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CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

ANNOUNCEMENT OF INTERIM RESULTS 2012

The Board of Directors (the “Board”) of China Aerospace International Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2012 together with the comparative figures of the same period in 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	Six months ended	
		30.6.2012 (Unaudited)	30.6.2011 (Unaudited) (Restated)
		HK\$'000	HK\$'000
Turnover	3	1,227,611	1,007,786
Cost of sales		(988,875)	(806,303)
Gross profit		238,736	201,483
Other gains and losses	4	(23,288)	48,899
Other income	4	18,302	16,421
Selling and distribution expenses		(29,598)	(25,792)
Administrative expenses		(148,130)	(124,112)
Fair value changes of investment properties		118,437	243,697
Finance costs		(2,913)	(17)
Share of results of jointly controlled entities		592	(1,763)
Profit before taxation	5	172,138	358,816
Taxation	6	(52,550)	(104,113)
Profit for the period		119,588	254,703
Attributable to:			
Owners of the Company		96,869	198,033
Non-controlling interests		22,719	56,670
		119,588	254,703
Earnings per share — basic	7	HK3.14 cents	HK6.42 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended	
	30.6.2012	30.6.2011
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Profit for the period	<u>119,588</u>	<u>254,703</u>
Other comprehensive (expense) income		
Exchange differences arising on translating foreign operations	(37,918)	47,073
Share of translation reserve of jointly controlled entities	(527)	2,270
Fair value gain (loss) on available-for-sale investments	<u>19,404</u>	<u>(8,961)</u>
Other comprehensive (expense) income for the period	<u>(19,041)</u>	<u>40,382</u>
Total comprehensive income for the period	<u>100,547</u>	<u>295,085</u>
Total comprehensive income attributable to:		
Owners of the Company	85,164	228,253
Non-controlling interests	<u>15,383</u>	<u>66,832</u>
	<u>100,547</u>	<u>295,085</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	<i>NOTES</i>	30.6.2012 (Unaudited) <i>HK\$'000</i>	31.12.2011 (Restated) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		860,444	858,161
Prepaid lease payments		74,007	76,568
Investment properties		2,273,045	2,144,333
Goodwill	4a	27,440	51,001
Intangible asset		19,611	21,218
Interests in associates		12,210	12,346
Interests in jointly controlled entities		62,927	62,862
Available-for-sale investments		61,668	42,264
Prepayment for land development		1,923	1,943
Land development expenditure		641,744	642,175
Deposit paid for construction cost of investment properties under construction		69,297	70,067
Deposit paid for acquisition of intangible assets and property, plant and equipment		32,123	11,714
		4,136,439	3,994,652
Current assets			
Inventories		283,366	232,144
Trade and other receivables	9	579,043	448,723
Prepaid lease payments		2,348	2,374
Financial assets at fair value through profit or loss		68,583	62,911
Taxation recoverable		2,410	839
Pledged bank deposits		24,606	24,942
Bank balances and cash		989,464	1,151,015
		1,949,820	1,922,948
Current liabilities			
Trade and other payables	10	770,025	678,713
Amount due to an associate		1,050	1,050
Taxation payable		71,831	53,646
Bank and other borrowings		146,032	234,074
Dividend payable		30,850	—
Obligations under a finance lease		—	65
Other loan		8,751	8,848
		1,028,539	976,396
Net current assets		921,281	946,552
Total assets less current liabilities		5,057,720	4,941,204

	30.6.2012 (Unaudited) HK\$'000	31.12.2011 (Restated) HK\$'000
Non-current liabilities		
Bank and other borrowings	60,195	46,913
Deferred taxation	411,709	378,172
	471,904	425,085
	4,585,816	4,516,119
Capital and reserves		
Share capital	308,502	308,502
Reserves	3,609,484	3,555,170
Equity attributable to owners of the Company	3,917,986	3,863,672
Non-controlling interests	667,830	652,447
	4,585,816	4,516,119

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Amendments to HKFRS 7	Financial instruments: Disclosures - Transfers of financial assets
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets

Except as described below, the adoption of those HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Amendments to HKAS 12 "Deferred tax: Recovery of underlying assets"

Under the amendments to HKAS 12, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that except for certain of the Group's investment properties of which their carrying amounts will be recovered through sale, other investment properties of the Group are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and therefore that the presumption set out in the amendments to HKAS 12 is rebutted by the Group.

As a result of the application of the amendments to HKAS 12, the Group recognised additional deferred taxes on certain investment properties situated in the PRC which are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and are subject to land appreciation tax on disposal of these investment properties. Previously, the Group did not recognise deferred tax relating to land appreciation tax on changes in fair value of those investment properties on the basis that the carrying amounts of these properties were expected to be recovered through use, which is the manner in which the Group expects to recover the carrying amounts of the investment properties.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being increased by HK\$70,449,000 and HK\$103,739,000 as at 1 January 2011 and 31 December 2011 respectively, with the corresponding adjustment as a reduction to retained profits, translation reserve and non-controlling interests (see summary of effect of change in accounting policy below). In addition, the application of the amendments has resulted in the Group's taxation for the six months ended 30 June 2012 and 30 June 2011 being increased by HK\$9,822,000 and HK\$27,804,000 respectively and hence resulted in the profit for the six months ended 30 June 2012 and 30 June 2011 being reduced by HK\$9,822,000 and HK\$27,804,000 respectively.

Summary of the effect of the above change in accounting policy

The effect of the change in accounting policy described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated income statement is as follows:

	Six months ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Increase in income tax expenses and decrease in profit for the period	<u>9,822</u>	<u>27,804</u>
Decrease in profit for the period attributable to		
Owners of the Company	5,893	16,682
Non-controlling interests	<u>3,929</u>	<u>11,122</u>
	<u>9,822</u>	<u>27,804</u>

The effect of change in accounting policy described above on the financial position of the Group as at the end of the immediate preceding financial year, i.e. 31 December 2011, is as follows:

	As at 31.12.2011 (originally stated)	Adjustments	As at 31.12.2011 (Restated)
	HK\$'000	HK\$'000	HK\$'000
Impact on net assets			
Deferred taxation	<u>274,433</u>	<u>103,739</u>	<u>378,172</u>
Impact on total equity			
Retained profits	2,386,400	(58,121)	2,328,279
Translation reserve	299,215	(4,124)	295,091
Non-controlling interests	<u>693,941</u>	<u>(41,494)</u>	<u>652,447</u>
	<u>3,379,556</u>	<u>(103,739)</u>	<u>3,275,817</u>

The effect of changes in accounting policy described above on the financial position of the Group as at the beginning of the comparative period, i.e. 1 January 2011, is as follows:

	As at 1.1.2011 (originally stated) <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	As at 1.1.2011 (Restated) <i>HK\$'000</i>
Impact on net assets			
Deferred taxation	<u>187,772</u>	<u>70,449</u>	<u>258,221</u>
Impact on total equity			
Retained profits	2,012,478	(40,580)	1,971,898
Translation reserve	186,768	(1,691)	185,077
Non-controlling interests	<u>572,232</u>	<u>(28,178)</u>	<u>544,054</u>
	<u>2,771,478</u>	<u>(70,449)</u>	<u>2,701,029</u>

Impact on basic earnings per share

	Six months ended 30.6.2012 <i>HK cents</i>	30.6.2011 <i>HK cents</i>
Basic earnings per share before adjustments	3.33	6.96
Adjustments arising from change in accounting policy in relation to:		
application of amendments to HKAS 12 in respect of deferred taxes on investment properties	<u>(0.19)</u>	<u>(0.54)</u>
Reported basic earnings per share	<u>3.14</u>	<u>6.42</u>

3. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the President, the chief operating decision maker of the Group, that are used to make strategic decisions. The management has identified 9 (1.1.2011 to 30.6.2011: 7) reportable segments: Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and the related industrial property investment), New Material Business (including polyimide films manufacturing), Aerospace Service (including the Shenzhen Aerospace Science & Technology Plaza of property investment project, the Hainan Launching Site Complex Zone of land development project and Internet of Things) which represents the major industries in which the Group is engaged.

The Group has two new segments including polyimide film manufacturing and Internet of Things since second half of 2011. The operation of polyimide films manufacturing was acquired on 31 August 2011 which is engaged in the development, manufacturing and marketing of polyimide and related composite materials. The operation of Internet of Things started in October 2011 which is engaged in development and sale of software and related products of radio frequency identification, sensor technology and embedded software supporting platform technology.

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

For the six months ended 30 June 2012

	Turnover			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	451,218	48,621	499,839	32,011
Liquid crystal display	154,745	—	154,745	6,308
Printed circuit boards	246,584	—	246,584	48,795
Intelligent chargers	345,664	—	345,664	20,880
Industrial property investment	6,840	8,248	15,088	10,635
	<u>1,205,051</u>	<u>56,869</u>	<u>1,261,920</u>	<u>118,629</u>
New Material Business				
Polyimide films manufacturing	21,575	—	21,575	(22,151)
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	96,594
Land development in Hainan Launching Site Complex Zone	—	—	—	(667)
Internet of Things	—	—	—	(5,294)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>90,633</u>
Reportable segment total	1,226,626	56,869	1,283,495	187,111
Elimination	—	(56,869)	(56,869)	—
Other Business	985	—	985	7,481
	<u>1,227,611</u>	<u>—</u>	<u>1,227,611</u>	<u>194,592</u>
Unallocated corporate income				20,757
Unallocated corporate expenses				(40,890)
				<u>174,459</u>
Share of result of jointly controlled entities				592
Finance costs				(2,913)
Profit before taxation				<u>172,138</u>

For the six months ended 30 June 2011

	Turnover			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	389,242	38,288	427,530	29,293
Liquid crystal display	143,659	—	143,659	5,816
Printed circuit boards	213,731	—	213,731	42,083
Intelligent chargers	253,982	—	253,982	16,732
Industrial property investment	6,131	6,948	13,079	3,316
	<u>1,006,745</u>	<u>45,236</u>	<u>1,051,981</u>	<u>97,240</u>
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	225,244
Land development in Hainan Launching Site Complex Zone	—	—	—	(5,215)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>220,029</u>
Reportable segment total	1,006,745	45,236	1,051,981	317,269
Elimination	—	(45,236)	(45,236)	—
Other Business	1,041	—	1,041	11,180
	<u>1,007,786</u>	<u>—</u>	<u>1,007,786</u>	<u>328,449</u>
Unallocated corporate income				68,551
Unallocated corporate expenses				(38,022)
				<u>358,978</u>
Reversal of impairment loss recognised in respect of loans receivable				1,618
Share of result of jointly controlled entities				(1,763)
Finance costs				(17)
Profit before taxation				<u>358,816</u>

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

Inter-segment sales are charged at cost-plus basis.

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
The Group's other income mainly comprises:		
Bank interest income	7,395	9,026
The Group's other gains and losses mainly comprise:		
Gain from change in fair value of financial assets at fair value through profit or loss	8,573	15,711
Net exchange (loss) gain	(7,221)	4,240
Impairment loss recognised in respect of goodwill (Note a)	(23,000)	—
Reversal of impairment loss recognised in respect of loans receivable (Note b)	—	1,618
Recovery of loans receivable (Note b)	—	27,330
	—————	—————

Notes:

- a. During the period ended 30 June 2012, the Group recognised an impairment loss of HK\$23,000,000 in relation to goodwill arising on acquisition of a subsidiary engaged in polyimide film manufacturing due to the current market conditions and the decrease of forecast sales. The impairment of goodwill was based on cash flow forecasts of the cash-generating unit which derived from the revised financial budget for the current year and the next 2 years approved by management and cash flows beyond the three-year period are extrapolated using 3% growth rate. The rate used to discount the forecast cash flows is 16%.
- b. During the period ended 30 June 2011, the Group recovered an amount of HK\$117,657,000 from a borrower pursuant to a settlement deed entered into between a company's subsidiary and the borrower on 14 September 2007 in respect of the Group's interest bearing loans receivables. The excess of HK\$28,948,000, representing the amount recovered over the carrying amount of the loan receivable of HK\$70,269,000 net of the transaction costs incurred relating to the debt collections, was recognised in profit or loss for the period ended 30 June 2011 whereby amounts of HK\$1,618,000 and HK\$27,330,000 were recorded as reversal of impairment loss recognised in respect of loans receivable and recovery of loans receivable respectively. The recovery of loans receivable was mainly related to the additional amount recovered upon settlement net of transaction costs.

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	1,250	659
Amortisation of intangible asset (included in cost of sales)	1,389	—
Depreciation of property, plant and equipment	39,951	29,790
	—————	—————

6. TAXATION

	Six months ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	8,152	7,067
PRC Enterprise Income Tax	6,393	9,310
	—————	—————
	14,545	16,377
Deferred tax	38,005	87,736
Income tax charge	52,550	104,113
	—————	—————

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

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

7. EARNINGS PER SHARE—BASIC

The calculation of basic earnings per share attributable to the owners of the Company for the period is based on the profit for the period attributable to owners of the Company of HK\$96,869,000 (1.1.2011 to 30.6.2011 (restated): HK\$198,033,000) and on 3,085,022,000 shares (1.1.2011 to 30.6.2011: 3,085,022,000 shares) in issue during the period.

8. DIVIDEND

2011 final dividend of HK1 cent (1.1.2011 to 30.6.2011: 2010 final dividend of HK1 cent) per share amounting to HK\$30,850,000 (1.1.2011 to 30.6.2011: HK\$30,850,000) was paid by the Company during the period. The directors do not recommend payment of an interim dividend for the interim period.

9. TRADE AND OTHER RECEIVABLES

At 30 June 2012, included in trade and other receivables are trade receivables of HK\$485,474,000 (31.12.2011: HK\$395,840,000). The Group allows an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period:

	30.6.2012 <i>HK\$'000</i>	31.12.2011 <i>HK\$'000</i>
Within 90 days	444,891	368,256
Between 91 - 180 days	36,805	27,584
Between 181 - 365 days	3,778	—
	<u>485,474</u>	<u>395,840</u>

10. TRADE AND OTHER PAYABLES

	30.6.2012 <i>HK\$'000</i>	31.12.2011 <i>HK\$'000</i>
Trade payables	286,988	221,287
Accrued charges	122,795	102,084
Other payables	360,242	355,342
	<u>770,025</u>	<u>678,713</u>

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	30.6.2012 <i>HK\$'000</i>	31.12.2011 <i>HK\$'000</i>
Within 90 days	263,754	207,316
Between 91 - 180 days	9,250	2,755
Between 181 - 365 days	2,545	681
Over 1 year	11,439	10,535
	<u>286,988</u>	<u>221,287</u>

BUSINESS REVIEW

RESULTS

For the six months ended 30 June 2012, the Company and its subsidiaries reported an unaudited turnover of HK\$1,227,611,000, representing an increase of 22% as compared with that of HK\$1,007,786,000 for the same period of 2011. Profit for the period was HK\$119,588,000, representing a decrease of 53% as compared with that of HK\$254,703,000 (being adjusted and restated) for the same period of 2011. Profit attributable to shareholders was HK\$96,869,000, representing a decrease of 51% as compared with that of HK\$198,033,000 (being adjusted and restated) for the same period of 2011. Basic earnings per share attributable to shareholders was HK\$0.0314, representing a decrease of 51% as compared with that of HK\$0.0642 (being adjusted and restated) per share for the same period of 2011.

The market continued to be adversely affected by the debt crisis in Europe and the U.S.. On the other hand, there were many uncertainties concerning the economic situation of China. Under the backdrop of a distressed world economy, the Company still unwaveringly committed to its operational principles of prudence in business expansion and rigidity in risk management. However, being under the pressure of operating cost increment and the amount of the gain in the fair value of investment properties under construction was less than that of the same period of 2011, the overall profit of the Company decreased by 53% as compared with the same period of last year, whereas the revenue of the Company's hi-tech manufacturing business maintained a stable growth. Taking into account of the Company's capital requirement for its development projects, the Board decided not to distribute an interim dividend.

BUSINESS REVIEW

The hi-tech manufacturing business of the Company achieved a moderate growth in the first half of 2012. Foundation work of Shenzhen Aerospace Science & Technology Plaza was basically completed, and the construction work of the Complex Zone of the Launching Site in Hainan Province was proceeding on schedule. As to our new ventures, both the polyimide films business of new materials and the internet of things business were on track to a sustainable operation.

Hi-tech manufacturing

Hi-tech manufacturing

In the context of a global economic downturn, operation of the hi-tech manufacturing business of the Company confronted with numerous difficulties and challenges. Despite being the case, pivoting on the efforts of the manufacturing team, the revenue and the operating profit for the first half of the year recorded a steady growth as compared with the same period of last year. For the six months ended 30 June 2012, the hi-tech manufacturing business recorded a turnover of HK\$1,205,051,000, representing an increase of 20% as compared with the same period of last year. Operating profit amounted to HK\$118,629,000, representing an increase of 22% as compared with the same period of last year.

In the first half of the year, performances of the respective segments under the manufacturing business arm were satisfactory, with 36%, 16%, 15% and 8% growth in the turnover of each of intelligent chargers, plastic products, printed circuit boards and liquid crystal display segments respectively.

Persistent and aggressive effort in strengthening the marketing and sales, the intelligent chargers segment obtained an ideal growth in sales led by revenue from major customers in the first half of this year. Sales of the battery under the plastic products segment recorded a strong growth, while the moulds division also showed a considerable improvement. However, both the plastic injection and the electroplating divisions reported a slight decline in sales. The printed circuit boards segment comprises hard boards, soft boards and surface mounted technology (SMT). Preliminary technology advancement and productivity expansion boosted a satisfactory sales growth in hard boards and SMT, but the sales of soft boards slightly dropped. The liquid crystal display segment endeavoured to transform itself into medium-to-high-end products by

deploying greater marketing effort in Hong Kong and overseas markets. It recorded a considerable growth in sales driven by the contribution from major customers and new customers.

The Company is committed to promote meticulous management in hi-tech manufacturing business by optimizing procedures, enhancing efficiency, controlling expenses and reducing purchasing cost in order to alleviate the pressure of cost increment and maintain its margins. At the beginning of this year, the hi-tech manufacturing business arm underwent a series of product structure adjustments, shifting its attention towards high-end products, for better resilience against future risks and to meet customers' need for higher quality. To achieve stability in workforce, apart from an adjustment in wages and remunerations, the hi-tech manufacturing business arm also resorted to such improvement and investment deemed necessary in catering, accommodation and working conditions, which effectively maintained the stability of the team of chief staff.

New materials

Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) (“Shenzhen Rayitek”), a subsidiary of the Company, is a hi-tech company that specializes in research, manufacture and sale of polyimide films and related composite materials. Shenzhen Rayitek predominantly engages in manufacturing of polyimide films that used as insulation for electrical machineries and cable wrapping materials. Following its commencement of operation in 2011, Shenzhen Rayitek's polyimide film production line was on track to sustainable operation. In the first half of 2012, Shenzhen Rayitek recorded a sales revenue of approximately HK\$21,575,000.

Aerospace service

Hi-tech property

Piling work in Shenzhen Aerospace Science & Technology Plaza has substantially completed. Currently, there are various design-related items and tender invitation procedures underway for this project. In order to facilitate the marketing activities after completion of the project in future, a professional advisory team had been engaged to conduct in-depth study in market positioning and preliminary market development of this project, and prepare promotional materials for the project. As at 30 June 2012, valuation of the development in construction and land use rights of Shenzhen Aerospace Science & Technology Plaza amounted to approximately RMB1,581,000,000.

Land expropriation process in respect of the Complex Zone of the Launching Site in Hainan Province has been almost completed. Preliminary preparation for the construction of the Complex Zone and the related resettlement zone were proceeding as scheduled, of which temporary permit for the planning of the construction works in the resettlement zone project had been granted, while preliminary preparation works such as overall planning, detailed site planning, and municipal planning and design were substantially completed. Turning to Hainan Space Park, project planning and design have been commenced, and a professional advisory firm will be engaged to provide overall development operation study and detailed feasibility study in respect of the project.

Internet of things

The Company conducts its business of internet of things through Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) (“Aerospace Digitnexus”). Established in May 2011, Aerospace Digitnexus has by now completed most of its initial setup procedures. It also achieved a solid progress in construction of an internet of things software platform and marketing of closed-loop system integration.

PROSPECT

Debt crisis in Europe and the U.S. will continue to raise concerns to the market for a prolonged period. Economic prospect in the second half of this year remains gloomy. The hi-tech manufacturing business is expected to be materially and adversely affected by, among others, rising costs and volatile overseas and

domestic markets. The Company will conduct the hi-tech manufacturing business in line with its market positioning of focusing on high-end customers, adopting sophisticated measures to minimize wastage and reduce expense, upgrading its technologies to constantly promote sustainable development and competency, and strengthening its infrastructure for overall quality upgrade of the hi-tech manufacturing business, with an aim to maintain steady business development.

As for the business of new materials, Shenzhen Rayitek will refine its existing production technology of high-performance polyimide films in order to further enhance the quality of products and production capacity. Intensified effort will be directed towards marketing and sales by Shenzhen Rayitek along with progressive expansion in production capacity and acceleration in business growth. In recent years, the rise to prominence of information technology and flat panel display industries have driven the market development of flexible copper clad laminate and related auxiliary materials. Electronic engineering (electronic grade) polyimide film is used as key material for electronic products such as integrated circuits, flat panel displays and electronic labels. It is expected that polyimide film will play a vital role in the emerging electronic product application segment. Shenzhen Rayitek will, according to market development trend, expand its existing electrical grade film business into electronic grade film market in order to extend its reach in domestic market and to improve profit margins.

The construction plan of Shenzhen Aerospace Science and Technology Plaza will be implemented as scheduled. As the piling work has generally been completed, construction of the basement structure will be commenced soon. Hainan Aerospace has resolved to complete the land expropriation as soon as practicable, and it will continue to optimize the planning and design of Hainan Space Park construction project. On the other hand, Hainan Aerospace will look for joint development of the project with strategic partners. The Company will pay close attention to the impact of the PRC's macroeconomic regulations and control to the project and will implement appropriate risk management measures in a timely manner when necessary.

Further perfecting work on development for the internet of things software platform during this year is planned. In terms of market expansion, in response to the need of potential customers, Aerospace Digitnexus will offer solutions for emergency alert system, inventories, transportation and logistics management, and fixed asset management, and will strive to secure sales contracts for projects with potential customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Results performance

The unaudited turnover of the Company and the subsidiaries for the six months ended 30 June 2012 was HK\$1,227,611,000, representing an increase of 22% as compared with that of HK\$1,007,786,000 for the same period of 2011. The profit for the period was HK\$119,588,000, representing a decrease of 53% as compared with that of HK\$254,703,000 (being adjusted and restated) for the same period of 2011.

Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company was HK\$96,869,000, representing a decrease of 51% as compared with that of HK\$198,033,000 (being adjusted and restated) for the same period of 2011. The decrease in profit was mainly due to the amount of the gain in the fair value of investment properties was less than that of the same period of 2011.

Based on the issued share capital of 3,085,022,000 shares during the period, the basic earnings per share was HK\$0.0314, representing a decrease of 51% as compared with that of HK\$0.0642 (being adjusted and restated) for the same period of 2011.

Results of each core business

Core businesses of the Company and the subsidiaries are hi-tech manufacturing and aerospace services.

The turnover of the hi-tech manufacturing is the main source of the Company's turnover and contributes a significant profit and cashflow. The Company is gradually developing the business of aerospace services and other new businesses in recent years. These include the hi-tech property and the strategic emerging industry representing by new materials and internet of things, so as to achieve the Company's new development target and minimize single business risk.

Hi-tech Manufacturing

Hi-tech manufacturing

The turnover of the hi-tech manufacturing for the six months ended 30 June 2012 was HK\$1,205,051,000, representing an increase of 20% as compared with the same period of 2011; the operating profit was HK\$118,629,000, representing an increase of 22% as compared with the same period of 2011.

Under the environment of global economic downturn in the first half of 2012, the hi-tech manufacturing businesses are facing the pressures of technology advancement, keen competition and increase in cost. Starting from 2012, the hi-tech manufacturing businesses have adjusted their product structures and gradually transform into high end one, so as to enhance the capability to risk resistance and to satisfy customers' continued requirements on better quality. The hi-tech manufacturing businesses also keeps on strengthening their marketing development, visiting customers frequently and adopting measures to enhance the market share, and are promoting meticulous management comprehensively, of which further save energy, reduce unnecessary consumption, reduce costs and enhance efficiency are encouraged, so as to control the costs. The results of the hi-tech manufacturing are shown below:

	<u>Turnover</u> <u>(HK\$'000)</u>			<u>Operating Profit</u> <u>(HK\$'000)</u>		
	First half of 2012	First half of 2011	Changes (%)	First half of 2012	First half of 2011	Changes (%)
Plastic Products	451,218	389,242	16	32,011	29,293	9
Printed Circuit Boards	246,584	213,731	15	48,795	42,083	16
Intelligent Chargers	345,664	253,982	36	20,880	16,732	25
Liquid Crystal Display	154,745	143,659	8	6,308	5,816	8
Industrial Property Investment	6,840	6,131	12	10,635	3,316	221
Total	<u>1,205,051</u>	<u>1,006,745</u>	20	<u>118,629</u>	<u>97,240</u>	22

In the second half of 2012, the hi-tech manufacturing is still facing the issues of cost increment, overseas market fluctuations and downturn in global economy. The Company will continue to strengthen the management, enhance productivity, control cost and recover receivables, so as to ensure the hi-tech manufacturing to have a stable growth continuously.

New materials

The Company, through its subsidiary CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司), completed an acquisition of a 55% equity in Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek") in August 2011, which mainly engages in business related to polyimide film products.

In the first half of 2012, the turnover of Shenzhen Rayitek was HK\$21,575,000 and an operating loss of HK\$1,922,000 was recorded. An impairment loss of HK\$23,000,000 was also recognised in relation to goodwill arising on acquisition.

Since being put into operation last year, Shenzhen Rayitek continues to improve its existing production technology in the first half of 2012. In the second half of the year, Shenzhen Rayitek will further improve its product quality and production capacity and expand its marketing development and sales in order to speed up its business development.

Aerospace Services Business

The Complex Zone of the Launching Site in Hainan Province

In the first half of 2012, Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) (“Hainan Aerospace”) continued to assist the government in the rest of land expropriation and had completed most of the land expropriation. In relation to the construction of resettlement zone, a temporary permit for the planning of construction works had been obtained, the preliminary works such as the master plan, the implementation plan of the construction works, and the planning and design of urban facilities and so on had been completed as well, and the preliminary construction works such as application for the use of resettlement zone are underway at present. Simultaneously, Hainan Aerospace strengthened its force to discuss the possibilities of cooperation with several potential investors. In the second half of the year, Hainan Aerospace will continue all those related works and discuss the cooperation with potential investors aggressively.

Hainan Aerospace recorded a loss of HK\$538,000 in the first half of 2012, which was mainly the payment of the cost of preparatory work and administrative expenses and professional fees etc..

Shenzhen Aerospace Science & Technology Plaza

In the first half of 2012, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科技投資管理有限公司) (“Shenzhen Aerospace”) continued to implement the piling works, completed the design of several construction drawings, and tendered for the remaining construction works. In the second half of the year, Shenzhen Aerospace will continue those construction works, design and tendering, and commence the construction works above the ground level.

Shenzhen Aerospace recorded a fair value gain of investment property of HK\$100,538,000 in the first half of 2012. As of 30 June 2012, the property under construction and land use right of Shenzhen Aerospace Science & Technology Plaza was estimated at approximately RMB1,581,000,000.

Internet of things

The Company has set up Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) (“Aerospace Digitnexus”) in 2011, which mainly engages in the business of system integration of internet of things and provides comprehensive and systematic solutions to meet customer demands.

In the first half of 2012, Aerospace Digitnexus recorded a loss of HK\$5,163,000, which was mainly the payment of the cost of preliminary preparation and administrative and professional fees etc..

In the first half of 2012, Aerospace Digitnexus progressed well in the research of software platform. It had already completed the development of software design and most of the modeling. In terms of business development, Aerospace Digitnexus had worked out with several government departments, schools and enterprises in forestry alarm system, academic demonstration platform and management platform. In the second half of the year, Aerospace Digitnexus will speed up the works on obtaining software platform certification, patent right application and developing target markets aggressively.

Assets

As at 30 June 2012, the unaudited total assets of the Company and the subsidiaries were HK\$6,086,259,000, of which the non-current assets were HK\$4,136,439,000, representing an increase of 4% as compared with that of HK\$3,994,652,000 as at 31 December 2011. The current assets were HK\$1,949,820,000, representing an increase of 1% as compared with that of HK\$1,922,948,000 as at 31 December 2011. The increase in non-current assets was mainly due to an increase in the gain in the fair value of investment properties. The increase in current assets was mainly due to an increase in inventory and receivables brought about by an increase in sales correspondingly. The equity attributable to shareholders of the Company was HK\$3,917,986,000, representing an increase of 1% as compared with that of

HK\$3,863,672,000 (being adjusted and restated) as at 31 December 2011. Based on the issued share capital of 3,085,022,000 shares in the period, the net assets per share attributable to shareholders of the Company was HK\$1.27.

As at 30 June 2012, cash deposit of the Company and the subsidiaries of approximately HK\$24,606,000 had been pledged to banks to obtain credit facilities, Shenzhen Rayitek had pledged its plant and equipment, land use right and buildings at the carrying value of HK\$99,863,000, HK\$28,675,000 and HK\$28,592,000 respectively to a bank and a financial institution to secure general banking facilities, and Shenzhen Aerospace had obtained a syndicated loan by securing the investment properties at value of RMB1,581,000,000 to a syndicate comprising banks and a financial institution.

Liabilities

As at 30 June 2012, the total liabilities of the Company and the subsidiaries were HK\$1,500,443,000, of which the non-current liabilities were HK\$471,904,000, representing an increase of 11% as compared with that of HK\$425,085,000 (being adjusted and restated) as at 31 December 2011, the current liabilities were HK\$1,028,539,000, representing an increase of 5% as compared with that of HK\$976,396,000 as at 31 December 2011. The increase in non-current liabilities was mainly due to an increase in the outstanding amount of the syndicated loan by Shenzhen Aerospace and an increase in deferred tax, whereas the increase in current liabilities was mainly due to an increase in payables brought about by an increase in purchases correspondingly, an increase in dividend payables, and an increase in accruals and tax payables etc.. As at 30 June 2012, the Company and the subsidiaries had bank and other borrowings of HK\$206,227,000.

Shenzhen Aerospace, a subsidiary of the Company, entered into a syndicated loan agreement of RMB1,500,000,000 with a syndicate of financial institutions in January 2011 for the payment of construction costs of the Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction works, the construction costs will increase significantly. Shenzhen Aerospace will gradually drawdown the loan to pay the construction costs. Therefore, the relevant bank debt will gradually increase. As at 30 June 2012, Shenzhen Aerospace had drawn down the loan in the amount of RMB36,100,000.

Operating expenses

The administrative expenses of the Company and the subsidiaries in the first half of 2012 were HK\$148,130,000, representing an increase of 19% as compared with the same period of 2011, which was mainly due to the development of new business, increase in both human resources expenses and research and development cost. The financial costs amounted to HK\$8,565,000, of which HK\$1,196,000 and HK\$4,456,000 had been capitalized and recorded as the construction costs of Shenzhen Aerospace Science and Technology Plaza and the land development cost of the Hainan project respectively.

Contingent liabilities

As at 30 June 2012, the Company and the subsidiaries did not have any other material contingent liabilities.

Financial ratios

	<u>30 June 2012</u>	<u>30 June 2011 (restated)</u>
Gross Profit Margin	19.45%	19.99%
Return on Net Assets	2.61%	5.90%
	<u>30 June 2012</u>	<u>31 December 2011 (restated)</u>
Assets Liabilities Ratio	4.06	4.22
Current Ratio	1.90	1.97
Quick Ratio	1.62	1.73

The financial ratios of the Company and the subsidiaries were in satisfactory level. This was resulted from the Company and the subsidiaries' policies of continuous assets optimization, strengthened management and business development in recent years.

Liquidity

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities. The free cash and bank balance as at 30 June 2012 amounted to HK\$989,464,000, the majority of which were in Hong Kong Dollars and Renminbi.

Capital expenditure and investment commitment

As at 30 June 2012, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the condensed consolidated financial statements was HK\$1,097,884,000, mainly for the capital expenditure of the construction of Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction of Shenzhen Aerospace Science & Technology Plaza, Shenzhen Aerospace will draw down the syndicated loan by stages to settle related construction costs.

The participation in the land development project of the Complex Zone of the Launching Site in Hainan Province by the Company and the relevant subsidiaries have involved a commitment of RMB1,200,000,000. The Company will invest in Hainan Aerospace by stages, while Hainan Aerospace will be responsible for implementing the land development project.

Dividend

The Board had proposed the distribution of 2011 final dividend of HK\$0.01 per share in March 2012, which was approved by shareholders at the annual general meeting held in June 2012, warrants of which were dispatched to all shareholders on 12 July 2012.

The Board decided not to distribute an interim dividend.

Financial risks

The Company and the subsidiaries review the 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 remuneration policy of the Company and the subsidiaries is based on the employee's qualifications, experience and performance on the job, with reference to the current market situation. The Company and the subsidiaries will continue to upgrade the level of human resources management, and strictly implement the performance-based appraisal system, in order to motivate employees to make continuous improvement in their individual performance and contributions to the Company.

The Remuneration Committee takes the role of advisory and proposes to the Board on the emoluments of the Directors with regard to the operating results of the Company, the individual performance and the comparable market information.

As at 30 June 2012, the Company and the subsidiaries had a total of approximately 7,280 employees based in the Mainland China and Hong Kong respectively.

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

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the first half of 2012.

CORPORATE GOVERNANCE

For the six months ended 30 June 2012, the Company had complied throughout the period with the provisions of the *Corporate Governance Code and Corporate Governance Report* as set out in Appendix 14 of the Listing Rules.

DIRECTORS' AND EXECUTIVE'S INTERESTS IN SHARES

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

As at 30 June 2012, save as disclosed below, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers*.

<u>Name</u>	<u>Capacity</u>	<u>Number of shares Interested (long position)</u>	<u>Percentage of issued share capital</u>
Leung Sau Fan, Sylvia	Director	130,000	0.004%

AUDIT COMMITTEE

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

The Audit Committee of the Company reviewed, discussed and approved this 2012 unaudited interim report that had been reviewed by the auditors, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company currently has a membership comprising two Independent Non-Executive Directors, Ms Leung Sau Fan, Sylvia (Chairman) and Mr Wang Junyan, and a Non-Executive Director, Mr Chen Xuechuan. The Remuneration Committee takes the role of advisory and proposes to the Board on the emoluments of the Directors with regard to the operating results of the Company, the individual performance and the comparable market information.

NOMINATION COMMITTEE

The Nomination Committee of the Company currently has a membership comprising three Independent Non-Executive Directors, Mr Luo Zhenbang, Mr Wang Junyan and Ms Leung Sau Fan, Sylvia, and two Non-Executive Directors, Mr Zhang Jianheng (Chairman) and Mr Chen Xuechuan. The responsibilities of

the Nomination Committee are to review the structure, the number of members and its composition for the execution of the Company's policy.

CONNECTED TRANSACTION

On 4 May 2012, Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek"), an indirect 55%-owned subsidiary of the Company, entered into the Loan Agreement with Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance"), a connected person of the Company, pursuant to which Aerospace Finance shall provide an one-year loan in the sum of RMB60,000,000 to Shenzhen Rayitek. As security for the loan, Shenzhen Rayitek will charge its land use right, buildings, and plant and equipment in favour of Aerospace Finance. In addition, CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司), a wholly-owned subsidiary of the Company and the direct holding company of Shenzhen Rayitek, will provide the Guarantee in respect of all amounts outstanding under the Loan Agreement in favour of Aerospace Finance. As Aerospace Finance is a connected person of the Company and accordingly, the transactions contemplated under the Loan Agreement and the Guarantee constitute connected transactions of the Company. Details of which please refer to the Company's announcement made on 4 May 2012.

Independent Non-Executive Directors of the Company had reviewed the above connected transaction and confirmed that the connected transaction had been entered into on normal commercial terms and are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

APPRECIATION

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

By order of the Board
Zhang Jianheng
Chairman

Hong Kong, 24 August 2012

At the date of this Announcement, the Board of Directors of the Company comprises:

Executive Directors

Mr Li Hongjun (*President*)

Mr Jin Xuesheng

Non-Executive Directors

Mr Zhang Jianheng (*Chairman*)

Mr Wu Zhuo (*Vice Chairman*)

Mr Chen Xuechuan

Mr Shi Weiguo

Independent Non-Executive Directors

Mr Luo Zhenbang

Mr Wang Junyan

Ms Leung Sau Fan, Sylvia

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