
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 AND CONNECTED TRANSACTION
IN RELATION TO
THE SUBSCRIPTION OF 50% EQUITY INTEREST IN
HAINAN AEROSPACE INVESTMENT MANAGEMENT COMPANY LIMITED
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 Thursday, 3 January 2013 at 11:00 a.m. is set out on pages N-1 to N-2 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.

11 December 2012

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DEFINITIONS

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

“associates”	has the same meaning as defined in the Listing Rules;
“Beijing Tianjian Xingye”	Beijing Tianjian Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司), a qualified assets valuer commissioned by the parties to the Subscription Agreement;
“Board”	the Board of Directors of the Company;
“CASC”	China Aerospace Science & Technology Corporation, a state-owned enterprise established in the PRC. As of the Latest Practicable Date, it held a 38.37% shareholding in the Company and is a controlling shareholder of the Company;
“CASIL Hainan”	CASIL Hainan Holdings Limited (航天海南控股有限公司), an indirect wholly-owned subsidiary of the Company established in Hong Kong as a limited liability company;
“CDB Capital”	China Development Bank Capital Corporation Ltd.* (國開金融有限責任公司), a company incorporated under the laws of the PRC and a wholly owned subsidiary of China Development Bank Corporation, or its controlled investment vehicle;
“CGWIC”	China Great Wall Industry Corporation* (中國長城工業集團有限公司), a state-owned enterprise established in the PRC and a wholly-owned subsidiary of CASC;
“CGWIC Subscription”	the subscription by CGWIC for 25% of the enlarged registered capital of the Project Company at RMB312,720,000 pursuant to the Subscription Agreement;
“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 of Hong Kong Limited;
“Director(s)”	the Directors of the Company;
“Extraordinary General Meeting”	the extraordinary general meeting to be convened by the Company at 11:00 a.m. on Thursday, 3 January 2013, the notice of which is set out on pages N-1 to N-2 of this Circular;
“Framework Agreements”	the framework agreements entered into between the Company and the Investors respectively on 5 November 2012 in respect of the proposed investment in the Project Company;
“Group”	the Company and the subsidiaries;

DEFINITIONS

“Hainan Expressway”	Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司), a company established in the PRC, whose shares are listed on the Shenzhen Stock Exchange (stock code: 000886);
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$”	Hong Kong dollars, the legal currency of the Hong Kong;
“Independent Board Committee”	an independent committee of the Board comprising Mr Luo Zhenbang, Mr Wang Junyan and Ms Leung Sau Fan, Sylvia, being all the independent non-executive Directors;
“Independent Financial Adviser”	Somerley Limited, a corporation licensed under the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) 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 CGWIC Subscription;
“Independent Shareholders”	all Shareholders excluding CASC and its associates;
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) the Directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates;
“Investors”	collectively referred to CDB Capital and PICC Life Insurance, and “Investor” shall be construed accordingly;
“Latest Practicable Date”	7 December 2012, 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 of Hong Kong Limited;
“New Century”	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 established in the PRC as a limited liability company;

DEFINITIONS

“PICC Life Insurance”	PICC Life Insurance Company Limited* (中國人民人壽保險股份有限公司), a company established under the laws of the PRC and a subsidiary of The People’s Insurance Company (Group) of China Limited;
“PRC”	The People’s Republic of China (for the purpose of this Circular, excluding Hong Kong, the Macao Special Administrative Region and Taiwan);
“Project Company”	Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司), a Sino-foreign equity joint venture company incorporated in the PRC, held as to 65% by CASIL Hainan and 35% by New Century, respectively;
“RMB”	Renminbi, the legal currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong);
“Share(s)”	the ordinary share(s) of par value of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription by each of Hainan Expressway and CGWIC of 25% of the enlarged registered capital of the Project Company pursuant to the Subscription Agreement, which results in a reduction of the indirect equity interest of the Company in the Project Company from 100% to 50%; and
“Subscription Agreement”	the subscription agreement entered into between CASIL Hainan, New Century, Hainan Expressway and CGWIC on 5 November 2012 in respect of the Subscription.

For the purpose of this Circular, the exchange rate of RMB:HK\$ is RMB1:HK\$1.23. Such exchange rate does not constitute a representation that any amounts have been, could have been, or may be exchanged at such or any other rates.

** 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 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

Registered Office:

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

11 December 2012

To the shareholders of the Company,

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE SUBSCRIPTION OF 50% EQUITY INTEREST IN
HAINAN AEROSPACE INVESTMENT MANAGEMENT COMPANY LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

On 5 November 2012, the Board announced that:

- (a) CASIL Hainan, New Century, Hainan Expressway and CGWIC entered into the Subscription Agreement in relation to the Subscription, being the conditional subscription by each of Hainan Expressway and CGWIC of 25% equity interest in the Project Company (as enlarged by the subscriptions) at RMB312,720,000, both subscriptions shall be satisfied in cash; and

LETTER FROM THE BOARD

- (b) the Company and the CDB Capital and PICC Life Insurance entered into the Framework Agreements respectively in relation to their proposed investment in the Project Company.

The purpose of this Circular is to provide you with, among other things, (1) further details of the Subscription; (2) the letter from the Independent Board Committee, (3) the letter from the Independent Financial Adviser to both the Independent Board Committee and the Independent Shareholders; (4) a valuation report on the Project Company; and (5) the notice of Extraordinary General Meeting.

THE SUBSCRIPTION AGREEMENT

Date

5 November 2012

Parties

- (1) CASIL Hainan, an indirect wholly-owned subsidiary of the Company;
- (2) New Century, a direct wholly-owned subsidiary of the Company;
- (3) Hainan Expressway; and
- (4) CGWIC, a wholly-owned subsidiary of CASC.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Hainan Expressway is an Independent Third Party.

Subscription

The subscription of 25% of the enlarged registered capital of the Project Company by each of Hainan Expressway and CGWIC, respectively, which results in a reduction of the equity interests in the Project Company of (i) CASIL Hainan from 65% to 32.5%; and (ii) New Century from 35% to 17.5%, thereby reducing the aggregate indirect equity interest of the Company from 100% to 50%.

Upon completion of the Subscription, i.e. the date of registration with the relevant administration of industry and commerce, the enlarged registered capital of the Project Company will be increased from RMB600,000,000 (equivalent to HK\$738,000,000) to RMB1,200,000,000 (equivalent to HK\$1,476,000,000).

Consideration

The subscription price is RMB1.0424 per share of the registered capital, based on the valuation of the Project Company as at 30 September 2012 conducted by Beijing Tianjian Xingye. No adjustment will be made with respect to any gain or loss of the Project Company between 30 September 2012 and the date of registration with the relevant administration of industry and commerce.

LETTER FROM THE BOARD

Given that the interest in the Project Company constitutes a State-Owned asset, a qualified assets valuer, Beijing Tianjian Xingye, was appointed by the parties to value the Project Company. The valuation of the Project Company was made in accordance with the rules and regulations of valuation of state-owned assets.

As set out in the valuation report in Appendix II to this Circular, as at 30 September 2012, the valuation of the Project Company as valued by Beijing Tianjian Xingye was approximately RMB625,467,700 (equivalent to approximately HK\$769,325,271) or RMB1.0424 (equivalent to approximately HK\$1.2822) per share. The consideration represents an increment of 8.90% above the net book value of the Project Company as at 30 September 2012.

Each of Hainan Expressway and CGWIC shall pay the subscription monies, being RMB312,720,000, in cash within 30 days after the Subscription Agreement becomes unconditional.

Conditions precedent

The Subscription Agreement will not become effective until it is signed or stamped by the parties to the Subscription Agreement and relevant approvals are obtained by the parties to the Subscription Agreement, subject to regulated procedures. The Company is required to obtain the Independent Shareholders' approval at the Extraordinary General Meeting. Hainan Expressway is required to obtain shareholders' approval at its general meeting. CGWIC is required to obtain its directors' approval.

As at the Latest Practicable Date, Hainan Expressway is in the process of obtaining its approvals and CGWIC has obtained its relevant approvals.

Right of Hainan Expressway

If within 6 months from the date of the Subscription Agreement that there are subscriptions of the registered capital of the Project Company by other investors, Hainan Expressway is entitled to further subscribe at the same consideration as the current subscription, subject to a maximum additional registered capital of RMB300,000,000.

Composition of the board of directors, board of supervisors and management of the Project Company

The board of directors of the Project Company shall comprise of five directors, which shall be nominated by the parties to the Subscription Agreement as follows:

- (a) two directors by CASIL Hainan;
- (b) one director by New Century;
- (c) one director by Hainan Expressway; and
- (d) one director by CGWIC.

LETTER FROM THE BOARD

CASIL Hainan is entitled to nominate the Chairman. All decisions of the board of directors of the Project Company require the approval of over half of its board of directors.

The board of supervisors of the Project Company shall comprise of five supervisors. Each of the parties to the Subscription Agreement shall be entitled to nominate one supervisor and the remaining one supervisor shall be the employees' representative of the Project Company. The Chairman of the board of supervisors shall be elected by the majority of the supervisors.

The management of the Project Company shall be responsible for the daily operations. The posts of general manager, deputy general managers and financial controller shall be recommended by all shareholders or publicly recruited.

Termination or amendment

If

1. there occurs an event of force majeure; or
2. the relevant authorisations and approvals for the Subscription have not been obtained; or
3. any material breach of the Subscription Agreement by any of the parties to the Subscription Agreement which results in the purpose of the transactions contemplated under the Subscription Agreement cannot be achieved; or
4. the parties to the Subscription Agreement agree to the termination of or changes in the agreement due to the occurrence of a material adverse change,

the Subscription Agreement shall be terminated or amended, as the case may be.

Governing law

The Subscription Agreement is governed by the laws of the PRC.

THE FRAMEWORK AGREEMENTS

The Company entered into a framework agreement with each of CDB Capital and PICC Life Insurance on 5 November 2012. These framework agreements are agreements to agree. The subscriptions by CDB Capital and PICC Life Insurance are subject to the terms of the relevant subscription agreements to be negotiated and entered into respectively. As CDB Capital and PICC Life Insurance are Independent Third Parties, the subscription agreements when entered into will not constitute connected transactions of the Company but may constitute possible notifiable transactions of the Company. The Company will comply with the relevant requirements of the Listing Rules on its disclosure obligations when such subscriptions agreements are entered into.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, CDB Capital and PICC Life Insurance are Independent Third Parties.

LETTER FROM THE BOARD

Under the framework agreement with CDB Capital, CDB Capital has an intent to invest approximately RMB600,000,000. There is no stipulation of any intended amount of investment in the framework agreement with PICC Life Insurance.

Consideration

The subscription price per share will be based on the valuation to the Project Company as at 30 September 2012 conducted by Beijing Tianjian Xingye. No adjustment will be made in respect of any gain or loss of the Project Company between 30 September 2012 to the date of registration with the relevant administration of industry and commerce.

The consideration for the subscription shall be paid in cash.

Conditions precedent

The Framework Agreements will become effective upon the relevant approvals (including but not limited to the approvals of the board of directors or the shareholders) being obtained by all parties thereunder.

Rights and obligations of the Company

The Company warrants, amongst others, that after the signing of the Framework Agreements and prior to the signing of investment agreements with the Investors, the Company shall procure the Project Company not to enter into any material contracts (with contractual amount of RMB200,000 or above), any material changes in its human resources and such other material events. If such events are necessary for the business operations of the Project Company, the Company shall communicate with the Investors in advance.

Organisation structure

After the capital increment, the Company, via CASIL Hainan and New Century, together with Hainan Expressway, CGWIC, CDB Capital and PICC Life Insurance shall be the shareholders of the Project Company. Each of them shall be entitled to the rights and obligations as a shareholder of the Project Company in accordance with the Company Law of the PRC, the amended Articles of Association of the Project Company and such other relevant legislation and regulations.

The number of directors and supervisors for the board of directors and the board of supervisors, the number of directors and supervisors to be nominated by each of the shareholders shall be in accordance with their respective shareholding proportion. The Chairman shall be nominated by the Company.

The management team shall comprise of nominees recommended by the shareholders and persons recruited publicly, who shall be appointed by the new board of directors to be established.

LETTER FROM THE BOARD

The Articles of Association of the Project Company shall be amended at the shareholders' meeting to be held within 10 days after full payment of capital contributions by the CDB Capital and PICC Life Insurance, respectively.

Other requirements

Each of the Investors shall enter into an investment agreement for the Project Company within 6 months from the date of their respective Framework Agreement. If any of the Investors fails to complete the subscription within the specified period, their respective Framework Agreement shall lapse.

REASONS AND BENEFITS FOR ENTERING INTO THE SUBSCRIPTION

The Project Company is responsible for implementation of the strategic cooperation between The People's Government of Hainan Province and CASC, which is the controlling shareholder of the Company, in respect of the development of the Complex Zone of the Launching Site (the "Project").

CASIL Hainan is a wholly-owned subsidiary of the Company incorporated in Hong Kong. It entered into a Land Development Agreement on 20 August 2008 with the Wenchang Government in relation to the land development of the Complex Zone of the Launching Site, pursuant to which the development work shall be carried out by the Project Company. Please refer to the announcement published by the Company on 20 August 2008 for details.

As of the Latest Practicable Date, the Company and the Project Company have contributed significant effort on the fundamental work. Given the abundant fund strength of the new investors, it is expected that the Company and the new investors will make use of their respective competitive advantages and explore a new model of cooperation and development that leads to the successful completion of the Project, so as to build up a long term strategic investors relation through this cooperation.

INFORMATION ON THE PARTIES TO THE SUBSCRIPTION AGREEMENT AND THE FRAMEWORK AGREEMENTS

The Company

The Company is an investment holding company. Its subsidiaries are principally engaged in the business of hi-tech manufacturing and aerospace service.

Hainan Expressway

The principal activities of Hainan Expressway include expressway construction and maintenance management, development and sale of real estate, and comprehensive development of tourism services in Hainan Province.

LETTER FROM THE BOARD

CGWIC

The principal activities of CGWIC include the provision of launch services and the business related to the international co-operation in satellite and space technology.

CASIL Hainan

CASIL Hainan is an indirect wholly-owned subsidiary of the Company and is the principal developer of the Project.

New Century

New Century is a direct wholly-owned subsidiary of the Company and is principally engaged in the investment holding business.

CDB Capital

CDB Capital is a wholly-owned subsidiary of China Development Bank Corporation and is principally engaged in the businesses of private equity fund, direct investment, investment advisory and financial advisor.

PICC Life Insurance

PICC Life Insurance is a subsidiary of The People's Insurance Company (Group) of China Limited and is principally engaged in the businesses of various insurances and investments.

INFORMATION ON THE PROJECT COMPANY

CASIL Hainan entered into a Land Development Agreement on 20 August 2008 with the Wenchang Government in relation to the land development of the Complex Zone of the Launching Site, pursuant to which the development work shall be carried out by the Project Company. Please refer to the announcement published by the Company on 20 August 2008 for details.

Progress and status of the development project in the Complex Zone of the Launching Site as at 30 September 2012

(1) Land requisition

The area of the Complex Zone project is 6,048 mu. As of 30 September 2012, most of the compensation agreements on land requisition and compensation agreements on crops have been entered into and most of the compensation have been made accordingly.

LETTER FROM THE BOARD

(2) Construction of resettlement zone

According to the spirit of the meeting dated 17 March 2011 between CASIL Hainan and the Committee on Coordination of Wenchang City* (文昌市委協調會), the transfer of the results of the work with the Housing and Building Bureau of Wenchang City* (文昌市住建局) has been completed. Discussions on the detailed constructive planning of the resettlement zone are made with the former planning and design unit. Conditional upon the assurance of the quality of the construction works, costs are effectively reduced. Assessment and review are conducted on each of the norms for the construction units determined by the former Housing and Building Bureau, and the summary of the assessment and review has been submitted to the municipal government.

The preparation of a series of guiding documents, including the “working plan on the construction of the resettlement zone project”, the “implementation program on the construction of the resettlement zone project” and the “implementation planning on construction of temporary facilities, water supply and electricity supply in the resettlement zone, have been completed.

A temporary permit has been obtained for the planning on the construction works of the resettlement zone.

In relation to the construction works of the resettlement zone, land surface clean-up, land leveling, temporary roads, temporary water supply and electricity facilities as well as fence construction work have been commenced in early October 2012. The construction work of part of the land leveling and the construction works of the temporary facilities in the resettlement zone have been completed at present.

The shareholding of the Project Company prior to and after the completion of the Subscription is shown as below:

Investor	Registered capital prior to completion of the Subscription		Registered capital after completion of the Subscription	
	RMB ('000)	%	RMB ('000)	%
CASIL Hainan	390,000	65.00	390,000	32.50
New Century	210,000	35.00	210,000	17.50
Hainan Expressway	0	0	300,000	25.00
CGWIC	0	0	300,000	25.00
	<u>600,000</u>	<u>100.00</u>	<u>1,200,000</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

Pursuant to the Subscription Agreement, if within 6 months from the date of the Subscription Agreement that there are subscription of registered capital of the Project Company by other investors, Hainan Expressway is entitled to further subscribe at the same consideration as the current subscription, subject to a maximum additional registered capital of RMB300,000,000.

Save as disclosed above, as at the Latest Practicable Date, the Company and the relevant subsidiaries did not anticipate to further dispose its equity interest in the Project Company after the investment agreements are entered into.

FINANCIAL INFORMATION OF THE PROJECT COMPANY

The following is the audited financial information of the Project Company for the two years ended 31 December 2011 immediately preceding the date of the Subscription Agreement:

	For the year ended 31 December 2010 RMB'000	For the year ended 31 December 2011 RMB'000
Turnover	—	—
Loss before taxation	12,349	6,854
Loss after taxation	12,353	6,854
Net asset value	582,882	576,028

FINANCIAL EFFECT OF THE SUBSCRIPTION

Upon the completion of the Subscription, it is expected that the Company will accrue a gain of approximately HK\$95,000,000 and the Project Company will cease to be an indirect wholly owned subsidiary of the Company and will become a jointly controlled entity of the Group.

The total assets and total liabilities of the Company and the subsidiaries are expected to decrease immediately after completion of the Subscription, which is mainly due to the entire accounts of the Project Company will not be consolidated into that of the Company as subsidiary but incorporated in the Company's consolidated accounts by equity method as jointly controlled entity.

USE OF PROCEEDS

The net proceeds from the Subscription will be applied as working capital of the Project Company.

LETTER FROM THE BOARD

IMPLICATION OF THE LISTING RULES

As certain of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules exceed 25% but less than 75%, the Subscription (together with the granting of the right to Hainan Expressway to subscribe for a maximum of registered capital of RMB300,000,000) is a deemed disposal and constitutes a major transaction for the Company under the Listing Rules. Moreover, CGWIC, being a wholly-owned subsidiary of CASC, which in turn is the controlling shareholder of the Company beneficially interested in 1,183,598,636 Shares (representing approximately 38.37% of the issued share capital of the Company) as at the Latest Practicable Date, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the CGWIC Subscription constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules which shall be subject to the Independent Shareholders' approval at the EGM and CASC and its associates will be required to abstain from voting in respect of the resolution approving the CGWIC Subscription.

In the event that an investment agreement is entered into with CDB Capital or PICC Life Insurance within 6 months from the date of the Subscription Agreement, such subscription together with the Subscription shall be aggregated pursuant to Rule 14.22 of the Listing Rules and will likely to constitute a very substantial disposal of the Company as the consideration percentage ratio will exceed 75%. In such circumstances, the Company shall comply with the reporting, announcement and shareholders approval requirement in respect of the latter subscriptions under Chapter 14 of the Listing Rules.

EXTRAORDINARY GENERAL MEETING

The notice of the Extraordinary General Meeting is set out on pages N-1 to N-2 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 resolution to be proposed at the Extraordinary General Meeting will be voted by way of a poll by the Independent Shareholders. As of the Latest Practicable Date, CASC held a 38.37% shareholding in the Company. CASC and its associates shall abstain from voting on the ordinary resolution 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 terms of the Subscription Agreement are on normal commercial terms, which are fair and reasonable and the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Save for Mr Zhang Jianheng, Mr Chen Xuechuan and Mr Shi Weiguo who are the officers of CASC and Mr Wu Zhuo has declared a potential conflict of interest and have abstained from voting on the resolution approving the terms and transactions as contemplated under the Subscription Agreement, none of the Directors has a material interest in the Subscription. As at the Latest Practicable Date, none of Mr Zhang Jianheng, Mr Wu Zhuo, Mr Chen Xuechuan and Mr Shi Weiguo held any interests in the Shares. The Directors recommend that the Independent Shareholders to vote in favour of the ordinary resolution regarding the Subscription to be proposed at the forthcoming Extraordinary General Meeting.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 15 to 16 of this Circular which contains its recommendation to the Independent Shareholders on the Subscription and the transactions contemplated thereunder.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 17 to 28 of this Circular which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Circular.

By order of the Board
Zhang Jianheng
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)

11 December 2012

To the Independent Shareholders,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE SUBSCRIPTION OF 50% EQUITY INTEREST IN
HAINAN AEROSPACE INVESTMENT MANAGEMENT COMPANY LIMITED**

We refer to the Circular of the Company dated 11 December 2012 (the “Circular”) of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board to consider the terms of the Subscription Agreement and to advise and recommend the Independent Shareholders to vote on the Subscription Agreement at 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 14 of the Circular.

We have considered the various details of the Subscription, 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 Subscription as set out in their letter reproduced on pages 17 to 28 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the information set out in the Letter from the Board and taking into account the advice from Somerley Limited, we consider that the Subscription Agreement was entered into in the ordinary and usual course of business, and the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned and the Subscription (together with granting of the right to Hainan Expressway to subscribe for a maximum of registered capital of RMB300,000,000) is in the interests of the Company and the Shareholders of the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution regarding the Subscription as set out in the notice of the Extraordinary General Meeting.

Luo Zhenbang

Yours faithfully,

Wang Junyan

Leung Sau Fan, Sylvia

Independent Board Committee

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
20th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

11 December 2012

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the subscription by each of Hainan Expressway and CGWIC of equity interests in the Project Company pursuant to the Subscription Agreement dated 5 November 2012. Details of the transaction are set out in the circular of the Company to its shareholders dated 11 December 2012 (the "Circular"), 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.

CGWIC is a wholly-owned subsidiary of CASC, which in turn is the controlling shareholder of the Company, beneficially interested in approximately 38.37% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, CGWIC is a connected person of the Company under the Listing Rules and the CGWIC Subscription constitutes a connected transaction of the Company, which is subject to 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. Since the Subscription, which includes the CGWIC Subscription and the subscription by Hainan Expressway, will result in a dilution in the indirect equity interest of the Company in the Project Company and a de-consolidation of the Project Company in the Company's consolidated financial statements, the Subscription also constitutes a deemed disposal and a major transaction of the Company under the Listing Rules.

The Independent Board Committee comprising all the three independent non-executive Directors, namely Mr Luo Zhenbang, Mr Wang Junyan and Ms Leung Sau Fan, Sylvia, has been formed to advise the Independent Shareholders in respect of the terms of the Subscription Agreement. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 as 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. We have visited the Complex Zone of the Launching Site and held discussions with the management of the Project Company. We have also discussed with Beijing Tianjian Xingye, an independent valuer in the PRC (the “Valuer”), their valuation report as contained in Appendix II to the Circular on which the Subscription price is based. However, we have not conducted any independent investigation into the business and affairs of any of the Company, the Project Company, CASC, or their respective subsidiaries and associates (including CGWIC), nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Subscription 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 Subscription Agreement

(i) Background of the Company and CASC

As at the Latest Practicable Date, the Company is approximately 38.37% owned by its controlling shareholder, CASC, which is a state-owned enterprise under the direct supervision of the government of the PRC. CASC focuses on the development of four core businesses including aerospace system, aerospace service, aerospace technology applications and defense system.

The Company is a commercial arm of CASC engaged mainly in hi-tech manufacturing business, aerospace services and new material business. Although the hi-tech manufacturing business remains the main source of the Company’s consolidated turnover, the Company has been actively engaged in the construction of two property projects, namely (i) the Shenzhen Aerospace Science & Technology Plaza in Shenzhen City, Guangdong Province, and (ii) the Complex Zone of the Launching Site (the “Project”) in Wenchang City, Hainan Province, which is the subject project of the Subscription Agreement.

(ii) Background of the Project Company

CASIL Hainan, an indirect wholly-owned subsidiary of the Company, entered into the Land Development Agreement with the Wenchang Government on 20 August 2008 (the “Land Development Agreement”), pursuant to which it was intended that the area in the vicinity of the launching site in Wenchang City, Hainan Province, would be developed into an aerospace themed zone comprising commercial, residential and resort facilities, namely the Complex Zone of the Launching Site, with a site area of approximately 6,100 mu (the “Land”). Pursuant to the Land Development Agreement, the Wenchang Government shall be responsible for approving plans, demolition and resettlement works while CASIL Hainan will undertake land preparation work for the Complex Zone of the Launching Site and provide the necessary funding. In return, CASIL Hainan shall recover all such development costs and expenses out of proceeds from sale of the Land. It is expected that the Land would be put up for sale in portions. Any surplus after the above recovery (such recovery is estimated to be approximately RMB1,200 million) shall be shared between the Wenchang Government and CASIL Hainan on a 30:70 basis.

The Project Company was later established to undertake all benefits and responsibilities of CASIL Hainan under the Land Development Agreement. At the time of establishment, the Project Company was owned as to 65% by CASIL Hainan and 35% by Aerospace Times Properties Development Limited (“Aerospace Times”), a subsidiary of CASC.

On 4 August 2010, the Property Right Transfer Agreement (the “2010 Agreement”) was entered into between Aerospace Times and New Century, a wholly-owned subsidiary of the Company, pursuant to which New Century purchased the 35% interest of the Project Company from Aerospace Times, such that the Project Company later became wholly-owned by the Company. At the time the 2010 Agreement was entered into, the Company wished to decide at its own initiative flexible strategies in developing the Project.

As explained later in the sub-section below headed “Status of the Project”, the construction of the related resettlement zone for local residents’ relocation, followed by the preparation work for the Land, will commence soon, which would require a large capital commitment in the near term. The Directors are of the view that an investment from strategic investors would facilitate the financing of the above construction and preparation work. Accordingly, on 5 November 2012, the Subscription Agreement was entered into between CASIL Hainan, New Century, and the two strategic investors, namely Hainan Expressway and CGWIC (a wholly-owned subsidiary of CASC), to obtain a capital injection of approximately RMB625.5 million from Hainan Expressway and CGWIC to the Project Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the same date, the Framework Agreements were also entered into between the Company and two other investors, namely CDB Capital and PICC Life Insurance, for a further possible capital injection to the Project Company in due course.

(iii) Status of the Project

The Complex Zone of the Launching Site represents the development of an aerospace themed complex zone comprising commercial, residential and resort facilities, and is regarded as a key development project under the “Hainan International Tourism Island Development Planning Outline” (海南國際旅遊島建設發展規劃綱要). The master plan of the Project has been approved by the provincial government. In November 2010, the detailed control plan relating to the Complex Zone of the Launching Site in Hainan Province was granted official approval from the Wenchang Government.

As advised by the management of the Company, the expropriation process in respect of the Land, which involves the negotiation and signing of the relocation compensation agreements with local residents, is expected to be completed in 2013. This will be followed by the construction of a resettlement zone. Preliminary preparation works relating to the Land such as overall planning, detailed site planning, and municipal planning and design have been substantially completed. As regards the Hainan Space Park, one of the attractions of the Project, the conceptual plan and design has been approved by the Hainan Provincial Tourism Planning Commission, and project planning and design have already commenced.

Up to 30 June 2012, the Project Company has advanced a total amount of approximately RMB488.6 million to the Wenchang Government pursuant to the Land Development Agreement, for the expropriation and resettlement work being carried out by the Wenchang Government for the Project.

(iv) Reasons and benefits for entering into the Subscription Agreement

The Company and its relevant subsidiaries have been directly involved in the development of the Project since the Land Development Agreement was first entered into between CASIL Hainan and the Wenchang Government in August 2008. The Directors consider the Project a key development in its aerospace services business, with good prospects. The Directors further expect that the tourism and commercial activities in Wenchang City, Hainan Province will increase further when the construction of the launching site in Wenchang City, Hainan Province is completed, which will in turn enhance the return of the Project.

As disclosed in the Company’s latest annual and interim reports, it has been the Company’s strategy that the Company would prefer a joint development of the Project with strategic partners. Now that the expropriation process in respect

of the Land is expected to be completed in near term, and the construction of the resettlement zone is expected to commence soon, the Project Company would require significant capital injection for the anticipated construction cost.

Following the completion of the Subscription, the registered capital of the Project Company will be increased from RMB600.0 million to RMB1,200.0 million, and the Company's effective equity interest will be diluted from 100% to 50%. Accordingly, the Project Company would cease to be a subsidiary of the Company and become a jointly controlled entity of the Company. However, as evidenced by the signing of the Framework Agreements with CDB Capital and PICC Life Insurance covering possible further capital injections, the Company is contemplating forgoing its controlling interest in the Project Company in exchange for capital injections and a strategic cooperation with the new investors to facilitate the Project. Taking into account (i) the above-mentioned capital requirements of the Project, (ii) the net cash position of the Company and its subsidiaries, (iii) the aggregate capital commitment of the Company and its subsidiaries, and (iv) the working capital requirements of the existing businesses of the Company and its subsidiaries, we concur with the Directors' view that an introduction of strategic investors to the Project at this stage would ease the financial burdens of the Company, and is a prudent and reasonable approach to the development of the Project.

2. Principal terms of the Subscription Agreement

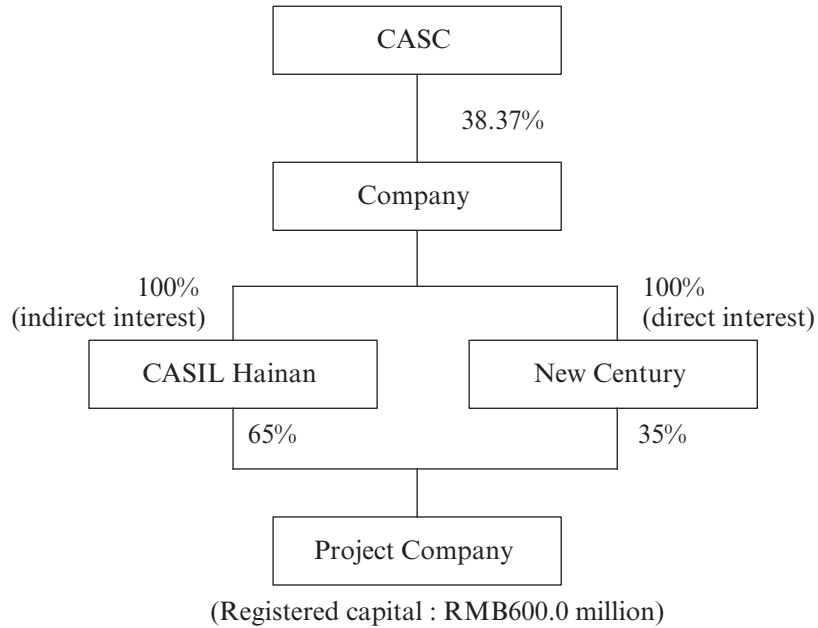
(i) Subject matter

Pursuant to the Subscription Agreement, each of Hainan Expressway and CGWIC (a wholly-owned subsidiary of CASC) would subscribe for a 25% equity interest in the Project Company (as enlarged by the Subscription). Upon completion of the Subscription, the aggregate equity interests of the Project Company held by the Company through its wholly-owned subsidiaries, CASIL Hainan and New Century, will be diluted from 100% to 50%. On the other hand, the registered capital of the Project Company would be increased from RMB600.0 million (or approximately HK\$738.0 million) to RMB1,200.0 million (or approximately HK\$1,476.0 million).

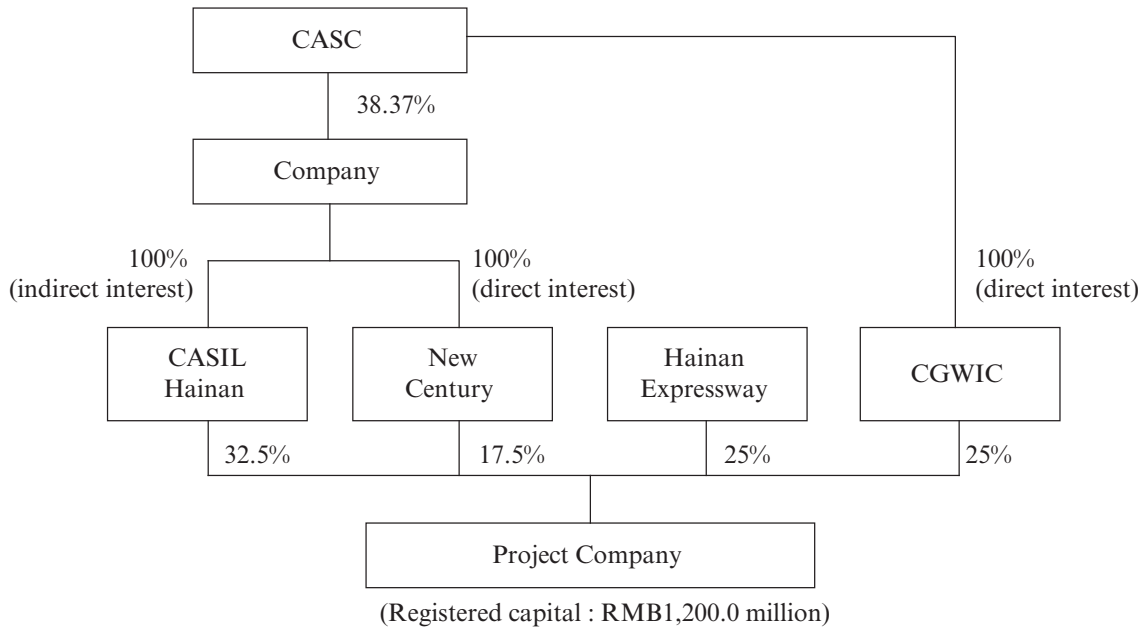
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the simplified shareholding structure of the Project Company as at the Latest Practicable Date and immediately after completion of the Subscription:

As at the Latest Practicable Date:



Immediately after completion of the Subscription:



(ii) Consideration

Pursuant to the Subscription Agreement, the consideration for the Subscription by each of Hainan Expressway and CGWIC is approximately RMB312.7 million (or approximately HK\$384.6 million) for 300.0 million shares (or 25% of the enlarged registered capital). The above consideration has been arrived at based on the valuation of the Project Company as at 30 September 2012 as contained in Appendix II to the Circular prepared by the Valuer. No adjustment will be made with respect to any gain or loss of the Project Company between 30 September 2012 and the date of completion of the Subscription. The above consideration shall be paid in cash by Hainan Expressway and CGWIC within 30 days after the Subscription Agreement becomes unconditional.

(iii) Composition of the board of directors of the Project Company

Following completion of the Subscription, the board of directors of the Project Company shall comprise of five directors, out of which two directors shall be nominated by CASIL Hainan and one director shall be nominated by each of New Century, Hainan Expressway and CGWIC. CASIL Hainan is entitled to nominate the chairman of the board. In other words, the Company is entitled to nominate three out of five directors and the chairman of the board of the Project Company through CASIL Hainan and New Century.

(iv) Rights of Hainan Expressway

If within 6 months from the date of the Subscription Agreement there are subscriptions of the registered capital of the Project Company by other investors, Hainan Expressway is entitled to further subscribe at the same consideration per share as the subscription price pursuant to the Subscription Agreement, subject to a maximum additional injection of registered capital of RMB300.0 million.

(v) Condition precedent

The Subscription Agreement will not become effective until relevant approvals are obtained by the parties to the Subscription Agreement, including but not limited to the approvals from the boards of directors and/or the shareholders, and the necessary regulatory procedures are completed. This includes the requirement of the Company to obtain Independent Shareholders' approval at the Extraordinary General Meeting. As at the Latest Practicable Date, CGWIC has obtained its relevant approvals, while Hainan Expressway is in the process of obtaining its shareholders' approvals.

The terms of the CGWIC Subscription, including the consideration of the Subscription, are substantially the same as the subscription by Hainan Expressway pursuant to the Subscription Agreement, except for the right of Hainan Expressway to subscribe for additional equity interest in the Project Company as mentioned in sub-section (iv) above, which is not enjoyed by CGWIC.

3. Information on the Project Company

(i) Background information of the Project Company

The Project Company was incorporated on 24 November 2008 with the approval of the State Administration for Industry & Commerce of the PRC, and is at present jointly held as to 65% by CASIL Hainan and 35% by New Century respectively, both of which are wholly-owned subsidiaries of the Company. As mentioned in the section above headed “Background to and reasons for entering into the Subscription Agreement”, the Project Company was established to undertake all benefits and responsibilities of CASIL Hainan under the Land Development Agreement. The total investment of the Project Company is estimated to be approximately RMB1,200.0 million, which is the same as the estimated total investment under the Land Development Agreement. The current registered capital of the Project Company is RMB600.0 million, which is fully paid up as at the Latest Practicable Date.

(ii) Financial information of the Project Company

Based on the Project Company’s audited financial statements for the two financial years ended 31 December 2011 and for the nine months ended 30 September 2012 (the “Period”), prepared in accordance with the Generally Accepted Accounting Principles in the PRC, the financial results and financial position of the Project Company are as follows:

(a) Financial results

	For the nine months ended 30 September 2012 RMB'000 (audited)	Financial year ended 31 December 2011 2010 RMB'000 RMB'000 (audited) (audited)	
Revenue	—	—	—
Administrative expenses	(3,364)	(4,104)	(3,036)
Net finance income/(cost)	<u>1,682</u>	<u>(2,740)</u>	<u>(3,303)</u>
Operating loss	(1,682)	(6,844)	(6,339)
Other non-operating expenses	<u>—</u>	<u>(10)</u>	<u>(6,010)</u>
Loss before taxation	(1,682)	(6,854)	(12,349)
Loss after taxation	<u>(1,682)</u>	<u>(6,854)</u>	<u>(12,353)</u>

As advised by the management of the Company, the Project Company has not recorded any turnover for the Period as the Complex Zone of the Launching Site was still at the preparatory stage with no revenue stream generated yet. The Project Company’s losses before taxation in 2010 and

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2011 mainly represented (i) administrative expenses in relation to early preparation work on the Project; (ii) exchange losses arising from translation of bank balances mainly denominated in Hong Kong dollars, due to the depreciation of Hong Kong dollars against Renminbi during 2010 and 2011, and (iii) interest income generated from bank deposits. The loss after taxation of approximately RMB12.4 million for the year ended 31 December 2010 was also due to one-off non-operating expenses of approximately RMB6.0 million incurred during the year, being a donation made in relation to a flooding in Wenchang City in 2010. The Project Company recorded a loss after taxation of approximately RMB1.7 million for the nine months ended 30 September 2012. The reduction of loss for the nine months ended 30 September 2012 was principally due to the absence of the abovementioned exchange losses due to the end of the depreciation trend of Hong Kong dollars against Renminbi in 2012.

(b) Financial position

	As at 30 September 2012 RMB'000 (audited)	As at 31 December 2011 RMB'000 (audited)	2010 RMB'000 (audited)
Non-current assets	19,042	19,691	20,509
Current assets	<u>682,524</u>	<u>707,889</u>	<u>563,068</u>
Total assets	701,566	727,580	583,577
Non-current liabilities	(50,000)	—	—
Current liabilities	<u>(77,220)</u>	<u>(151,552)</u>	<u>(695)</u>
Total liabilities	<u>(127,220)</u>	<u>(151,552)</u>	<u>(695)</u>
Net assets	<u><u>574,346</u></u>	<u><u>576,028</u></u>	<u><u>582,882</u></u>

As at 30 September 2012, assets of the Project Company mainly comprised of (i) capitalised expenses on early preparation work of the Project of approximately RMB535.2 million, including payment to the Wenchang Government for the land expropriation work, capitalised interest expenses on bank borrowing specifically in relation to the land development project and project design fees, which represents approximately 76% of the total assets; (ii) cash and bank balance of approximately RMB143.0 million; and (iii) an office unit in Haikou City, Hainan Province of approximately RMB17.2 million, mainly relating to preparation work in relation to the Project.

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As at 30 September 2012, liabilities of the Project Company represented mainly (i) short term loans from New Century and other related parties totaling approximately RMB75.1 million including accrued interests, and (ii) secured borrowings from two PRC financial institutions totaling RMB50 million.

4. Evaluation of the consideration and valuation of the Project Company

The total consideration of the Subscription of approximately RMB625.5 million (or approximately HK\$769.3 million), which represents a per share subscription price of approximately RMB1.0424 (or approximately HK\$1.2822), was determined based on the valuation of the Project Company as at 30 September 2012, a basis which we consider reasonable.

	As at 30 September 2012	
Valuation of the Project Company (RMB)	625,467,700	<i>Per Appendix II</i>
Number of shares of registered capital	<u>600,000,000</u>	
Subscription price per share (RMB)	1.0424	

On the above basis, the total consideration of the Subscription of approximately RMB625.5 million (or approximately HK\$769.3 million), determined with reference to the valuation of the Project Company as at 30 September 2012, is approximately RMB51.2 million (or approximately 8.9%) higher than the audited net assets of the Project Company of approximately RMB574.3 million as at 30 September 2012. We also noted that the Subscription price to be paid by CGWIC is the same as the Subscription price to be paid by Hainan Expressway.

We are advised by the Valuer that they have considered three generally accepted valuation approaches, namely the market approach, the income approach and the asset based approach. In determining the valuation of the Project Company, the Valuer considered that the asset based approach is the most appropriate one. The Valuer considered that the market approach is difficult to apply since there are relatively fewer comparable transactions identified for companies with similar business and scale. The income approach is also difficult to apply as the Project is still at its preparatory stage and its timeframe for development is subject to significant uncertainties.

The asset based approach relates to the valuation of individual assets and liabilities of a company as at 30 September 2012, which include (i) current assets, including its capitalised expenses (mainly comprises of land expropriation cost), cash

and bank balances, a short term financial asset and other current assets; (ii) non-current assets, including properties, plant and equipment and (iii) liabilities as at 30 September 2012, including other payables and bank loans.

We noticed from the valuation report that the approximately RMB51.2 million surplus of the valuation over the Project Company's net assets is principally attributable to (i) the capitalised expenses incurred in relation to the Project, and (ii) the office unit in Haikou City. In particular, in valuing the capitalised expenses incurred by the Project Company, the Valuer has applied a profit element over the book value of the capitalised expenses after taking into account of (i) the surplus of market value of the Land after the recovery of development costs and expenses, (ii) the profit sharing ratio as agreed between the Wenchang Government and CASIL Hainan pursuant to the Land Development Agreement, (iii) the amount of expenses capitalised compared to the estimated total recovery, and (iv) applicable taxes in the PRC. As to the valuation of the office unit in Haikou City, the Valuer has adopted the market comparison approach, with reference to a number of similar transactions of office units in the surrounding region and adjusted by a number of factors such as locality and other property specific factors, in order to arrive at an appropriate value of the office unit.

The Valuer has also carried out inspections, made relevant enquiries and searches for the purpose of the valuation. In assessing the consideration of the Subscription, we have reviewed and discussed with the Valuer the methodology of, and basis and assumptions adopted for, the valuation of the Project Company as contained in the valuation report. Based on our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions used in arriving at their valuation. We have also performed work as required under note (1)(d) to the Listing Rule 13.80 in relation to the Valuer and its work as regards the valuation. We have also visited the Complex Zone of the Launching Site to review the progress of the Project.

5. Financial effects of the Subscription

(i) Net assets and earnings

Following the completion of the Subscription, the Company's aggregate equity interest in the Project Company would be diluted from 100% to 50%. As disclosed in the "Letter from the Board" in the Circular, it is expected that the Project Company will cease to be an indirect wholly-owned subsidiary of the Company and will become a jointly controlled entity of the Company. The financial result and financial position of the Project Company would therefore be de-consolidated from the financial statements of the Company and would be equity accounted for as a jointly controlled entity as a single item in the Company's financial statements. As mentioned in the section above headed "Background and reasons for entering into the Subscription Agreement", the Company is contemplating forgoing its controlling interest in the Project Company in exchange for the capital injections and a strategic cooperation with

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the new investors to facilitate the Project. Taking into account the financial position of the Company and its subsidiaries, and the capital requirement of the Project as well as the existing business of the Company and its subsidiaries, the Directors are of the view that the Subscription is a prudent and reasonable approach to provide the required funding to the Project Company.

Upon completion of the Subscription, the Company is expected to realise a gain on deemed disposal amounting to approximately HK\$95.4 million, which mainly relates to (i) the upward fair value adjustment on certain assets of the Project Company according to the valuation report, and (ii) realisation of a translation reserve upon deemed disposal of the Project Company. Except for the above, it is not expected that significant contribution will be made by the Project Company to the consolidated profit of the Company in the near term, given that the Project is still in its preparatory stage. However, with the additional funding from the Subscription, the Directors consider that the new strategic partnership would lead to the successful completion of the Project, and bring a good return and enhance the earnings of the Company in due course.

(ii) Working capital

As advised by the management of the Company, the net proceeds from the Subscription will be applied as working capital of the Project Company. Following the completion of the Subscription, the total investment under the Land Development Agreement of RMB1,200.0 million will be fully injected into the Project Company, thus alleviating the financial burdens of the Company regarding the capital commitment to the Project Company. The Directors, after taking into account of the Group's internal resources and present available banking facilities, have confirmed 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.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Subscription Agreement is 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 Subscription Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and its shareholders as a whole. 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 the entering into of the Subscription Agreement.

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

1. FINANCIAL INFORMATION OF THE COMPANY AND THE SUBSIDIARIES

The electronic version of the audited consolidated financial information for the three years ended 31 December 2011 of the Company and the subsidiaries and unaudited consolidated financial information of the Company and the subsidiaries for the six months ended 30 June 2012 are available at www.hkexnews.hk and www.casil-group.com. Please refer to pages 31, 34 and 35 onwards of the Company's annual reports of 2009, 2010 and 2011, respectively and page 22 onwards of the Company's interim report 2012 from the following links:

1. annual report of 2009:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2010/0409/LTN20100409473.pdf>
2. annual report of 2010:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0419/LTN20110419207.pdf>
3. annual report of 2011:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0425/LTN20120425174.pdf>
4. interim report of 2012:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0907/LTN20120907248.pdf>.

2. INDEBTEDNESS**Borrowings**

As at the close of the business on 31 October 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had secured bank and other borrowings of approximately HK\$252,381,000. In addition, the Group had unsecured other loan from a non-controlling shareholder of a non-wholly owned subsidiary of approximately HK\$8,751,000 outstanding at that date.

As at 31 October 2012, the Group had pledged bank deposits with carrying value of approximately HK\$105,627,000, plant and machinery with carrying value of HK\$97,593,000, buildings with carrying value of approximately HK\$28,261,000, land use right with carrying value of approximately HK\$28,462,000 and investment properties with carrying value of approximately HK\$1,971,596,000 to banks and Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) to secure general banking facilities and loan 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 31 October 2012 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 31 October 2012.

3. WORKING CAPITAL

After taking into account the Group's

- (1) internal resources; and
- (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.

4. 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 the subsidiaries since 31 December 2011, the date to which the latest audited consolidated financial statements of the Company and the subsidiaries were made up.

5. PROSPECTS

Business Review

Results

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

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 the Company's 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 approximately HK\$1,205,051,000, representing an increase of approximately 20% as compared with the same period of last year. Operating profit amounted to approximately HK\$118,629,000, representing an increase of approximately 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 approximately 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.

Looking Forward

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 commence 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 the Hainan Space Park construction project. On the other hand, the Project Company 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.

The following is the text of a report prepared for the purpose of incorporation in this Circular received from Beijing Tianjian Xingye Assets Valuation Co. Ltd., a qualified assets valuer commissioned by the parties to the Subscription Agreement, in connection with its valuation as at 30 September 2012 of the market value of 100% of equity interest in the Project Company.

HAINAN AEROSPACE INVESTMENT MANAGEMENT COMPANY LIMITED*
(海南航天投資管理有限公司)
ASSET VALUATION REPORT
RELATING TO
PROPOSED SUBSCRIPTION OF EQUITY INTEREST

Tian Xing Ping Bao Zi (2012) No. 751

9 November 2012

To: CASIL Hainan Holdings Limited (航天海南控股有限公司), Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) and China Great Wall Industry Corporation* (中國長城工業集團有限公司)

Dear Sirs,

We, Beijing Tianjian Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司), refer to our engagement by CASIL Hainan Holdings Limited (航天海南控股有限公司), Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) and China Great Wall Industry Corporation* (中國長城工業集團有限公司) to perform a valuation on the fair market value of the entire shareholders' interest in Hainan Aerospace Investment Management Company Limited as at 30 September 2012 in accordance with the relevant laws and regulations as well as the standards and principles of asset valuation, and by adopting the asset-based approach and carrying out all necessary valuation procedures. Our asset valuation is hereby reported as follows:

I. OVERVIEW OF ENTRUSTING PARTIES, APPRAISED UNIT AND OTHER USERS OF THIS VALUATION REPORT

The entrusting parties for this valuation project are: CASIL Hainan Holdings Limited (航天海南控股有限公司), Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) and China Great Wall Industry Corporation* (中國長城工業集團有限公司). The appraised unit is Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司). The users of this valuation report shall include the entrusting parties and other users of this valuation report as stipulated under the provisions of the relevant laws and regulations.

(A) Overview of each of the entrusting parties

◆ *The entrusting party 1: CASIL Hainan Holdings Limited (航天海南控股有限公司)*

Company name	: CASIL Hainan Holdings Limited (航天海南控股有限公司) (hereinafter referred to as: “CASIL Hainan”)
Registered address	: 1103-07A, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong
Nature of business	: investment holding
Legal status	: body corporate
Effective Date	: 18 June 2012
Maturity date	: 17 June 2013
Registration Number	: 39523706-000-06-12-8

In compliance with the provisions of the Hong Kong Business Registration Ordinance

◆ *The entrusting party 2: Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司)*

Company name	: Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) (hereinafter referred to: “Hainan Expressway”)
Registered address	: Expressway Building, 16 Lantian Road, Haikou City, Hainan Province (海南省海口市藍天路16號高速公路大樓)
Registered capital	: RMB988,828,300
Paid-in capital	: RMB988,828,300
Economic nature	: a stock company with limited liability
Legal representative	: Wen Guoming (溫國明)

Scope of business : The company is engaged in surveying, design, maintenance, and management services of high-grade highway; real estate development and operation; business operations relating to building materials, machinery, electronic products, agricultural products, general merchandise, catering, metal materials, chemical raw materials and products (other than franchised products), textiles, stationery and sports goods, auto parts, motorcycle parts, beverages, non-staple food, furniture and rubber products; automobile passenger and freight transport and leasing; the production and sales of high-tech products and agricultural products; as well as computer engineering and information services. (items requiring administrative permits shall only be operated by subsidiaries with the procurement of permits).

The company was registered with the Industrial & Commercial Administration Bureau of Hainan Province on 17 August 1993, and its registration number is: 460000000140480.

◆ *The entrusting party 3: China Great Wall Industry Corporation* (中國長城工業集團有限公司)*

Company name	: China Great Wall Industry Corporation* (中國長城工業集團有限公司) (hereinafter referred to as: “CGWIC”)
Registered address	: Building No. 2, 18A Xingshikou Road, Haidian District, Beijing City (北京市海澱區杏石口路甲18號2幢)
Registered capital	: RMB2,000,000,000
Paid-up capital	: RMB2,000,000,000
Economic nature	: one-person limited liability company (wholly-owned by body corporate)
Legal representative	: Yin Liming (殷禮明)
Scope of business	: licensed business items: designation of labour forces that are in line with strength, size, and performance of the company to projects outside the PRC (with validity period until 31 March 2013).
General business items	: import and export business; commercial satellite launching services; technology cooperation business relating to satellite and international space; application of space technology products; engaged in foreign economic consulting and exhibition business; the hosting of foreign economic and technological exhibitions in the PRC; the contracting of projects outside the PRC and international tender projects in the PRC in the machinery industry; the provision of charter air transport services to the Commonwealth of Independent States (CIS); the lease of owned properties; operation and management of car parks; tender agency services; as well as the sales of goods and satellite launching promotional souvenirs within the scope of business.
Business license registration number	: 100000000000104 (4-1)

(B) Overview of the appraised unit*1. Brief Profiles*

Company name	:	Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) (hereinafter referred to as: “Hainan Aerospace”)
Address	:	Jingdu Hotel, Wenchang City, Hainan (海南省文昌市京都大酒店)
Registered capital	:	RMB600,000,000
Paid-up capital	:	RMB600,000,000
Legal representative	:	Li Hongjun (李紅軍)
Company type	:	a company with limited liability (a joint venture established with investment from Taiwan, Hong Kong and Macao in cooperation with companies inside the PRC)
Scope of business	:	the construction of infrastructure and supporting projects, landscaping projects, decoration and renovation works, property management, hotel operation and management, technology expo, development of high-tech projects.
Business license registration number	:	469005400001155
Shareholders (promoters)	:	CASIL Hainan Holdings Limited (航天海南控股有限公司) and CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技(深圳)有限公司).

2. History of corporate development

Hainan Aerospace was established on November 24, 2008 according to an approval document (Qiong Shang Wu Pi Zi (2008) No. 73) issued by the Hainan Provincial Department of Commerce. It is a limited liability company jointly established and invested by CASIL Hainan and Aerospace Times Properties Development Limited* (航天時代置業發展有限公司) (being a joint venture established with investment from Taiwan, Hong Kong and Macao in cooperation with companies inside the PRC).

At the time of establishment, the company’s paid-up capital amounted to RMB120,056,825.00. Out of the paid-up capital, RMB78,056,825.00 was contributed by CASIL Hainan in cash, whereas the balance of RMB42,000,000.00 was contributed by Aerospace Times Properties Development Limited* (航天時代置業發展有限公司) in cash.

On 26 March 2010, the company increased its paid-up capital by RMB156,568,800.00. Upon such increase, the company's paid-up capital was RMB276,625,625.00. Out of the paid-up capital, RMB234,625,625.00 was contributed by CASIL Hainan in cash, whereas the balance of RMB42,000,000.00 was contributed by Aerospace Times Properties Development Limited* (航天時代置業發展有限公司) in cash.

On 8 June 2010, at the company's 2010 first extraordinary general meeting, it was resolved that the equity interest in the company held by Aerospace Times Properties Development Limited* (航天時代置業發展有限公司) would be transferred to CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司).

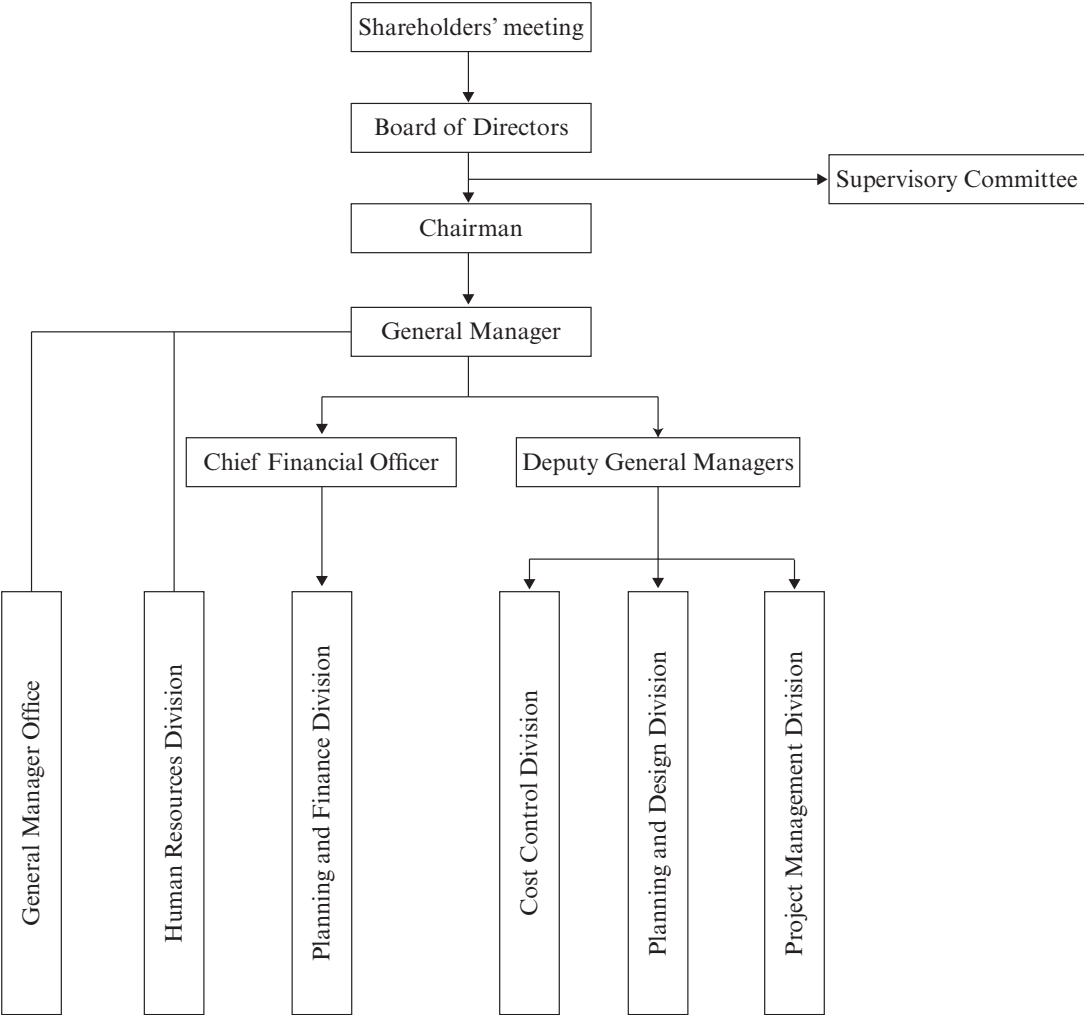
On 3 December 2010, the company increased its paid-up capital by RMB323,374,375.00. Upon such increase, the paid-up capital of the company was RMB600,000,000.00. Out of the paid-up capital, RMB390,000,000.00 was contributed by CASIL Hainan in cash, whereas the balance of RMB210,000,000.00 was contributed by CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司) in cash. The capital contribution made by each of the shareholders is set in the following table:

Name of shareholder	Amount of capital contribution		Percentage of capital contribution
	Paid-in capital	Registered capital	
CASIL Hainan	390,000,000.00	390,000,000.00	65%
CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司)	<u>210,000,000.00</u>	<u>210,000,000.00</u>	<u>35%</u>
Total	<u>600,000,000.00</u>	<u>600,000,000.00</u>	<u>100%</u>

As at the valuation base date, there had been no change in the shareholding structure and capital contribution of Hainan Aerospace.

Hainan Aerospace is a project company specifically established for the development of the project relating to the Complex Zone of the Launching Site in Hainan Province, and is the principal developer of the Complex Zone of the Launching Site in Hainan Province.

3. Corporate organization and chart:



4. Balance sheet and income statement of the company in recent three years

Balance sheet in recent three years

Unit: RMB

Items	2009-12-31	2010-12-31	2011-12-31	2012-9-30
Current assets	96,339,160.62	563,068,255.41	707,889,353.65	682,524,077.20
Non-current assets	19,846,615.55	20,509,083.88	19,691,287.29	19,041,656.82
including: long-term equity investment				
Properties for investment purpose				
Fixed assets	19,840,137.90	20,509,083.88	19,691,287.29	18,950,740.54
Construction in progress				
Construction materials				
Intangible assets				
Long-term deferred expenses	6,477.65			90,916.28
Deferred income tax assets				
Total Assets	116,185,776.17	583,577,339.29	727,580,640.94	701,565,734.02
Current liabilities	950,385.01	695,192.02	151,552,877.73	77,220,272.36
Non-current liabilities				50,000,000.00
Total liabilities	950,385.01	695,192.02	151,552,877.73	127,220,272.36
Net assets	115,235,391.16	582,882,147.27	576,027,763.21	574,345,461.66

Income statement in recent three years

Unit: RMB

Items	2009	2010	2011	From January to September 2012
1. Operating income				
Less: operating costs	4,764,608.84	6,338,760.39		
Tax and surcharges of main business operations				
Cost of sales				
Administrative expenses	4,951,704.44	3,035,919.93	4,104,032.18	3,364,318.63
Finance costs	-187,096.60	3,302,840.46	2,740,351.88	-1,682,017.08
Impairment losses on assets				
Add: Investment income				
3. Operating profit	-4,764,608.84	-6,338,760.39	-6,844,384.06	-1,682,301.55
Non-operating income				
Less: Non-operating expenses		6,010,000.00	10,000.00	
4. Total profit	-4,764,608.84	-12,348,760.39	-6,854,384.06	-1,682,301.55
Less: income tax	—	4,483.50		
5. Net profit	-4,764,608.84	-12,353,243.89	-6,854,384.06	-1,682,301.55

The above 2009 financial statements were audited by Ascenda Certified Public Accountants Co., Ltd.* (天健正信會計師事務所有限公司) (“Ascenda”) with the issue of an audit report (Tian Jian Zheng Xin Shen Zi [2010] NZ Zi No. 010237), in which standard unqualified audit opinions were given by Ascenda. The 2010 financial statements were audited by Zhongrui Yuehua Certified Public Accountants Co., Ltd.* (中瑞岳華會計師事務所有限公司) (“Zhongrui”) with the issue of an audit report (Zhong Rui Yue Hua Shen Zi [2011] No. 00082), in which standard unqualified audit opinions were given by Zhongrui. The 2011 audit report and the data as of the valuation base date were audited by Daxin Certified Public Accountants Co., Ltd.* (大信會計師事務所有限公司) (“Daxin”) with the issue of audit reports (Da Xin Shen Zi [2012] No. 4-0002 and Da Xin Shen Zi [2012] No. 4-0207, respectively), in which standard unqualified audit opinions were given by Daxin.

(C) Relationship between each of the entrusting parties and the appraised unit

The entrusting parties for this valuation project are CASIL Hainan, Hainan Expressway and CGWIC. The appraised unit is Hainan Aerospace. CASIL Hainan, being one of the entrusting parties, is the controlling shareholder of Hainan Aerospace. Both Hainan Expressway and CGWIC are the parties for the proposed increase in share capital.

II. OBJECTIVE OF THIS VALUATION

According to a resolution (2012 Resolution No. 3) passed at the extraordinary shareholders' meeting of Hainan Aerospace, Hainan Expressway and CGWIC proposed to increase the share capital in and subscribe for equity interest in Hainan Aerospace. In this connection, a valuation is required to be performed on the entire shareholders' interests in Hainan Aerospace, in order to form a basis on which a reference can be made for the value of the aforesaid economic activity of the entrusting parties.

III. APPRAISAL TARGET AND SCOPE OF APPRAISAL

The appraisal target is the entire shareholders' interest in Hainan Aerospace. The scope of appraisal covers all the assets and liabilities of Hainan Aerospace, whose audited carrying amount is detailed as follows:

The types of assets entrusted to be evaluated include current assets, non-current assets, current liabilities and non-current liabilities, details of which are set out in the following table:

Unit: RMB

Items		Carrying amount
		A
1	Current assets	682,524,077.20
2	Non-current assets	19,041,656.82
3	Including: financial assets available for sale	
4	Held to maturity investments	
5	Long-term deferred expenses	90,916.28
6	Fixed assets	18,950,740.54
7	Construction in progress	
8	Disposal of fixed assets	
9	Intangible assets	
10	Deferred income tax assets	
11	Total Assets	701,565,734.02
12	Current liabilities	77,220,272.36
13	Non-current liabilities	50,000,000.00
14	Total liabilities	127,220,272.36
15	Net assets (owners' equity interest)	574,345,461.66

The above data was audited by Daxin Certified Public Accountants Co., Ltd.* (大信會計師事務所有限公司).

The principal assets within the scope of this valuation are inventories — development costs, which are detailed as follows:

1. Overview of the project

Inventories included within the scope of this valuation in respect of Hainan Aerospace as of the valuation base date are valued at a carrying amount of RMB535,156,857.18. This carrying amount is made up of a number of costs including land requisition costs, indirect development fees and loan interest expenses in early stages for the Complex Zone of the Launching Site in Hainan Province.

According to the detailed control planning of the Complex Zone of the Complex Zone of the Launching Site in Hainan Province (cum adjustments to the master plan) prepared by The Institute of Urban Planning Design & Research, Shenzhen University (深圳大學城市規劃設計研究院), the project covers a planned land use area of 407.19 hectares.

- (1) The Space Park land use within the scope of the master land use planning extends over an area of 120.13 hectares (of which, the theme expo entertainment land use, the theme business services land use and the space botanical garden land use cover an area of 102.34 hectares, 3.62 hectares and 14.17 hectares, respectively).
- (2) There are two land use sites for the aerospace business hotel with a total area of 16.77 hectares. The seaside resort hotel extends six land use sites with over a total land use area of 28.97 hectares. The residential land use area is 94.42 hectares, while the supporting commercial services land use area is 12.24 hectares. The area for other planned land uses (green landscaping, roads and squares as well as municipal facilities land uses) amounts to 134.66 hectares, representing a total land use area of 287.06 hectares.

The development project is zoned as per the following planning: This project is zoned for a particular use on the basis of definite and leading functions of the area, such as aerospace science and technology functions, business resort functions as well as living and residential functions. A number of factors, including the condition of natural resources, the condition of transport and municipal supporting facilities and the condition of the use of land plots, are also taken into consideration. This project is zoned into three major sections, which are Zone A, Zone B and Zone C, respectively. Zone A is an ecological coconut grove area. Zone B is a central lake area. Zone C is a theme park area.

2. Progress and status of the project as of the valuation base date

(1) Land requisition

The complex zone project covers a total land requisition area of 7,276 mu (畝), among which, the area of the complex zone project, the resettlement land use zone and the public cemetery zone is 6,048 mu, 980 mu and 248 mu, respectively.

As of 30 September 2012, compensation agreements on land requisition and compensation agreements on crops have been entered into in respect of an area of 6,381 mu, representing approximately 87.70% of the total land requisition area. In particular, the complex zone accounts for 5,153 mu. The resettlement zone accounts for 980 mu, whereas the public cemetery zone accounts for 248 mu. Total compensation made to farmers for land requisition and crops are a land area of 5,994.75 mu and a payment of RMB628,000,000.00, respectively. Out of these compensation payments, a land area of 1,311.01 mu and a payment of RMB169,000,000.00 are compensated by the government, while a land area of 4,683.74 mu and a payment of RMB459,000,000.00 are compensated by the company.

(2) Construction of resettlement zone

- 1) According to the spirit of the meeting dated 17 March 2011 between CASIL Hainan and the Committee on Coordination of Wenchang City* (文昌市委協調會), the transfer of the results of the work with the Housing and Building Bureau of Wenchang City* (文昌市住建局) has been completed. Discussions on the detailed constructive planning of the resettlement zone are made with the former planning and design unit. Conditional upon the assurance of the quality of the construction works, costs are effectively reduced. Assessment and review are conducted on each of the norms for the construction units determined by the former Housing and Building Bureau, and the summary of the assessment and review has been submitted to the municipal government.
- 2) The preparation of a series of guiding documents, including the “working plan on the construction of the resettlement zone project”, the “implementation program on the construction of the resettlement zone project” and the “implementation planning on construction of temporary facilities, water supply and electricity supply in the resettlement zone”, have been completed.
- 3) A temporary permit has been obtained for the planning on the construction works of the resettlement zone.
- 4) In relation to the construction works of the resettlement zone, land surface clean-up, land leveling, temporary roads, temporary water supply and electricity facilities as well as fence construction work have been commenced in early October. The construction work of part of the land leveling and the construction works of the temporary facilities in the resettlement zone have been completed at present.

(3) Process for obtaining land approvals

- 1) After consultation, in accordance with the land use requirements of Hainan Aerospace, Wenchang Municipal Government intends to grant a land use site for the theme park phase 1 project of 54 mu, a hotel land

use site of approximately 100 mu and a residential land use site of 200 mu to Hainan Aerospace. The Land Department in Wenchang City has formulated the related land supply program.

- 2) the government of the Hainan Province has approved the agricultural land use conversion and requisition procedures relating to three plots of land use sites of 67.7737 hectares (totaling 1,016.6055 mu) in respect of the resettlement zone. Wenchang Municipal Government has reported to the government of the Hainan Province on the approval of the land use procedures relating to a construction land use site for the Space Park phase 1 project of 11.4246 hectares (totaling 171.369 mu).

3. Project approvals as well as planning documents and related agreements which have been already obtained

- (1) the “strategic cooperation agreement” dated 18 June 2007 entered into between Hainan Provincial People’s Government and China Aerospace Science and Technology Corporation (中國航天科技集團公司);
- (2) the “approval granted by Hainan Provincial People’s Government for the master planning of the Complex Zone of the Launching Site in Hainan Province” (Qiong Fu Han [2008] No. 86) dated 11 July 2008 granted by Hainan Provincial People’s Government;
- (3) the “approval granted by Hainan Provincial People’s Government on the development program of vast tracts of land in the Complex Zone of the Launching Site in Hainan Province” (Qiong Fu Han [2008] No. 115) dated 5 August 2008 granted by Hainan Provincial People’s Government;
- (4) the “development program of vast tracts of land in the Complex Zone of the Launching Site in Hainan Province” dated 8 July 2008 framed by the Office of Wenchang Municipal People’s Government;
- (5) “the letter of confirmation on the enrollment eligibility of the principal developer of the Complex Zone of the Launching Site in Wenchang City” dated 15 August 2008 issued by Wenchang Municipal People’s Government;
- (6) the “land development agreement of the project of the Complex Zone of the Launching Site in Hainan Province” dated 20 August 2008 entered into between Wenchang Municipal People’s Government and CASIL Hainan (the agreement was signed in Hong Kong);
- (7) the “implementation agreement of the project of land development in the Complex Zone of the Launching Site in Hainan Province” dated 18 December 2008 entered into between CASIL Hainan and Hainan Aerospace;

- (8) the “approval on consent to the detailed control planning of the Complex Zone of the Complex Zone of the Launching Site in Hainan Province” (Wen Fu Han [2010] No. 680) dated 15 December 2010 granted by Wenchang Municipal People’s Government;
- (9) the detailed control planning of the Complex Zone of the Complex Zone of the Launching Site in Hainan Province (cum adjustments to the master plan) prepared by The Institute of Urban Planning Design & Research, Shenzhen University (深圳大學城市規劃設計研究院);
- (10) the “letter on review comments relating to environmental impact report of the regional development plan of the Complex Zone of the Launching Site in Hainan Province” (Qiong Tu Huan Zi Han [2011] No. 1486) issued by the Land and Resources Department in Hainan Province;
- (11) the “approval on the selection of land use sites for the Space Home Pavilion project phase 1 and 2” (Wen Gui Han [2010] No. 657) issued by Wenchang Municipal People’s Government;
- (12) the “filing form on the assessment and review of the energy efficiency of the project construction of the Space Home Pavilion project” dated 27 July 2011 issued by the Department of Housing and Urban-Rural Construction in Hainan Province.

The assets and liabilities included within the scope of this valuation is consistent with the scope as specified in the engagement letter of valuation.

The legal ownership information of the appraisal target included within the scope of this valuation is provided by the entrusting parties and the appraised unit, which shall assume the responsibility as to the authenticity, legitimacy and integrity of the legal ownership information provided by themselves on the appraisal target.

IV. VALUE TYPE AND ITS DEFINITION

The value type used in this valuation is “market value”. Market value referred in this valuation represents an estimated amount of value to be generated by the appraisal target on the valuation base date in a normal and arm’s-length transaction between a willing buyer and a willing seller wherein both parties have acted knowledgeably, rationally and without compulsion.

The only purpose of the performance of asset valuation tasks by a registered asset valuer is to estimate the value of the appraisal target and give professional advice in relation thereto. The valuation conclusion represents the results of the estimate of the value in satisfaction of the appraisal objective on the basis of a situation where there are no material changes in the economic environment and market conditions of the appraisal target as of the valuation base date as well as the prerequisites and assumptions which are relied upon by other appraisers in their appraisal. It should not be construed as a guarantee or commitment as to the realization value of the appraisal target.

V. VALUATION BASE DATE

The valuation base date is 30 September 2012.

The valuation base date is determined by the entrusting parties. In the determination of the valuation base date, allowance is made to the end of the accounting period and a couple of factors which are conducive to the realization of the economic activity.

VI. BASES OF VALUATION

The specific bases that are relied upon in this valuation include the behaviour basis, legal basis, asset ownership basis and price determination basis, which are set out as follows:

(A) Behaviour basis

the “resolution at the extraordinary shareholders’ meeting” (2012 Resolution No. 3) of Hainan Aerospace;

(B) Legal and Regulatory Basis

1. the “Management Methods on Valuation of State-owned Assets” (《國有資產評估管理辦法》) promulgated by the State Council 1991 Decree No. 91;
2. the “Implementing Rules of Management Methods on Valuation of State-owned Assets” (《國有資產評估管理辦法實施細則》) issued by the former State-owned Assets Administration Authority (Guo Zi Ban Fa [1992] No. 36);
3. the “Company Law of the People’s Republic of China” (《中華人民共和國公司法》) (the amendments to the eighteenth meeting of the Standing Committee of the Tenth National People’s Congress held on 27 October, 2005);
4. “the dispatch by the State Council General Office of the notice issued by the Ministry of Finance relating to the opinions on the strengthening of the supervision and administration of asset valuation by reforming the administrative management methods of the valuation of state-owned assets” (《國務院辦公廳轉發財政部關於改革國有資產評估行政管理方式加強資產評估監督管理工作意見的通知》) (Guo Ban Fa [2001] No. 102);
5. “the notice issued by Ministry of Finance relating to the management methods on the issuance of the filing records of the valuation project of state-owned assets” (《財務部關於印發〈國有資產評估項目備案管理辦法〉的通知》) (Guo Ban Fa [2001] No. 802);

6. the “Interim Management Measures on Valuation of Corporate State-owned assets” (《企業國有資產評估管理暫行辦法》) promulgated by the State Council’s State-owned Assets Supervision and Administration Commission Decree No. 12;
7. the “Land Administration Law of the People’s Republic of China” (《中華人民共和國土地管理法》) (the amendments to the eleventh meeting of the Standing Committee of the Tenth National People’s Congress held on 28 August 2004);
8. the “Urban Real Estate Administration Law of the People’s Republic of China” (《中華人民共和國城市房地產管理法》) (Presidential Decree No. 72 of the People’s Republic of China, the amendments to the twenty-ninth meeting of the Standing Committee of the Tenth National People’s Congress held on 30 August 2007);
9. “the notice issued by the Ministry of Land and Resources relating to a number of opinions on the stepping up of the reform and development of state-owned enterprises through the reinforcement of land asset management” (《關於印發〈國土資源部關於加強土地資產管理促進國有企業改革和發展的若干意見〉的通知》) issued by the Ministry of Land and Resources (Guo Tu Zi Fa [1999] No. 433);
10. the legislations, regulations, documents and notices promulgated by the local government authorities and the relevant departments;
11. the “Urban Planning Law of the People’s Republic of China” (《中華人民共和國城市規劃法》) (Presidential Decree No. 23 of the People’s Republic of China);
12. the “Interim Regulations on the grant and transfer of land use rights of state-owned land of cities and towns in the People’s Republic of China” (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) (State Council Decree No. 55);
13. “the notice issued by the Ministry of Land and Resources relating to the adjustment to grading of lands in certain regions” (《國土資源部關於調整部分地區土地等別的通知》) (Guo Tu Zi Fa [2008] No. 308);
14. Other documents of the relevant laws and regulations.

(C) Valuation Criteria Basis

1. “Asset Valuation Criteria — Basic Norms” (Cai Zheng Bu Cai Qi [2004] No. 20);
2. “Criteria of Code of Ethics for Asset Valuation — Basic Standards” (Cai Zheng Bu Cai Qi [2004] No. 20);

3. “Asset Valuation Criteria — Valuation Report” (Zhong Ping Xie [2007] No. 189);
4. “Asset Valuation Criteria — Valuation Procedures” (Zhong Ping Xie [2007] No. 189);
5. “Asset Valuation Criteria — Machinery and Equipment” (Zhong Ping Xie [2007] No. 189);
6. “Asset Valuation Criteria — Real Estate” (Zhong Ping Xie [2007] No. 189);
7. “Asset Valuation Criteria — Corporate Value” (Zhong Ping Xie [2011] No. 227);
8. “Asset Valuation Criteria — Working Papers” (Zhong Ping Xie [2007] No. 189);
9. “Asset Valuation Standards — Engagement Letter” (Zhong Ping Xie [2007] No. 189);
10. “Guidance for registered asset valuers on their concern about the legal ownership of the appraisal targets” (Zhong Zhu Xie Hui Xie [2003] No. 18);
11. “procedures for valuation of urban land” (GB/T 18508-2001);
12. “procedures for grading and classification of urban land” (GB/T 18507-2001);
13. “classification of land use in existing status quo” (GB/T 21010-2007).

(D) Asset Ownership Basis

1. the articles of association of the company and capital verification reports, etc.;
2. “statements” and “commitments” relating to the aspect of asset ownership;
3. the reporting schedules of the valuation of various types of asset inventories which are provided by the appraised unit;
4. the “commodity house sale and purchase agreements” (No.: TY2301, TY2302, TY2303, TY2305, TY2306, TY2307) and invoices for payment;
5. the vehicle licenses, purchase contracts for equipment and invoices;
6. the breakdowns of the valuation of various types of asset inventories which are provided by the appraised unit;

7. the “strategic cooperation agreement” dated 18 June 2007 entered into between Hainan Provincial People’s Government and China Aerospace Science and Technology Corporation (中國航天科技集團公司);
8. the “approval granted by Hainan Provincial People’s Government for the master planning of the Complex Zone of the Launching Site in Hainan Province” (Qiong Fu Han [2008] No. 86) dated 11 July 2008 granted by Hainan Provincial People’s Government;
9. the “approval granted by Hainan Provincial People’s Government on the development program of vast tracts of land in the Complex Zone of the Launching Site in Hainan Province” (Qiong Fu Han [2008] No. 115) dated 5 August 2008 granted by Hainan Provincial People’s Government;
10. the “development program of vast tracts of land in the Complex Zone of the Launching Site in Hainan Province” dated 8 July 2008 framed by the Office of Wenchang Municipal People’s Government;
11. the “land development agreement of the project of the Complex Zone of the Launching Site in Hainan Province” dated 20 August 2008 entered into between Wenchang Municipal People’s Government and CASIL Hainan (the agreement was signed in Hong Kong);
12. the “implementation agreement of the project of land development in the Complex Zone of the Launching Site in Hainan Province” dated 18 December 2008 entered into between CASIL Hainan and Hainan Aerospace.

(E) Price determination basis

1. transaction cases in real estate and land market in Haikou;
2. the prevailing lending rate as of the valuation base date and for the time being;
3. other information including contracts and agreements provided by the company;
4. the benchmark lending rate for RMB loans quoted by the People’s Bank of China;
5. “Interim Regulations on Vehicle Purchase Tax in the People’s Republic of China” (《中華人民共和國車輛購置稅暫行條例》) (State Council Decree No. 294 dated 22 October 2000 of the People’s Republic of China);
6. the “standards on scrapped vehicles” (《汽車報廢標準》) (Guo Jing Mao Jing [1997] No. 456 of the former State Economic and Trade Commission);

7. “the notice relating to certain provisions on the adjustments to the standards on scrapped vehicles” (《關於調整汽車報廢標準若干規定的通知》) (Guo Jing Mao Zi Yuan [2000] No. 1202 of the former State Economic and Trade Commission);
8. the “price manual on electromechanical products” (Information Institute of Machinery Industry, 2012);
9. the “manual on frequently used data and parameters for asset valuation”;
10. the primal accounting statements, information in the aspect of financial accounting management, as well as financial information including the relevant agreements, contracts and invoices which are provided by the appraisal unit;
11. the statistics, technical standards information as well as price information and data released by the State’s relevant departments, together with the relevant price inquiry information and price determination parameter data collected by the company.

VII. METHODS OF VALUATION

Major methods for asset valuation include the asset-based approach, the income approach and the market approach. The method used in this valuation is the asset-based approach.

The asset-based approach is a valuation idea where the value of the appraisal target is determined on the basis of a reasonable evaluation of various assets and liabilities of the enterprise.

The basic formula for the asset-based approach is as follows:

Value of the entire shareholder interest = sum of the appraised value of all assets
— sum of the appraised value of all liabilities

In this report, the appraised unit is assumed to operate on a going concern basis. The core assets of the appraised unit are inventories and physical assets such as buildings and equipment. Moreover, in relation to the use of the asset-based approach, there are adequate data and information which serve as a basis and foundation for justifying the selection of the economic and technical parameters involved in the valuation of various assets. Accordingly, the use of the asset-based approach in the valuation is justified.

The income approach refers to a valuation idea where the value of the appraisal target is determined through capitalization or discount of the expected revenue of the enterprise to be estimated.

Hainan Aerospace is a project company specifically established for the development of the project relating to the Complex Zone of the Launching Site in Hainan Province. It is the development arm of the Complex Zone of the Launching Site in Hainan Province. The project is currently in the early stage of development. It is uncertain whether various stages of land development can be completed within the scheduled timeframe under the framework agreement. In addition, there is no planning for the development of uncommitted projects in the future. In this light, future revenues and costs cannot be predicted. As such, the income approach is not adopted in this valuation.

The market approach refers to a valuation idea where the value of the appraisal target is determined by comparing the appraised unit with a number of comparable enterprises and with various equity assets including enterprise interest, shareholder interest and securities interest in the existing transaction cases in the marketplace. As the appraised unit is a non-listed company and there are relatively fewer cases of equity transactions conducted by enterprises of similar size in the related industry as of the valuation base date, it is difficult to obtain the relevant comparable transaction cases on a reliable and accurate basis. Thus, the market approach is not used in this valuation.

(A) Asset-based approach

1. Current assets

Current assets include monetary funds, interest receivable, other receivables, inventories and other current assets.

- (1) monetary funds: including cash and bank deposits. The appraisal personnel have conducted and monitored stock-taking of cash on-spot and have made a reasonable reverse-reasoning calculation according to cash daily accounting records. The balance of cash as of the valuation base date has been arrived at upon the reverse-reasoning calculation. A check-up with cash daily accounting records have been performed. The appraised value of RMB-dominated cash is stated at the carrying amount that is arrived at after stock-taking. For bank deposits, on the basis of verification and check-up of bank reconciliation vouchers with account statements and account tables and by taking into account the written replies to bank confirmation letters, a trial calculation balancing has been conducted on the reconciliation statements of the balance of bank deposits. Upon thorough check-up, the appraised value of the bank deposits dominated in RMB has been recorded at the carrying amount that is determined upon verification.*
- (2) Interest receivable: According to schedules and related deposit contracts provided by the appraisal unit, appraisal personnel have determined the authenticity and legitimacy of the relevant information as well as the accuracy of interest accrual. The appraised value of interest receivable is based on the carrying amount that is verified upon audit.*

(3) *Other receivables*

For other receivables, through inspection of books and reports, and on the basis of conducting economic substance and aging analyses, confirmation letters have been issued for large sums of money by appraisal personnel. In respect of these large sums of money, appraisal personnel also understand the time of occurrence, causes for default of payment and repayment status of debts by a particular unit, as well as debtor's funds, credit and management status. Upon concrete analyses, the possibility of the recovery of various receivables will be judged. The risk of loss has been estimated by using a separate determination method. A comprehensive analysis has been made on the recoverable amount of receivables, so as to determine the appraised value of receivables. In the valuation, the appraised value is determined at the remaining balance netting of the assessed risk of loss from the verified carrying. The provision for bad accounts of receivables is assessed to be nil according to the relevant provisions of the valuation.

(4) *Inventories*

Inventories are related to development costs. For the valuation of inventories, in the first instance, appraisal personnel have verified and investigated into the internal control system of inventories, so as to have a better understanding of the enterprise's inventory accounting system. The appraisal personnel have checked the enterprise's financial records and statistical reports and cross-examine and verify specific inventory accounting substance on an on-site basis. All these steps have helped appraisal personnel ensure the specific inventory accounting substance, authenticity and ownership status of inventories. Specific methods for valuation are elaborated as follows:

Pursuant to the "strategic cooperation agreement" dated 18 June 2007 entered into between Hainan Provincial People's Government and China Aerospace Science and Technology Corporation (中國航天科技集團公司) and the "land development agreement of the project of the Complex Zone of the Launching Site in Hainan Province" dated 20 August 2008 entered into between Wenchang Municipal People's Government and CASIL Hainan (the agreement was signed in Hong Kong), "Wenchang Municipal People's Government will grant commercial land plots that suit project construction conditions within the Complex Zone in accordance with the relevant national laws and regulations. The proceeds from the grant will first be applied to pay the land development costs to be borne by CASIL Hainan in initial stages of development. The subsequent proceeds will be allocated at the following proportion: 30% of the proceeds will be allocated to Wenchang Municipal People's Government, whereas the remaining 70% will be allocated to CASIL Hainan."

Furthermore, pursuant to the “implementation agreement of the project of land development in the Complex Zone of the Launching Site in Hainan Province” dated 18 December 2008 entered into between CASIL Hainan and Hainan Aerospace, the project is implemented by Hainan Aerospace. Therefore, in this valuation, the appraised value is based on the verified carrying amount, the given profits determined at the profit-sharing ratio agreed under the agreement, and the profits determined at the profit-sharing rate according to investment progress. The specific formula is set out as follows:

Appraised value = carrying amount + profit

For the amount of profits (net profits) that Hainan Aerospace is entitled to following the completion of the project, the hypothetical development method is used in this valuation to determine such amount. The formula is:

Profits = (land sales revenue – land requisition fees – land development costs) × profits determined at profit-sharing ratio × profits determined at profit-sharing rate according to investment progress – income tax

- (5) Other current assets: According to the schedules and related purchase contracts provided by the appraisal unit, appraisal personnel have determined the authenticity and legitimacy of the relevant information as well as the accuracy of interest accrual. The appraised value of other current assets are based on the carrying amount that is verified upon audit.

2. Assets in category of buildings and erections

According to the field survey of the appraisal personnel, a number of similar transaction cases of offices in the region where the real estate is situated have been identified. It is suitable to select the market comparison method in this valuation. Thus, the market comparison approach for carrying out the assessment in this valuation.

Market comparison approach: It is a method which gives an objective and reasonable picture of the estimated price of the real estate to be estimated by adhering to the principle of alternative comparability in the market, by comparing the real estate to be estimated with similar recent real estate transactions of alternative comparability in the market as of the timeframe of this valuation, and by making appropriate adjustments to the prices of similar real estate transactions.

The formula of the market comparison approach is as follows:

$$PD = PB \times A \times B \times D \times E$$

Where: PD—the price of the real estate to be valued;

PB—the price of comparable cases;

A—situation index of the real estate to be estimated/situation index of comparable real estate cases

Normal situation index/situation index of comparable real estate cases

B—real estate index of the real estate to be estimated as of the valuation base date/index of comparable real estate cases as of the transaction date

D—index of regional factors and conditions of the real estate to be estimated/index of regional factors and conditions of comparable real estate case

E—index of individual factors and conditions of the real estate to be estimated/index of individual factors and conditions of comparable real estate cases

3. Assets in category of equipment

Assets in category of equipment include electronic equipment and vehicles. In line with the objective of this valuation, by following the principle of continued use, basing on market prices, taking into account the features of the equipment to be evaluated and collecting related data, the appraisal and price determination of equipment are mainly conducted by using the cost method. The appraisal and price determination of certain equipment of ceased production in the market such as vehicles and electronic equipment can be conducted by using the market method. The basic formula for producing the appraised value of the assets in category of equipment is set out as follows:

$$\text{Appraised value} = \text{replacement costs} \times \text{residual value rate.}$$

(1) Determination of replacement costs

(1)-1 Determination of replacement costs for vehicles

The prices of vehicles as of the valuation base date are determined according to vehicles' market price information in recent years such as information in vehicle market. On this basis, capitalized costs including vehicle purchase tax and license fees will be calculated according to the "Interim Regulations on purchase tax of vehicles of the People's Republic of China" (《中華人民共和國車輛購置稅暫行條例》) and the provisions of the relevant local departments, in order to determine the replacement costs:

$$\begin{aligned} \text{Replacement cost} &= \text{current purchase price (inclusive of tax)} + \\ &\quad \text{vehicle purchase tax} + \text{license fees} \\ &= \text{Current purchase price (inclusive of tax)} \times \\ &\quad [1 + 10\% / (1 + 17\%)] + \text{license fees} \end{aligned}$$

Where: 10% denotes the tax rate of vehicle purchase tax, whereas 17% denotes the tax rate of value-added tax (VAT).

- 1 Determination of vehicle purchase price: The determination of purchase price of vehicle is made by making reference to the market prices of the latest transactions of similar models of vehicles in places where the vehicles are located. Other costs are determined in accordance with the standards for fees charged by the management department of vehicles.
- 2 Determination vehicle purchase tax: The determination is made according to the relevant provisions of the "Interim Regulations on Vehicle Purchase Tax of the People's Republic of China" (《中華人民共和國車輛購置稅暫行條例》) dated 22 October 2000 (promulgated by the State Council Decree No. 294).

$$\text{Vehicle purchase tax} = \text{tax-inclusive price} \times 10\%$$

Tax-inclusive price does not include VAT price.

- 3 Determination of license fees: The determination is made according to the relevant provisions of the places where the vehicles are located, and on the basis of the substance and amount of such costs.

(1)-2 Determination of replacement costs of electronic equipment

The prices of electronic equipment as of the valuation base date are determined according to the recent market price data in the places where the equipment are located. Under general conditions, free transportation as well as installation and shakedown test are offered by suppliers, the replacement cost of which is arrived at by the following means:

Replacement costs = purchase price

The appraisal of part of the electronic equipment is conducted by adopting the market approach.

(2) *Determination of residual value rate*

1 Determination of residual value rate of vehicles

For transport vehicles, the residual value rate is determined according to the relevant stipulations of the former “Notice relating to the announcement of standards on scrapped vehicles” (《關於發佈〈汽車報廢標準〉的通知》) (Guo Jing Mao Jing [1997] No. 456) and “the notice relating to certain provisions on the adjustments to the standards on scrapped vehicles” (《關於調整汽車報廢標準若干規定的通知》) dated 18 December 2000 (Guo Jing Mao Zi Yuan [2000] No. 1202), and by using the following method. The residual value rate so arrived at with the adoption of both of the said means, whichever is lesser, will be finally adopted:

Residual value rate of useful life = $[(1 - \text{already used life} / \text{prescribed useful life})] \times 100\%$

Residual value rate of mileage = $[(1 - \text{already driven mileage} / \text{prescribed mileage})] \times 100\%$

Residual value rate = Min [residual value rate of useful life, residual value rate of mileage]

The appraisal personnel can carry out the necessary investigation for the vehicle to be appraised. In the event that there is a relatively large difference between the residual value rate determined according to the results of the investigation and the residual value rate determined according to the above methods, appropriate adjustments should be made in connection therewith. For the appraisal of vehicles with the use of the market approach, the calculation of the residual value rate is not required.

2 Determination of residual value rate of electronic equipment

The residual value rate of electronic equipment is generally calculated by using the service life method, the basic formula of which is set out as follows:

$$\text{residual value rate} = [(1 - \text{already used life}/\text{economic life})] \times 100\%$$

$$\text{residual value rate} = [\text{remaining useful life}/(\text{already used life} + \text{remaining useful life})] \times 100\%$$

In the course of thorough check and verification, if the calculated residual value rate is found to be inconsistent with the actual conditions of use, the residual value rate determined according to exploration shall be used. For the ways for producing the residual value rate of electronic equipment through exploration, reference may be made to the methods for calculating the residual value rate of machinery and equipment through exploration. For the appraisal of electronic equipment with the use of market method, no calculation of the residual value rate is required.

(3) *Determination of appraised value*

$$\text{Appraised value} = \text{replacement cost} \times \text{residual value rate}$$

- (4) The enterprise to be appraised is an enterprise engaged in real estate development and is subject to the payment of operating income tax. As a result, no allowance is given to the impact of the VAT on the appraised value of equipment in this valuation.

4. *Long-term deferred expenses*

Long-term deferred expenses within the scope of this valuation are mainly renovation costs. Through examination of original documents and renovation construction contracts, the appraisal personnel have performed evidence collection and verification of the carrying amount components, accounting and calculation methods, the determination of the amortization period and the site survey of the state, thereby ensuring the authenticity and integrity of the carrying amount of long-term deferred expenses. Analysis and calculation are also conducted on the collected information and data. Long-term deferred expenses are stated at their actual costs, and are amortized over the expected benefit period on an average basis. For long-term deferred expenses that can not bring benefits to the future accounting periods, their entire amortized value is credited to the profit or loss account for the current period. In this valuation, the calculation of the appraised value is made at the original carrying amount incurred \times the number of remaining months with benefits \div expected number of months for amortization.

5. *Liabilities*

The actual debtor and the amount of liabilities of various liabilities following the achievement of the objective of the valuation are verified. The determination of the appraised value has been based on the items and amount of liabilities that are actually required to be assumed by the appraised unit following the achievement of the objective of the valuation.

VIII. PROCESS AND STATUS OF IMPLEMENTATION OF VALUATION PROCEDURES

By complying with the regulations on asset valuation of the relevant authorities of the country and the general principles of accounting and calculation, conforming with the relevant laws and regulations and standardization requirements of the relevant authorities of the country and performing the tasks assigned by the entrusting parties under the letter of engagement of asset valuation, Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司) has put into practice the validation and examination of the legal documents as well as accounting records and related data provided by the entrusting parties. Based on the list of assets submitted by the appraised unit, necessary property ownership verification, on-site inspection and check have been conducted for the related assets. The necessary market research and transaction price comparison have been carried out, and other necessary procedures for asset valuation such as financial analysis and prediction have been implemented. The process for asset valuation is detailed as follows:

1. **Stage of acceptance of engagement and preparation**

- (1) Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司) accepted the engagement by the entrusting parties to carry out this asset valuation project on 20 October 2012. Upon acceptance of the engagement, Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司) has made earnest discussions with the entrusting parties on a number of issues affecting the asset valuation project, such as the purpose of the valuation, the appraisal target and the scope of the valuation, the valuation base date, and the characteristics of assets that are entrusted to be evaluated.
- (2) Taking into account the characteristics of assets that are entrusted to be evaluated, targeted layout of the asset valuation reporting schedules have been put into place. Major assets survey forms have been also designed. Business training has been provided to the personnel of the entrusting parties for their participation in the asset valuation. Thorough check lists and all kinds of survey tables are filled out.
- (3) *Design of the valuation project*

With respect to our understanding of the characteristics of the assets, we have drawn up a plan for the performance of the valuation. Appraisal personnel are identified, so as to form on-site working groups for the asset

valuation. The appraisal personnel of this project are grouped into three teams, including the team for dealing with current assets and liabilities, the team for coping with real estate appraisal and the equipment team, which are all designated to take up valuation tasks on an on-the scene basis.

(4) Preparation of appraisal data

This task is related to the collection and collation of the market trading price information of the appraisal target and the proof of documents of the property ownership of the appraisal target.

The tasks in this stage of work is from 20 October 2012 to 22 October 2012.

2. Stage of on-site thorough check

(1) Validation of the authenticity and legitimacy of the appraisal target

According to the reporting schedules provided by the entrusting parties and the appraised unit, checks are made on physical assets by the appraisal personnel, in order to validate the authenticity and accuracy of these assets.

Detailed checks are made on the survey of inventory assets, whereby detailed investigation is made into the composition of the inventory development costs. In relation to the relevant development projects, the appraisal personnel have reviewed the overall planning information, preliminary design contract, demolition and relocation compensation contract information, and have collated the approval documents and cooperation agreement, so as to determine the authenticity of the assets.

(2) Survey of the actual status of the assets

As to the actual status of the inventories, these inventories are in the early stage of development. Some parcels of the land are still in the stage of demolition and relocation.

Among fixed assets, the focus of the survey is placed on the operating status of equipment, and the particular focus of the survey is put on large-value electronic equipment and vehicles with a combination of general principles. The survey is mainly conducted by way of inspecting the operating status of equipment, and by carrying out an on-the-spot and on-site observation of the operating status of equipment under the cooperation of the equipment management personnel of the appraised unit. On the basis of the survey, the important equipment survey forms have been optimized.

(3) Survey of value composition of physical assets and status of business development

In response to the characteristics of the assets of the appraised unit, the survey on the reasonableness and compliance of value composition of assets is conducted. The focus of the survey is put on the collation of the authenticity, accuracy, completeness and compliance of the carrying amounts of fixed assets. Data including the relevant accounting documents, accounting books, contracts and equipment procurement contracts are inspection and reviewed.

3. Selection of valuation methods, collection of market information and procedures for valuation

On the basis of working plans which are framed according to the characteristics of the project, and pricing principles and valuation models which are determined with respect to the actual situation, the appraisal personnel have commenced their valuation and estimation tasks on an on-site basis by referring to historical data provided by the enterprise upon clear identification of valuation parameters and price criteria.

The tasks in this stage have been commenced on 22 October 2012 and have been completed on 3 November 2012.

4. Stage of summary of valuation

(1) Determination of valuation results

The valuation results of the assets that are entrusted to be evaluated are reached on the basis of to field survey of the prevailing situation made by the personnel of Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司), and according to all necessary market researches and estimates.

(2) Analysis of valuation results and preparation of valuation report

This valuation report of the relevant assets is prepared in accordance with the standardized requirements of Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司). Three-tier review is conducted on the valuation results and this valuation report of the related asset pursuant to prescribed procedures of Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司). Upon signature and final approval by the registered asset valuers, the report is completed and submitted by the project team.

(3) Collating and archiving of working papers

The tasks in this stage have been commenced on 3 November 2012 and have been completed on 9 November 2012.

IX. ASSUMPTIONS FOR VALUATION

1. Transaction assumption: It is assumed that all assets to be appraised are in the process of transaction. The appraiser conducts the valuation according to simulated market conditions such as the trading conditions of the assets to be appraised.
2. Open market assumption: Open market assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as on the kinds of impact on the assets in such market conditions. Open market is a market where there are fully-developed and flawless conditions, and also refers to a competitive market where there are a voluntary buyer and a voluntary seller and where each of the buyer and the seller is offered equal status in terms of the opportunity and time to have access to sufficient market information in this market, in which the transaction between both the buyer and the seller is conducted in a voluntary and rational way, without compulsion or unrestricted conditions.
3. Continued use assumption: The continued use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the state of the assets in such market conditions. It is assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be in a state of continued use. For the continued use assumption, no consideration is given to the conversion of the use of the assets or the best use of the assets. Thus, the valuation results derived from the use of this assumption are subject to a restricted scope of applicability.
4. Going concern assumption: This assumption is a hypothesis where the overall assets of the enterprise are treated as the appraisal target, whereby the enterprise (as a business entity) operates in the external environment in accordance with its business goals on a going concern basis. It is also presumed that the business operators of the enterprise are accountable for, and are competent in, discharging their duties and responsibilities. It is also presumed that the enterprise operates its business in a legitimate manner, and is able to obtain appropriate profits in order for the enterprise to maintain sustainable development on a going concern basis.
5. We have made the following assumptions: the development of the project relating to the Complex Zone of the Launching Site in Hainan Province is completed within the time and investment amount agreed upon under the contract, and the land use rights are granted on schedule upon the completion of the development, there is no material fluctuation in the prices of the land use rights at the time of grant, and each of the parties to the contract perform the obligations thereunder.

X. CONCLUSIONS OF VALUATION

On a going concern basis, as of 30 September 2012 (being the valuation base date), the carrying amount of the total assets of Hainan Aerospace is determined at RMB701,565,800.00 with an appraised value of RMB752,688,000.00, representing an increase in value by RMB51,122,200.00 or a rate of increase in value of 7.29%. The carrying amount of the total liabilities is determined at RMB127,220,300.00 with an appraised value of RMB127,220,300.00, representing no increase or decrease in value. The carrying amount of the net assets is determined at RMB574,345,500.00. The appraised value of the net assets is RMB625,467,700.00, representing an increase in value by RMB51,122,200.00 or a rate of increase in value of 8.90%. The results of the valuation of various types of assets and liabilities are set out in the following table:

A table summarizing the results of valuation of assets

Name of the appraised unit: Hainan Aerospace

Unit: RMB'0000

Items		Carrying amount	Appraised value	Increase or decrease in value	Rate of increase in value (%)
		A	B	C = B - A	D = C/A × 100%
1	Current assets	68,252.41	71,720.69	3,468.28	5.08
2	Non-current assets	1,904.17	3,548.11	1,643.94	86.33
3	Including: financial assets available for sale	—	—	—	
4	Held to maturity investments	—	—	—	
5	Long-term receivables	—	—	—	
6	Long-term equity investments	—	—	—	
7	Properties for investment purpose	—	—	—	
8	Fixed assets	1,895.07	3,539.02	1,643.95	86.75
9	Construction in progress	—	—	—	
10	Construction materials	—	—	—	
11	Disposal of fixed assets	—	—	—	
12	Productive biological assets	—	—	—	
13	Oil and gas assets	—	—	—	
14	Intangible assets	—	—	—	
15	Development expenditure	—	—	—	
16	Goodwill	—	—	—	
17	Long-term deferred expenses	9.09	9.09	—	—
18	Deferred income tax assets	—	—	—	
19	Other non-current assets	—	—	—	
20	Total Assets	70,156.58	75,268.80	5,112.22	7.29
21	Current liabilities	7,722.03	7,722.03	—	—
22	Non-current liabilities	5,000.00	5,000.00	—	—
23	Total liabilities	12,722.03	12,722.03	—	—
24	Net assets (owners' equity interest)	57,434.55	62,546.77	5,112.22	8.90

XI. ILLUSTRATIONS ON EXTRAORDINARY MATTERS**(A) Circumstances where valuation procedures may be subject to restrictions**

1. No technical testing is conducted on the technical parameters and performance of a variety of equipment devices as of the valuation base date by the appraiser. Instead, the valuation is based on the presumed authenticity and validity of the relevant technical information and running records provided by the appraised unit, as well as on the judgment made by field surveys without the aid of any testing instruments.
2. No technical testing is conducted on the hidden works and internal structures of various kinds of buildings (parts which cannot be observed from visual inspection) by the appraiser. Instead, the valuation is based on the presumed authenticity and validity of the relevant building works information provided by the appraised unit, as well as on the judgment made by field surveys without the aid of any testing instruments.

(B) Illustrations on special matters of defects

1. The building within the scope of this valuation is the property located on Level 23 of Sky City International Building, No. 85 Binhai Avenue, Haikou City (海口市濱海大道85號天邑國際大廈23層), with a total gross floor area of 1,278.08 square metres. The “Commodity House Sale and Purchase Agreement” has been entered into in connection therewith. The application for the “Real Estate Ownership Certificate” is being processed as of the valuation base date.
2. In this valuation, according to the “pre-sale situation of units of Sky City International Building Company Limited* (海南天邑國際大廈有限公司)” and the “schedules of units with registered sales of Sky City International Building* (天邑國際大廈)” provided by the Marketing Division of the Housing and Urban-Rural Construction Bureau of Haikou City, and on the basis of inquiries about file No. 3466 with the Land Resources Information Construction and Publicity Management Centre of Haikou City (海口市國土資源信息化建設與宣傳管理中心), Hainan Aerospace is the buyer of the property located on Level 23 of Sky City International Building, No. 85 Binhai Avenue, Longhua District, Haikou City (海口市龍華區濱海大道85號天邑國際大廈23層). As per the land use registered on the file of the “state-owned land use right registration card”, the property is designated for urban-town mixed residential land use, and the nature of the property is for grant. The approved land use term will expire on 18 July 2058. The boundaries of the land plot in four directions are set out as follows: East to the People’s Bank of China, Haikou Centre Branch, South to residential areas, West to the Xinhua News Agency, Hainan Branch, and North to Binhai Avenue.

In addition, in accordance with the “letter of advice on assets without legal obstacles” issued by Hainan New Concept Law Office (海南新概念律師事務所), Hainan Aerospace is the legal owner of the title ownership of the property, which is free from the imposition of any disciplinary legal obstacles such as a lease, a mortgage and a seizure that may affect the rights therein.

3. Pursuant to the “strategic cooperation agreement” entered into between Hainan Provincial People’s Government and China Aerospace Science and Technology Corporation (中國航天科技集團公司) and the “land development agreement on the project of the Complex Zone of the Launching Site in Hainan Province” entered into between Wenchang Municipal People’s Government and CASIL Hainan, and in accordance with “the letter of confirmation on the enrollment eligibility of the principal developer of the Complex Zone of the Launching Site in Wenchang City” issued by Wenchang Municipal People’s Government, it is determined that CASIL Hainan is the sole principal developer, which shall not transfer primary development right of the project prior to the completion of the construction of all supporting infrastructure. CASIL Hainan (as a foreign-invested enterprise) is a holder owning a 65% equity interest in Hainan Aerospace, which is the appraised unit. Moreover, pursuant to the “implementation agreement of the project of land development in the Complex Zone of the Launching Site in Hainan Province” entered into between CASIL Hainan and Hainan Aerospace, it is agreed that the right of playing a role as the principal developer is undertaken by Hainan Aerospace. However, land development projects are not included into the scope of business under the business license of Hainan Aerospace, which does not possess the corresponding qualification for land development.

Particular attention should be drawn to the uncertainty of the legitimate qualification of the appraised unit as a development arm and to the associated legal risk exposures in relation thereto.

4. In relation to development costs of inventory — land, there are circumstances where the payments under a number of contracts for some of the projects remain outstanding and where the execution of some of the contracts is not yet completed, the details of which are specified as follows:
 - (1) In relation to the “contract relating to environment impact of the planning of the Complex Zone of the Launching Site in Hainan Province” dated October 2010 entered into between the company and the Hainan Research Academy of Environmental of Science (海南省環境科學研究院), the contract sum is RMB712,000.00, of which, RMB427,200.00 has been settled and the remaining balance of RMB284,800.00 has remained outstanding. The execution of this contract is yet to be completed, and is to be continued subsequently.

- (2) In relation to the “contract relating to preparation of application and report of Hainan Space Park project” dated March 2011 entered into between the company and Hainan Consultation & Investment Co. Ltd.* (海南省諮詢投資有限公司), the contract sum is RMB380,000.00, of which, RMB114,000.00 has been paid and the remaining balance of RMB266,000.00 has remained unsettled. The execution of this contract is yet to be completed, and is to be continued subsequently.
- (3) In relation to the “contract relating to the engagement of the design of architectural concepts and display concepts of Hainan Space Park” dated June 2011 entered into between Hainan Aerospace and Shanghai Foremost Multimedia Co., Ltd. (上海復旦上科多媒體有限公司), the contract sum is RMB5,461,700. Due to the adjustments to the planning proposal of the Complex Zone, the engagement of such design is suspended. As of 30 September 2012, the Company has neither paid the progress payments under the contract, nor estimated the costs in relation thereto.
- (4) In relation to the “contract relating to the appraisal of the geological disaster risks arising from the construction project” (the Space Home Pavilion project in the Complex Zone of the Launching Site in Hainan Province) entered into between Hainan Aerospace and the Geological Survey and Design Institute of Hainan Province (海南地質綜合勘察設計院), the contract sum is RMB125,000.00, which is not yet paid. The execution of this contract is yet to be completed, and to be continued subsequently.
5. Other contracts which involve outstanding payments are elaborated as follows: in relation to the “contract on the engagement of the legal counsel throughout the year” entered into between the company and Hainan New Concept Law Office (海南新概念律師事務所), the contract sum is RMB540,000.00. The term of the contract commences from 9 May 2011 and expires on 8 May 2014. The amount of legal consultancy fees for each year is RMB180,000.00. The company has not yet settled the legal consultancy fees for the year in 2012. According to the budget, the settlement of the amount will be made by the end of the year.

We take no account of the impact of the above-mentioned special matters of defects on the valuation conclusion in this valuation.

XII. ILLUSTRATIONS ON RESTRICTIONS OF THE USE OF THIS VALUATION REPORT

- (1) This report is only intended to be used by the entrusting parties for economic activity that is corresponding to the objective of the valuation, and to be submitted to the competent authorities of asset valuation administration for inspection and review. The right of the use of this valuation report is vested in the entrusting parties.

- (2) This valuation report may only be used by users of this valuation report as set out in this valuation report.
- (3) No release of all or part of the contents of this report by the entrusting parties in any public media shall be permitted without prior consent from our company. Our company shall assume no responsibility for any consequences arising from the improper use of the valuation results in other economic behaviour.
- (4) According to the relevant provisions of the PRC, this valuation report shall remain in force for one year from 30 September 2012 (being the valuation base date) to 29 September 2013.

XIII. DATE OF ISSUE OF THIS VALUATION REPORT

This valuation report is issued on 9 November 2012.

Asset valuation agency	:	Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司) (sealed)
Legal representative	:	Sun Jianmin (signed)
Registered asset appraiser	:	Wang Xingjie (signed)
Registered asset appraiser	:	Shi Yingmin (signed)

* *For identification purpose only*

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, save as Ms Leung Sau Fan, a director of the Company, is holding a total of 130,000 shares of the Company, 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 the subsidiaries:

Name of shareholder	Capacity	Direct Interest (Y/N)	Number of shares interested (Long Position)	Percentage of issued share capital	Number of shares interested (Short Position)	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interested in controlled corporations (Note 1)	N	1,183,598,636	38.37%	927,107,581	30.05%
Jetcote Investments Limited	Beneficial owner	Y	131,837,011	4.27%	0	0
	Interested in controlled corporations (Note 2)	N	1,051,761,625	34.10%	927,107,581	30.05%
			<u>1,183,598,636</u>	<u>38.37%</u>	<u>927,107,581</u>	<u>30.05%</u>
Burhill Company Limited	Beneficial owner (Note 2)	Y	579,834,136	18.80%	514,118,000	16.67%
Sin King Enterprises Company Limited	Beneficial owner (Note 2)	Y	471,927,489	15.30%	412,989,581	13.38%

Notes:

- (1) These 1,183,598,636 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) Both Burhill Company Limited and Sin King Enterprises Company Limited are wholly-owned subsidiaries of Jetcote Investments Limited. The Shares held by them form part of the total number of Shares held by 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 the subsidiaries and none of the 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. ARRANGEMENTS AFFECTING DIRECTORS AND DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

Save as disclosed in this Circular, as at the Latest Practicable Date, none of the Directors of the Company had any interest in any assets which have been since 31 December 2011 (being the date to which the latest audited accounts of the Company and the subsidiaries were made up) acquired or disposed of by or leased to any member of the Company and the subsidiaries, or were proposed to be acquired or disposed of by or leased to any member of the Company and the subsidiaries. As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which would be significant in relation to the business of the Company and the subsidiaries.

4. 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 the subsidiaries excluding contracts expiring or determinable by such member of the Company and the subsidiaries within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS

Save for Mr Zhang Jianheng, Mr Chen Xuechuan and Mr Shi Weiguo, the Directors of the Company, who are officers of CASC, and Mr Wu Zhuo has declared a potential conflict of interest, 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 the subsidiaries, other than those businesses in which (a) the Company and the subsidiaries was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Company and the subsidiaries.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of the 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 the subsidiaries.

7. 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 the subsidiaries within the two years preceding the date of this Circular and are or may be material:

- (a) the syndicate loan agreement and the supplemental agreement dated 14 January 2011 in respect of the Facilities of RMB1,500,000,000.00;

- (b) the Main Contractor Contract dated 23 January 2011 entered into between Shenzhen Aerospace and China State Construction Engineering Corporation Limited (中國建築股份有限公司) for the construction of the Shenzhen Aerospace Science & Technology Plaza at the tender price of RMB931,996,000.00;
- (c) the share transfer agreement dated 11 July 2011 entered into between CASIL New Century Technology Development(Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司) (“New Century”) and Guangdong Huamei Group Company Limited* (廣東華美集團有限公司) in respect of the acquisition of 39% shareholding in Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) (“Shenzhen Rayitek”) for the consideration RMB44,700,000.00;
- (d) the share transfer agreement dated 11 July 2011 entered into between New Century and Shenzhen Huamei Jiye Investment Company Limited* (深圳市華美基業投資有限公司) in respect of the acquisition of 10% shareholding in Shenzhen Rayitek for the consideration of RMB11,460,000.00;
- (e) the share transfer agreement dated 11 July 2011 entered into between New Century and Hangzhou Taida Industrial Company Limited* (杭州泰達實業有限公司) in respect of the acquisition of 6% shareholding in Shenzhen Rayitek for the consideration of RMB6,880,000.00;
- (f) the Subscription Agreement; and
- (g) the Framework Agreements.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The qualifications of the experts who have given opinion or advice contained in this Circular are set out as follows:

Name	Qualification
Somerville Limited	a licensed corporation 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
Beijing Tianjing Xingye Assets Valuation Co. Ltd.* (北京天健興業資產評估有限公司)	assets valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of their letters, reports and reference to their names and opinions in the form and context in which they appear in this Circular.

As at the Latest Practicable Date, each of the above experts has confirmed that it did not have any shareholding in any member of the Company and the 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 the subsidiaries.

As at the Latest Practicable Date, none of the experts had any interest in any assets which have been since 31 December 2011 (being the date to which the latest audited accounts of the Company and the subsidiaries were made up) acquired or disposed of by or leased to any member of the Company and the subsidiaries, or were proposed to be acquired or disposed of by or leased to any member of the Company and the subsidiaries.

9. MISCELLANEOUS

- (a) The company secretary of the Company is Mr Chan Ka Kin, Ken, who is a member of The Hong Kong Institute of Chartered Secretaries.
- (b) The Company's share registrar 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, unless a poll 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, 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.
- (d) The Chinese text of this Circular shall prevail over the English text.

10. 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 (electronic version is available at www.hkexnews.hk and www.casil-group.com);
- (b) a copy of each of 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 pages 15 to 16 of this Circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 28 of this Circular;
- (e) the valuation report by Beijing Tianjian Xingye, the text of which is set out in Appendix II to this Circular;
- (f) the written consents from the experts referred to in the section headed “Qualifications and consents of experts” in this appendix;
- (g) the annual reports of the Company and the subsidiaries for the two years ended 31 December 2011 and the interim report of the Company and the subsidiaries for the six months ended 30 June 2012 (electronic version is available at www.hkexnews.hk and www.casil-group.com);
- (h) 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 (electronic version is available at www.hkexnews.hk and www.casil-group.com); and
- (i) this Circular (electronic version is available at www.hkexnews.hk and www.casil-group.com).



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 Thursday, 3 January 2013 at 11:00 a.m. to consider and, if thought fit, to pass the following resolution as ordinary resolution:

Ordinary Resolution

“**THAT** the subscription agreement dated 5 November 2012 (“Subscription Agreement”) entered into between CASIL Hainan Holdings Limited, CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司), Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) (“Hainan Expressway”) and China Great Wall Industry Corporation* (中國長城工業集團有限公司) (“CGWIC”) in respect of the subscription by each of Hainan Expressway and CGWIC of 25% of the enlarged registered capital of Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) at RMB312,720,000 and the granting of a right to Hainan Expressway to further subscribe for up to RMB300,000,000 of the registered capital (a copy of the Subscription Agreement has been produced to the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder, as more particularly set out in the Circular of the Company dated 11 December 2012, 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 transactions contemplated under the Subscription Agreement.”

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

Hong Kong, 11 December 2012

NOTICE OF EXTRAORDINARY GENERAL MEETING

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. The resolution is required to be approved by way of a poll, and CASC and its associates shall abstain from voting on the resolution.
- * *These PRC entities do not have an official English name, the English names set out herein are for identification purpose only.*