) Total amount and availability period

The Finance Syndicate, under the Syndicated Loan Agreements, will provide a RMB1,500 million facility for a period of 5 years commencing from the first drawdown date. The RMB1,500 million facility includes (i) cash advances of RMB1,350 million for construction purpose, and (ii) a bank guarantee of RMB150 million.

The commitments of Aerospace Finance, ICBC Shenzhen and BOC Shenzhen under the Syndicated Loan Agreements are RMB450 million, RMB300 million (including the bank guarantee of RMB150 million) and RMB750 million respectively.

The drawdown period available to Shenzhen Aerospace shall be three years from the date of the first drawdown.

(iii) Interest rate

The interest rate on the Facilities will be equal to the base lending rate as announced by the People's Bank of China at the relevant date of advances, payable quarterly. The interest rate will be adjusted on 1 January of the subsequent year if there is any change of base lending rate. In case there is no reference rate available and the parties cannot agree on an interest rate, the latest interest rate under the Facilities shall apply.

(iv) Other fees and expenses

Aerospace Finance is the arranger of the Facilities and will be entitled to receive an upfront one-off arranger fee equivalent 0.1% of the Facilities. ICBC Shenzhen is the agent bank of the Facilities and will be entitled to receive a one-off agency fee equivalent to 0.2% of the advance drawn down under the Facilities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shenzhen Aerospace shall be responsible for all costs and expenses incurred by the Finance Syndicate (including legal fee and valuation fee) in respect of the negotiation and preparation of the legal documentation in respect of the Facilities and shall reimburse the Finance Syndicate for all losses, costs and expenses in respect of the enforcement of the Facilities.

(v) Repayment

Repayment shall be made from the fourth year of the Facilities by 8 equal quarterly instalments.

Prior to the repayment in full of the Facilities, up to 50% of the sale proceeds from the Plaza should be deposited into a designated account maintained with BOC Shenzhen, and that during the period of temporary release of land mortgage (if so required by the PRC authorities or under relevant PRC law and regulations), all rental receipts shall be deposited with accounts maintained with the Finance Syndicate.

(vi) Security

The Land shall be mortgaged in favour of the Finance Syndicate as security and Shenzhen Aerospace shall take out insurance policies on its assets, the construction, third parties liabilities and all mandatory insurance as may be required by the relevant PRC authorities and law, and name the Finance Syndicate as jointly insured parties or beneficiaries in respect of all insurances relating to the development of the Plaza.

3. Interest rate and other terms

Pursuant to the Syndicated Loan Agreements, the interest rate of the Facilities will be equal to the base lending rate as announced by the People's Bank of China (the "PBOC") at the relevant date of advances. As at the Latest Practicable Date, the 5-year base lending rate as announced by the PBOC is 6.22%. The interest rate under the Facilities will be adjusted on 1 January of the subsequent year if there is any change of base lending rate.

As stated in the Letter from the Board in the Circular, the terms of the Facilities were agreed after arm's length negotiation. The interest rate of the Facilities applicable to Aerospace Finance, being the prevailing base lending rate as announced by the PBOC, is the same as the interest rate applicable to ICBC Shenzhen and BOC Shenzhen, both being independent third parties of the Company. It follows that the interest rate of the Facilities is an arm's length interest rate on the basis that it is also applicable to the two independent members of the Finance Syndicate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It is difficult to make extensive comparisons between the interest rate of the Facilities and that of other similar syndicated banking facilities for PRC property development projects, as such information is in general not publicly available. However, we have identified two syndicated banking facilities which are broadly comparable:

- (i) On 4 June 2010, an associated company of China Gold International Resources Corp. Ltd. (Stock code: 2099.HK) entered into a syndicated loan facility agreement with various banks with a total amount of RMB750 million with a term of six years. Interest is charged at a floating rate based on the PBOC base lending rate.
- (ii) On 30 November 2009, a subsidiary of West China Cement Limited (Stock code: 2233.HK) entered into a loan agreement with a syndicate of financial institutions for a loan of RMB330 million for a period of three years. Interest is charged at a 110% of the PBOC base lending rate.

Sources: the website of the Stock Exchange

We consider the interest rate to be charged under the Facilities, which is based on the PBOC base lending rate, are broadly comparable to the above two facilities.

We have also reviewed the existing loans between the Group and its bankers, which are very limited. According to the consolidated financial statements of the Group as at 30 June 2010 (unaudited), the Group had no bank loans and at 31 December 2009 (audited), the Group had bank loans of approximately HK\$131 million. This bank loan had an annual interest rate of 1.25%, and was restructured in 2004 in relation to a restructuring exercise. The management of the Company considers that such low interest rate offered was due to the special circumstances of the restructuring exercise and the Group does not expect to be able to obtain bank loans at such low interest rates now. Accordingly, we concur with the management of the Company that it does not provide a valid comparison with the interest rate of the Facilities.

Aerospace Finance, as the arranger of the Facilities, will be entitled to receive an upfront one-off arranger fee equivalent 0.1% of the Facilities, which is equal to approximately RMB1.5 million. We have reviewed relevant guidelines on arranger fees and other fees in relation to syndicated facilities in the PRC. Pursuant to the “Syndicated Loans Cooperation Pact” (銀團貸款合作公約) published by the China Banking Association (of which major national banks in the PRC are members), an arranger fee would normally be charged at 0.25% of the syndicated loan amount and would be paid one-off. According to the “Questions and Answers on Syndicated Loans Operation Guidelines” (銀團貸款業務指引) published by the China Banking Regulatory Commission in August 2007, arranger fees, commitment fees and agency fees are normally charged, individually, at rates between 0.125% and 0.5%. As the arranger fee of 0.1% under the Facilities is lower than both guidelines, we consider the fee charged by Aerospace Finance favourable to Shareholders compared to the guideline charging rates.

4. Duration of the Syndicated Loan Agreements

The term of the Syndicated Loan Agreements is five years and we have discussed with the management of the Company the rationale for the duration of the Syndicated Loan Agreements.

As advised by the management of the Company, the development of the Plaza requires substantial investment and a long construction period. As at the Latest Practicable Date, early stage construction design, foundation and site preparation works had been completed. It is currently estimated that the Plaza will be completed within 30 months (or 2.5 years) from the commencement of the overall construction works (excluding early stage works as mentioned above). It is expected that Shenzhen Aerospace will repay the loans drawn down under the Facilities by ways including but not limited to rental income and other banking facilities. As it takes a further period of time after substantial completion of the construction, for Shenzhen Aerospace to conduct marketing and generate adequate rental income from the Plaza in order to repay the loans drawn down under the Facilities, the management of the Company considers a 5-year term for the Facilities is a general practice for similar development and is in the interest of the Company and its Shareholders.

It is in the interests of Shenzhen Aerospace for the duration of the Facilities to be as accommodating to Shenzhen Aerospace as possible, particularly in the present credit tightening environment. The provision of the Facilities by the Finance Syndicate allows Shenzhen Aerospace to finance the development of the Plaza, reducing the need for alternative financing. Provided that the terms of the Syndicated Loan Agreements are fair and reasonable, the longer the duration of the Facilities, the more flexibility in timing would be available to Shenzhen Aerospace in the development of the Plaza.

It is also stated in the Syndicated Loan Agreements that Shenzhen Aerospace is allowed to prepay any loan drawn down under the Facilities, and such prepayment is not subject to any charges provided that notice of not less than 30 business days is given to the Finance Syndicate for the prepayment. Consequently, Shenzhen Aerospace would have the option to repay loans to the Finance Syndicate without charges before the 5-year maturity if it seems desirable.

In order to compare the duration of the Facilities against the market practices, we have identified recent debt issuances with the following characteristics:

- (i) with a stated purpose of project financing at least partly for the purpose of property development; and
- (ii) announced within two months prior to the announcement of the entering into of the Syndicated Loan Agreement on 14 January 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are the results of our research:

Parties	Date of announcement	Size of issues (million)	Duration of the debt
Evergrande Real Estate Group Limited (Stock code: 3333.HK)	14 January 2011	— RMB5,550 — RMB3,700	— 3 years — 5 years
Texhong Textile Group Limited (Stock code: 2678.HK)	12 January 2011	US\$200	5 years
China SCE Property Holdings Limited (Stock code: 1966.HK)	9 January 2011	RMB2,000	5 years
China South City Holdings Limited (Stock code: 1668.HK)	7 January 2011	US\$250	5 years
Tian Shan Development (Holdings) Limited (Stock code: 2118.HK)	5 January 2011	RMB15.4	1 year
China Oil and Gas Group Limited (Stock code: 603.HK)	5 January 2011	HK\$700	5 years
Shanghai Industrial Urban Development Group Limited (Stock code: 563.HK)	31 December 2010	HK\$1,000	1 year
Shui On Land Limited (Stock code: 272.HK)	16 December 2010	RMB3,000	3 years
IRC Limited (Stock code: 1029.HK)	13 December 2010	US\$340	11 years
Xinhua Winshare Publishing And Media Co. Ltd. (Stock code: 811.HK)	10 December 2010	RMB120	2 years
Yuzhou Properties Company Limited (Stock code: 1628.HK)	9 December 2010	US\$200	5 years
Kaisa Group Holdings Limited (Stock code: 1638.HK)	2 December 2010	RMB1,500	5 years

Sources: the website of the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The above debt issues have terms ranging from 1 year to 11 years. In light of the above, we are of the view that it is normal business practice for such property construction project facilities to be of a duration longer than three years. We also agree with the management of the Company that a 5-year term for the Facilities provides flexibility to Shenzhen Aerospace and allows sufficient time to generate adequate cash flow for the purpose of repayment.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Syndicated Loan Agreements are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Syndicated Loan Agreements is in the ordinary course of business of the Company and in the interests of the Company and its shareholders as a whole and that, in the circumstances set out above, it is justified and normal business practice for the Syndicated Loan Agreements to be of a duration in excess of three years. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve, among other things, the entering into of the Syndicated Loan Agreements.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DISCLOSURE OF INTERESTS**A. Directors' or chief executive's interests in the securities and debentures of the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors or chief executive of the Company were, or were taken or deemed to have 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 the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer, to be notified to the Company and the Stock Exchange.

B. Persons who have interests or short positions in Shares and underlying Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, the following parties, had, or were deemed or taken to have any interests or short positions in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company and its subsidiaries:

Name of shareholder	Capacity	Direct Interest (Y/N)	Number of shares held for short positions	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Interested in controlled corporations (note 1)	N	1,143,330,636	37.06%
Jetcote Investments Limited	Beneficial owner	Y	131,837,011	4.27%
	Interested in controlled corporations (note 2)	N	1,011,493,625	32.79%
			1,143,330,636	37.06%
Burhill Company Limited	Beneficial owner (note 2)	Y	539,566,136	17.49%
Sin King Enterprises Company Limited	Beneficial owner (note 2)	Y	471,927,489	15.30%

Notes:

- (1) These 1,143,330,636 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, and its subsidiaries.
- (2) These 1,011,493,625 shares are duplicated in the interests held by Burhill Company Limited and Sin King Enterprises Company Limited, being wholly-owned subsidiaries of Jetcote Investments Limited.

Save as disclosed in this Circular, as at the Latest Practicable Date, so far is known to any Director or chief executive of the Company, no other person has an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company and its subsidiaries and none of the Directors are directors or employees of person have such interest or short position.

As at the Latest Practicable Date, there were no outstanding securities, options or warrants which were convertible into new shares.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with any member of the Company and its subsidiaries excluding contracts expiring or determinable by such member of the Company and its subsidiaries within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

Save for Mr Rui Xiaowu, Mr Wu Zhuo, Mr Chen Xuechuan and Mr Shi Weiguo, the Directors of the Company, who are employees of CASC, as at the Latest Practicable Date, none of the Directors and the chief executive officer of the Company were considered to have interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries, other than those businesses in which (a) the Company and its subsidiaries was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Company and its subsidiaries.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Company and its subsidiaries.

6. INDEBTEDNESS

Borrowings

As at the close of business on 30 November 2010, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group had unsecured other loan from a minority shareholder of a non-wholly owned subsidiary of approximately HK\$8,238,000. In addition, the Group had outstanding at that date obligations under finance lease of approximately HK\$895,000.

As at 30 November 2010, the Group had pledged bank deposits with carrying values of approximately HK\$52,066,000 to secure the banking facilities granted to the Group.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding as at the close of business on 30 November 2010 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 purchases commitments, guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts had been translated into Hong Kong dollars at approximate rates of exchange prevailing at the close of business of 30 November 2010.

7. WORKING CAPITAL

After taking into account the Group's

- (1) internal resources;
- (2) present available banking facilities;

the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the Latest Practicable Date, in the absence of any unforeseen circumstances.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in financial or trading position of the Company and its subsidiaries since 31 December 2009, the date to which the latest audited consolidated financial statements of the Company and its subsidiaries were made up.

9. PROSPECTS

Business Review

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 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 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 Science & Technology Plaza under construction had recorded an increase in its fair value, which was also another key factor for the growth

in the results for the first half of 2010. In view of the capital requirements for the existing developments by the Company, the Board of Directors resolved that no interim dividend was paid.

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 Science & Technology Plaza 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 2010. For the six months ended 2010, the turnover of the hi-tech manufacturing business was HK\$869,149,000, representing an increase of 58.40% as compared with the same period of 2009. The operating profit was HK\$113,861,000, representing a substantial increase of 149.15% as compared with the same period of 2009. 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 2009.

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 2009. Though the sales of liquid crystal display business in Mainland dropped slightly as compared with the same period of 2009, the sales in Hong Kong and overseas markets increased as compared with the same period of 2009. The turnover was HK\$135,208,000, representing an increase of 31.04% as compared with the same period of 2009.

The profit before tax for each hi-tech manufacturing business recorded a substantial growth. As compared with the same period of 2009, 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 Science & Technology Plaza

The Shenzhen Aerospace Science & Technology Plaza is to be situated at the northern reclamation district of the east of Nanshan Houhai Centre District with a site area of 12,618.67 square metres. The land use right is for a term of 50 years commencing from 14 March 2008 and is for commercial office purpose. Shenzhen Aerospace intends to adopt a construction plan as recommended by a professional project development consultant of Shenzhen Aerospace. The construction plan comprises a twin-tower skyscraper office building, together with a 6-storey shopping complex and 4-storey underground shopping arcade and parking lots that will amount to a gross floor area of 196,405.51 square metres.

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.

At present, 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, a space 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 interest in Hainan Aerospace, 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 decided to acquire the 35% interest 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 had been approved by the Independent Shareholders of the Company at the Extraordinary General Meeting 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.

Looking Forward

Looking forward to 2011, 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, with an aim to facilitate 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 2011.

The pace of the construction of the Shenzhen Aerospace Science & Technology Plaza will be increased and the foundation works, construction design and site clearance, retaining and protecting for foundation excavation, and earthworks had been completed. 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 had been obtained. The submission and approval procedures for the construction plan are in progress. Barring any unforeseen circumstances, it is estimated that the construction of the Shenzhen Aerospace Science & Technology Plaza will be completed within 30 months from the commencement of the overall construction works. 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 operational development along with the progress of the construction. Furthermore, Shenzhen Aerospace will negotiate and finalize the construction plan with the local government and Shenzhen Metro regarding the access to Shenzhen Metro and the issues in relation to the construction of Metro station.

In 2011, the Company will strengthen 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. With further enhancement in developing 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 to cope with future development, the Board of Directors and the management team of the Company underwent partial restructure in 2010. The new management team had reviewed and made deployment for each business and key development projects for the Company, adjusted the structure of the head office, reinforced the management of all business subsidiaries, and further optimized the management system for finance, human resources, performance appraisal system, etc.. At the same time, the Company has started to formulate 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 and 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.

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 Science & Technology Plaza, 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 assets 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 that 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 that of 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. 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 a 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.

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 a 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.

Liquidity

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities. The Company's and the subsidiaries' cash and bank balances 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 approximately HK\$359,000,000 had already been used in the specified purpose and the remaining approximately HK\$201,000,000 is being deposited in banks as at the Latest Practicable Date.

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 works of the Shenzhen Aerospace Science & Technology Plaza. 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 Science & Technology Plaza. 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 a 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). Under the Property Right Transfer Agreement entered into between Aerospace Times and New Century, the Company would, through New Century being its wholly-owned subsidiary, purchase from Aerospace Times the 35% equity interest of Hainan Aerospace.

The transaction was approved by the 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 becomes 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.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Company and its subsidiaries within the two years preceding the date of this Circular and are or may be material:

- (a) the Main Contractor Contract dated 23 January 2011 entered into between Shenzhen Aerospace and 中國建築股份有限公司 (China State Construction Engineering Corporation Limited) for the construction of the Shenzhen Aerospace Science & Technology Plaza at the tender price of RMB931,996,000;
- (b) the syndicate loan agreement and the supplemental agreement dated 14 January 2011 in respect of the Facilities of RMB1,500,000,000;
- (c) the property right transfer agreement dated 4 August 2010 entered into between 航科新世紀科技發展(深圳)有限公司 (CASIL New Century Technology Development (Shenzhen) Company Limited)[#] and 航天時代置業發展有限公司 (Aerospace Times Properties Development Limited)[#] to acquire 35% interests in equity capital of 海南航天投資管理有限公司 (Hainan Aerospace Investment Management Company Limited)^{*} at the tendered purchase price of RMB45,583,400 (equivalent to approximately HK\$52,394,713);

- (d) the placing and subscription agreement dated 4 February 2010 entered into among Burhill Company Limited, CITIC Securities Corporate Finance (HK) Limited and the Company in relation to the placing and subscription of 514,118,000 Shares. The gross proceeds and the net proceeds of the subscription were approximately HK\$581,000,000 and approximately HK\$560,000,000, respectively; and
- (e) the sale and purchase agreement dated 23 November 2009 entered into between New Century and 上海興榮項目管理有限公司 (Shanghai Xingrong Project Management Company Limited[#]) (“Shanghai Xingrong”) for the sale by New Century to Shanghai Xingrong of the 80% equity interest in 上海航天科技產業投資管理有限公司 (Shanghai Aerospace Technology Investment Company Limited)[#] for the consideration of RMB192,370,000 (approximately HK\$218,339,950).

11. EXPERT

Somerley Limited is a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities.

As at the Latest Practicable Date, Somerley Limited has confirmed that it does not have any shareholding in any member of the Company and its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Company and its subsidiaries.

Somerley Limited has given and has not withdrawn its written consent to the issue of this Circular with the reference to its name and its letter in the form and context in which they appear.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Mr Chan Ka Kin, Ken. Mr Chan is a fellow member of both The Institute of Chartered Secretaries and Administrators, UK and The Hong Kong Institute of Chartered Secretaries.
- (b) The Company’s Hong Kong share registrar and transfer office is Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (c) Pursuant to article 74 of the articles of association of the Company, the following categories of persons may demand the vote in respect of the resolutions to be put to at any general meeting be taken on a poll:
 - (i) by the Chairman of the meeting; or
 - (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A poll may be so demanded before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll.

- (d) Neither Somerley Limited nor any directors of the Company have any interest, direct or indirect, in any assets which have been, since 31 December 2009, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Company and its subsidiaries, or are proposed to be acquired or disposed of by or leased to any member of the Company and its subsidiaries.
- (e) None of the directors of the Company is materially interested in any contract or arrangement subsisting at the date of the Latest Practicable Date and which is significant in relation to the business of the Company and its subsidiaries.
- (f) The English text of this Circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents (or copies thereof) will be available for inspection during normal office hours at the registered office of the Company from the date of this Circular up to the date of the Extraordinary General Meeting (both dates inclusive):

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 19 of this Circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 20 to 29 of this Circular;
- (e) the written consent from Somerley Limited referred to in the section headed “Expert” in this appendix;
- (f) the annual report of the Company and its subsidiaries for the two years ended 31 December 2009 and the interim report of the Company and its subsidiaries for the six months ended 30 June 2010 (electronic version is available at www.hkexnews.hk and www.casil-group.com);

- (g) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts; and
- (h) this Circular.

The electronic version of the audited consolidated financial information for the three years ended 31 December 2009 of the Company and its subsidiaries and unaudited consolidated financial information of the Company and its subsidiaries for the six months ended 30 June 2010 are available at www.hkexnews.hk and www.casil-group.com. Please refer to pages 31, 37 and 31 onwards of the Company's annual reports of 2007, 2008 and 2009, respectively and page 22 onwards of the Company's interim report 2010.



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)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of China Aerospace International Holdings Limited (the “Company”) will be held at the Salon One, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Friday, 25 March 2011 at 10:00 a.m. to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

Ordinary Resolutions

- (1) **THAT** the Main Contractor Contract with 中國建築股份有限公司 (China State Construction Engineering Corporation Limited) for the construction of the Shenzhen Aerospace Science & Technology Plaza at the tender price of RMB931,996,000, as more particularly set out in the Circular of the Company dated 25 January 2011, be and are hereby approved **AND THAT** the Directors of the Company be and are hereby authorized to take such action and execute such documents as they may deem appropriate and expedient in respect of the transaction contemplated under the Main Contractor Contract, including the approval of variation orders provided that the aggregate consideration payable under the Main Contractor Contract shall not exceed 120% of the original tender price;
- (2) **THAT** (a) the entering into of the syndicate loan agreement and the supplemental agreement both dated 14 January 2011 with 航天科技財務有限責任公司 (Aerospace Science & Technology Finance Company Limited)[#], 中國工商銀行股份有限公司深圳灣支行 (Industrial and Commercial Bank of China, Shenzhen Shenzhen Bay Sub-branch) and 中國銀行股份有限公司深圳南頭支行 (Bank of China, Shenzhen Nantou Sub-branch) by 深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Technology Investment Company Limited)[#] for a RMB1,500 million facility for a period of 5 years, which will include a bank guarantee of up to RMB150 million and advances of up to RMB1,350 million; (b) the provision of a mortgage over the land use right of a parcel of land in Shenzhen in favour of the Finance Syndicate; and (c) the payment of the arranger fee of 0.1% of the amount of the Facilities to 航天科技財務有限責任公司 (Aerospace Science & Technology Finance Company Limited)[#] and the transaction contemplated thereunder, as more particularly set out in the Circular of the Company dated 25 January 2011, be and are hereby approved **AND THAT** the

NOTICE OF EXTRAORDINARY GENERAL MEETING

Directors of the Company be and are hereby authorized to take such action and execute such documents as they may deem appropriate and expedient in respect of the proposed transaction contemplated thereunder; and

- (3) **THAT** the appointment of Mr Rui Xiaowu as a Non-Executive Director of the Company be and is hereby approved and that a director's fee of HK\$150,000 per annum be and is hereby approved.

By order of the Board
Chan Ka Kin, Ken
Company Secretary

Hong Kong, 25 January 2011

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the share registrar of the Company, Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. Resolutions numbered (1) to (3) are required to be approved by way of a poll, and CASC and its associates shall abstain from voting on resolution numbered (2).

[#] *These PRC entities do not have an official English name, the English names set out herein are for identification purpose only.*