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CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

ANNOUNCEMENT OF INTERIM RESULTS 2014

The Board of Directors (the “Board”) of China Aerospace International Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2014 together with the comparative figures of the same period in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended	
		30.6.2014	30.6.2013
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
CONTINUING OPERATIONS			
Turnover	3	1,258,579	1,156,188
Cost of sales		(984,835)	(919,680)
Gross profit		273,744	236,508
Other gains and losses	4	(33,311)	(19,316)
Other income	4	33,676	22,139
Gain on disposal of available-for-sale investments		—	120,918
Selling and distribution expenses		(22,588)	(20,920)
Administrative expenses		(163,949)	(152,418)
Fair value changes of investment properties		47,811	225,783
Finance costs		(17,485)	(8,837)
Share of results of joint ventures		1,092	1,034
Share of results of associates		(779)	361
Profit before taxation	5	118,211	405,252
Taxation	6	(31,688)	(92,823)
Profit for the period from continuing operations		86,523	312,429
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations		7,812	108,394
Profit for the period		94,335	420,823

		Six months ended	
		30.6.2014	30.6.2013
		(Unaudited)	(Unaudited)
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to owners of the Company:			
From continuing operations		79,125	258,212
From discontinued operations		8,808	111,225
		<u>87,933</u>	<u>369,437</u>
Profit (loss) for the period attributable to non-controlling interests:			
From continuing operations		7,398	54,217
From discontinued operations		(996)	(2,831)
		<u>6,402</u>	<u>51,386</u>
		<u>94,335</u>	<u>420,823</u>
Earnings per share	7		
From continuing and discontinued operations - basic		<u>HK2.85 cents</u>	<u>HK11.98 cents</u>
From continuing operations - basic		<u>HK2.56 cents</u>	<u>HK8.37 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended	
	30.6.2014	30.6.2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	94,335	420,823
Other comprehensive (expense) income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translating foreign operations	(78,940)	45,438
Share of exchange reserve of joint ventures	(19,813)	12,240
Share of exchange reserve of associates	(4,868)	—
Reclassification adjustment for non-controlling interests upon deemed disposal of a subsidiary	(24,390)	—
Reclassification adjustment upon disposal of available-for-sale investments	—	(120,918)
Reclassification adjustments for the cumulative exchange differences upon deemed disposal of foreign operations	739	(49,663)
Fair value gain on available-for-sale investments	—	82,530
Other comprehensive expense for the period	(127,272)	(30,373)
Total comprehensive (expense) income for the period	(32,937)	390,450
Total comprehensive (expense) income attributable to:		
Owners of the Company	6,139	326,839
Non-controlling interests	(39,076)	63,611
	(32,937)	390,450

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	<i>NOTES</i>	30.6.2014 (Unaudited) HK\$'000	31.12.2013 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		697,099	877,984
Prepaid lease payments		108,654	144,602
Investment properties		3,883,960	3,746,162
Goodwill		—	13,232
Intangible assets		16,607	67,578
Interests in associates		190,296	14,702
Interests in joint ventures		827,862	846,583
Available-for-sale investments		29,000	29,000
Deposit paid for construction cost of investment properties under construction		38,192	64,624
Deposits paid for acquisition of intangible assets and property, plant and equipment		55,924	37,668
		5,847,594	5,842,135
Current assets			
Inventories		274,178	253,257
Trade and other receivables	9	599,584	598,403
Prepaid lease payments		4,064	4,898
Amount due from a related party		7,502	8,841
Financial assets at fair value through profit or loss		44,449	51,269
Taxation recoverable		10,689	3,168
Pledged bank deposits		26,363	20,075
Short-term bank deposits		25,235	137,126
Bank balances and cash		1,811,894	1,768,008
		2,803,958	2,845,045
Current liabilities			
Trade and other payables	10	929,900	1,003,131
Amount due to an associate		1,050	1,050
Taxation payable		74,732	58,309
Bank and other borrowings		44,888	131,713
Other loan		8,936	9,165
		1,059,506	1,203,368
Net current assets		1,744,452	1,641,677
Total assets less current liabilities		7,592,046	7,483,812

	30.6.2014 (Unaudited) HK\$'000	31.12.2013 (Audited) HK\$'000
Non-current liabilities		
Loan from a major shareholder	623,441	639,386
Bank and other borrowings	807,980	600,128
Deferred taxation	657,686	677,572
	2,089,107	1,917,086
	5,502,939	5,566,726
Capital and reserves		
Share capital	1,154,511	308,502
Reserves	3,516,792	4,387,512
Equity attributable to owners of the Company		
Non-controlling interests	4,671,303	4,696,014
	831,636	870,712
	5,502,939	5,566,726

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments of Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) - INT 21	Levies

The application of the above new Interpretations and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the President, the chief operating decision maker of the Group, that are used to make strategic decisions. The management has identified 9 (1.1.2013 to 30.6.2013: 9) reportable segments: Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and the related industrial property investment), New Material Business (including polyimide films manufacturing), Aerospace Service (including the Shenzhen Aerospace Science & Technology Plaza of property investment project, land development in Hainan Launching Site Complex Zone and Internet of Things) which represents the major industries in which the Group is engaged.

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

For the six months ended 30 June 2014

	Turnover			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	404,475	25,842	430,317	35,148
Liquid crystal display	234,203	218	234,421	11,006
Printed circuit boards	298,453	—	298,453	55,555
Intelligent chargers	308,389	—	308,389	20,296
Industrial property investment	7,483	10,783	18,266	11,155
	<u>1,253,003</u>	<u>36,843</u>	<u>1,289,846</u>	<u>133,160</u>
New Material Business				
Polyimide films manufacturing (Note)	3,304	—	3,304	(1,836)
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	30,489
Land development in Hainan Launching Site Complex Zone (Note)	—	—	—	(190)
Internet of Things	3,928	—	3,928	(8,248)
	<u>3,928</u>	<u>—</u>	<u>3,928</u>	<u>22,051</u>
Reportable segment total	1,260,235	36,843	1,297,078	153,375
Elimination	—	(36,843)	(36,843)	—
Other Business	1,648	—	1,648	6,285
	<u>1,261,883</u>	<u>—</u>	<u>1,261,883</u>	<u>159,660</u>
Unallocated corporate income				30,723
Unallocated corporate expenses				(57,026)
				<u>133,357</u>
Gain on deemed disposal of a subsidiary				9,583
Share of results of associates				(210)
Share of results of a joint venture				1,282
Finance costs				(17,989)
				<u>126,023</u>
Less: Profit for the period from discontinued operations				(7,812)
Profit before taxation from continuing operations				<u>118,211</u>

Note: The polyimide films manufacturing is held by Shenzhen Rayitek Hi-tech Film Company Limited ("Shenzhen Rayitek"), which became an associate of the Group as a result of deemed disposal during the current period. The land development in Hainan Launching Site Complex Zone is held by Hainan Aerospace Investment Management Company Limited, which became a joint venture of the Group as a result of deemed disposal during the period ended 30 June 2013. The President continuously reviews these segments information for the purpose of resources allocation and performance assessment. Thus, there is no change in the segment information reported to the President.

For the six months ended 30 June 2013

	Turnover			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	417,246	33,299	450,545	30,971
Liquid crystal display	158,949	—	158,949	7,289
Printed circuit boards	257,030	—	257,030	50,805
Intelligent chargers	314,786	—	314,786	19,889
Industrial property investment	7,380	10,227	17,607	9,605
	<u>1,155,391</u>	<u>43,526</u>	<u>1,198,917</u>	<u>118,559</u>
New Material Business				
Polyimide films manufacturing	31,531	—	31,531	36
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	211,861
Land development in Hainan Launching Site Complex Zone	—	—	—	(1,722)
Internet of Things	—	—	—	(12,634)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>197,505</u>
Reportable segment total	1,186,922	43,526	1,230,448	316,100
Elimination	—	(43,526)	(43,526)	—
Other Business	797	—	797	2,532
	<u>1,187,719</u>	<u>—</u>	<u>1,187,719</u>	<u>318,632</u>
Unallocated corporate income				27,040
Unallocated corporate expenses				(55,527)
				<u>290,145</u>
Gain on disposal of available-for-sale investments				120,918
Gain on deemed disposal of subsidiaries				112,912
Share of results of associates				361
Share of results of a joint venture				829
Finance costs				(11,519)
				<u>513,646</u>
Less: Profit for the period from discontinued operations				<u>(108,394)</u>
Profit before taxation from continuing operations				<u>405,252</u>

Segment results represent the profit earned/loss incurred by each segment without allocations of interest income, changes in fair value of financial assets at fair value through profit or loss, gain on deemed disposal of subsidiaries, share of results of a joint venture and associates, interest expenses and other corporate income and corporate expenses. Share of loss of certain joint ventures of HK\$190,000 (1.1.2013 to 30.6.2013: profit of HK\$205,000) and share of loss of an associate of HK\$569,000 (1.1.2013 to 30.6.2013: nil) were allocated to reportable and operating segments. This is the measure reported to the President for the purpose of resources allocation and performance assessment.

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Continuing operations		
The Group's other income mainly comprises:		
Bank interest income	28,411	11,847
The Group's other gains and losses mainly comprise:		
Loss from change in fair value of financial assets at fair value through profit or loss	(6,794)	(23,458)
Net exchange (loss) gain	(25,243)	5,011
Discontinued operations		
The Group's other income mainly comprises:		
Bank interest income	—	467
The Group's other gains and losses mainly comprise:		
Net exchange loss	<u>(5)</u>	<u>(31)</u>

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Continuing operations		
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	1,244	1,277
Amortisation of intangible assets (included in cost of sales)	4,426	3,409
Depreciation of property, plant and equipment	<u>47,065</u>	<u>53,256</u>
Discontinued operations		
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	60	355
Amortisation of intangible assets (included in cost of sales)	574	3,352
Depreciation of property, plant and equipment	<u>869</u>	<u>5,765</u>

6. TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Continuing operations		
Current tax:		
Hong Kong Profits Tax	3,883	4,866
PRC Enterprise Income Tax	12,617	9,922
	<u>16,500</u>	<u>14,788</u>
Deferred tax	15,188	78,035
Income tax charge	<u>31,688</u>	<u>92,823</u>

Hong Kong Profits Tax and PRC Enterprise Income Tax have been calculated at 16.5% and 25% respectively of the estimated assessable profit for the periods under review other than certain subsidiaries in the PRC that are entitled to High and New Technology Enterprise status of which the applicable income tax rate is 15%.

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

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
From continuing operations and discontinued operations		
Earnings		
Profit for the period attributable to the owners of the Company for the purposes of basic earnings per share	<u>87,933</u>	<u>369,437</u>
Number of shares	30.6.2014	30.6.2013
Weighted average number of ordinary shares for the purposes of basic earnings per share	'000	'000
	<u>3,085,022</u>	<u>3,085,022</u>
From continuing operations		
Profit for the period attributable to the owners of the Company	87,933	369,437
Less: Profit for the period from the discontinued operations attributable to the owners of the Company	<u>(8,808)</u>	<u>(111,225)</u>
Earnings for the purpose of basic earnings per share from the continuing operations	<u>79,125</u>	<u>258,212</u>

The denominators used are the same as those detailed above for both basic earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operation is HK0.29 cents per share (1.1.2013 to 30.6.2013: Profit of HK3.61 cents per share) based on the profit for the period from the discontinued operations of HK\$8,808,000 (1.1.2013 to 30.6.2013: Profit of HK\$111,225,000) and the denominators detailed above for basic earnings per share.

No diluted earnings per share is presented as there were no potential dilutive shares in issue for both periods.

8. DIVIDEND

2013 final dividend of HK1 cent (1.1.2013 to 30.6.2013: 2012 final dividend of HK1 cent) per share amounting to HK\$30,850,000 (1.1.2013 to 30.6.2013: HK\$30,850,000) was paid by the Company during the period. The directors do not recommend payment of an interim dividend for the interim period.

9. TRADE AND OTHER RECEIVABLES

At 30 June 2014, included in trade and other receivables are trade receivables of HK\$532,486,000 (31.12.2013: HK\$550,681,000). The Group allows an average credit period of 90 days to its trade customers.

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

	30.6.2014 <i>HK\$'000</i>	31.12.2013 <i>HK\$'000</i>
Within 90 days	516,973	509,999
Between 91 - 180 days	9,432	34,396
Between 181 - 365 days	377	6,286
Between 1 to 2 years	5,704	—
	532,486	550,681

10. TRADE AND OTHER PAYABLES

	30.6.2014 <i>HK\$'000</i>	31.12.2013 <i>HK\$'000</i>
Trade payables	339,689	304,016
Accrued charges	132,181	133,738
Receipt in advance	47,208	92,298
Other payables	410,822	473,079
	929,900	1,003,131

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

	30.6.2014 <i>HK\$'000</i>	31.12.2013 <i>HK\$'000</i>
Within 90 days	331,068	296,335
Between 91 - 180 days	3,944	2,653
Between 181 - 365 days	136	924
Over 1 year	4,541	4,104
	339,689	304,016

BUSINESS REVIEW

Results

For the six months ended 30 June 2014, the Company and its subsidiaries reported an unaudited turnover from continuing operations of HK\$1,258,579,000, representing an increase of 8.86% as compared with that of HK\$1,156,188,000 for the same period of 2013. Profit for the period was HK\$94,335,000, representing a decrease of 77.58% as compared with that of HK\$420,823,000 for the same period of 2013. Profit for the period attributable to the shareholders was HK\$87,933,000, representing a decrease of 76.21% as compared with that of HK\$369,437,000 for the same period of 2013. Basic earnings per share attributable to the shareholders was HK2.85 cents, representing a decrease of 76.21% as compared with that of HK11.98 cents for the same period of 2013.

In the first half of this year, the global economy continued to recover slowly while the main economies such as China, the United States and Europe were gradually gaining momentum. The turnover of the Company remained stable as compared with the same period of last year, gross profit margin increased to 21.75% as compared with that of 20.46% for the same period of 2013. The overall profit of the Company posted a relatively substantial decrease as compared with the same period of last year, mainly due to the decrease in incremental gain in fair value of investment properties and no material non-recurring profits were recorded in this period. Taking into consideration the Company's capital condition as a whole, the Board decided not to distribute any interim dividend.

Business review

The hi-tech manufacturing business of the Company performed well in the first half of 2014. The construction works of Shenzhen Aerospace Science & Technology Plaza entered the completion stage while that of the Complex Zone of the Launching Site in Hainan Province were proceeding as scheduled. The two incubated businesses, namely the new materials and the internet of things, have also shown steady progress.

For the six months ended 30 June 2014, the turnover of the hi-tech manufacturing business amounted to HK\$1,253,003,000, representing an increase of 8.45% as compared with that of HK\$1,155,391,000 for the same period of 2013. With a wide range of measures spanning from technical revamp and strengthening delicacy management to efficiency enhancement and cost reduction, the hi-tech manufacturing business realised an operating profit of HK\$133,160,000, representing a growth of 12.32% as compared with that of HK\$118,559,000 for the same period of 2013. Under each of the hi-tech manufacturing businesses, the plastic products operation continued delivering stable results. The intelligent chargers operation, on the other hand, was suffered from major clients changing their marketing strategies. The semiconductor operation was improving steadily attributable to the development of new clients as well as an increase in sales from the existing ones. Benefited from the unremitting growth in the market share of high-end consumer electronic accessories, the performance of the printed circuit boards operation continued to perform well. Under the existing market condition, the hi-tech manufacturing business relied on stable clients and good internal management in realizing simultaneous growth in revenue and profit, and the Board showed satisfaction to the performance.

In December 2013, Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek") introduced new investors, together with the existing shareholders, to inject a sum of capital of RMB267,532,400 into Shenzhen Rayitek by way of cash and technological patents. As the capital contribution had been made in full, Shenzhen Rayitek commenced the preliminary preparation works, such as assessment of the proposal, environmental assessment, and construction planning and filing of the second phase of its expansion construction on schedule.

After capping the roof of the auxiliary buildings and annex building of Shenzhen Aerospace Science & Technology Plaza in September 2013, the structure of the main building was completed in January 2014, hence signifying the entering of the construction works into a new milestone. The project is currently going through rigorous tests, while internal and external decorations are also well underway. As for the marketing and sales of the project, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) (“Shenzhen Aerospace”) launched a marketing campaign, commenced office leasing and conducted a tender for property management services. As at 30 June 2014, the property under construction and the land use right of Shenzhen Aerospace Science & Technology Plaza were valued at approximately HK\$3,491,272,000.

The land expropriation and compensation works for the Complex Zone of the Launching Site in Hainan Province have basically completed. Notwithstanding certain disruptions caused by the recent severe typhoon attack, the construction of the resettlement zone is proceeding as planned. Furthermore, Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) (“Hainan Aerospace”) and Shenzhen OCT Tourism Planning Consultancy Company Limited are currently preparing and finalising the project planning, implementation scheme and core project design of the Hainan Space Park.

Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) (“Aerospace Digitnexus”) engages in developing applications of internet of things and related business. During the first half of the year, Aerospace Digitnexus focused on the development of three major projects, namely the supply chain management system, the intelligent warehouse and the enterprise management platform for the internet of things. As some of the projects had encountered greater technical difficulties, the development progress was hindered and some of the revenues have not yet been recognised in the first half of the year. Recently, Aerospace Digitnexus introduced two investors to raise a total of HK\$90,000,000 as capital, thereby providing a secured fund for the future development of the company.

PROSPECTS

By implementing a series of economic adjustment policies and measures, it is expected that the Chinese government will successfully rein in growth. On the other hand, developed countries in Europe and the United States will likely resume their growth driven by raising market demand by a number of positive factors such as falling unemployment rate, bottomed out property prices, and persistent growth in consumption and export. Hence, the global economy will continue to improve during the second half of the year. The Board expects that the Company will continue the development trend of the first half of the year to that of the second half, and will pay attention to the movement of macro-economy, as well as the possible risk arising thereof.

For the hi-tech manufacturing business, the new semiconductor production lines and the environmental-friendly automated electroplating production lines were preliminary completed for operation and that is expected to bring a new revenue source to the related businesses. The preparation works of the contemplated new-generation manufacturing base for High Density Interconnector (HDI) printed circuit boards had been completed, and the construction thereof is expected to commence as planned.

For the internet of things business, market development will be in full force. By completing a number of model projects including the supply chain management system and the intelligent warehouse, Aerospace Digitnexus plans to replicate its related experience and technology in other new projects with a view to securing more sales contracts of projects.

The completion works of internal, fine and external decorations of Shenzhen Aerospace Science & Technology Plaza will be proceeded and finished pursuant to the construction plan, striving to complete the whole construction project in next year. In the meantime, based on its own marketing and sales efforts, Shenzhen Aerospace will push ahead with the leasing of offices and shopping arcade by identifying major tenants through professional property agents.

The Company will work closely with the shareholders of Hainan Aerospace to enlist the support of China Aerospace Science & Technology Corporation and the Hainan provincial government, to improve the business model of the Complex Zone of the Launching Site in Hainan Province, as well as to promote project financing and construction works. The Company may consider making appropriate adjustment to its investment strategy for the project deemed necessary, so as to adapt to the long-term development needs of the Company while maintaining effective risk control.

MANAGEMENT DISCUSSION AND ANALYSIS

Results performance

The unaudited turnover of the Company and the subsidiaries from the continuing operations for the six months ended 30 June 2014 was HK\$1,258,579,000, representing an increase of 8.86% as compared with that of HK\$1,156,188,000 for the same period of 2013. The profit for the period was HK\$94,335,000, representing a significant decrease of 77.58% as compared with that of HK\$420,823,000 for the same period of 2013.

Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company was HK\$87,933,000, representing a substantial decrease of 76.21% as compared with that of HK\$369,437,000 for the same period of 2013. Since no material non-recurring income was recorded by the Company in this period and the amount of the gain in the fair value of investment properties significantly decreased in comparing to the same period of last year, profit for this period substantially decreased in comparing to the same period of last year.

Based on the issued share capital of 3,085,022,000 shares during the period, the basic earnings per share was HK2.85 cents, representing a substantial decrease of 76.21% as compared with that of HK11.98 cents for the same period of 2013.

Dividends

The Board decided not to distribute an interim dividend for the year of 2014.

The distribution of 2013 final dividend of HK1 cent per share was approved by shareholders at the annual general meeting held in May 2014, warrants of which were dispatched to all shareholders on 17 June 2014.

Results of core business

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

The turnover of the hi-tech manufacturing is the main source of the Company's turnover and that contributes a significant profit and cash flow. This has enabled the Company to fulfill gradual development of the business of aerospace services and other new businesses such as science and technology, tourism and culture driven real estate business, so as to achieve the Company's new development target and minimize single business risk.

Hi-tech manufacturing

Hi-tech Manufacturing

The turnover of the hi-tech manufacturing business for the six months ended 30 June 2014 was HK\$1,253,003,000, representing an increase of 8.45% as compared with the same period of last year; the operating profit was HK\$133,160,000, representing an increase of 12.32% as compared with the same period of last year. The turnover and the results of the hi-tech manufacturing business are shown below:

	Turnover (HK\$'000)			Operating Profit (HK\$'000)		
	First half of 2014	First half of 2013	Changes (%)	First half of 2014	First half of 2013	Changes (%)
Plastic Products	404,475	417,246	(3.06)	35,148	30,971	13.49
Printed Circuit Boards	298,453	257,030	16.12	55,555	50,805	9.35
Intelligent Chargers	308,389	314,786	(2.03)	20,296	19,889	2.05
Liquid Crystal Display	234,203	158,949	47.34	11,006	7,289	50.99
Industrial Property Investment	7,483	7,380	1.40	11,155	9,605	16.14
Total	<u>1,253,003</u>	<u>1,155,391</u>	8.45	<u>133,160</u>	<u>118,559</u>	12.32

Looking forward to the second half of 2014, the competition in the electronic information industry will remain intense with short product life cycles, market's sensitivity to prices, and clients' concern on product quality and punctual delivery. The Company will continue to strengthen the marketing development and the management, enhance productivity and control costs, so as to ensure the hi-tech manufacturing to have a stable growth continuously.

New Materials

On 19 December 2013, Shenzhen Rayitek introduced several strategic investors and together with the existing shareholders to increase the capital by a sum of RMB267,532,400, which strengthened the ability of its future development. The capital increase by the other shareholders of Shenzhen Rayitek and the first term of capital increase of RMB5,000,000 by one of the shareholders were completed in January 2014. Upon the completion of the first term of the capital increase, the Company's indirect equity interest in Shenzhen Rayitek was decreased from 55% to 44.48%. As a result, Shenzhen Rayitek ceased to be an indirect subsidiary of the Company and becomes an associate of the Company. Besides, the second term of capital contribution was made in full by the shareholder. Upon the completion of all capital increase, the equity interest of the Company in Shenzhen Rayitek was further decreased from 44.48% to 42.75%.

Aerospace services business

The Complex Zone of the Launching Site in Hainan Province

In the first half of 2014, Hainan Aerospace Investment Management Company Limited* (海南航天投资管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, basically completed the land expropriation while the resettlement zone was constructed as scheduled. For the first half of 2014, the loss of Hainan Aerospace attributable to the Company amounted to HK\$190,000. Looking into the second half of 2014, Hainan Aerospace will complete the construction of the resettlement zone as soon as possible and actively plan the project of Hainan Space Park, as well as explore financing options so as to satisfy its capital needs for subsequent construction works.

Shenzhen Aerospace Science & Technology Plaza

In the first half of 2014, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) (“Shenzhen Aerospace”) progressed the construction work of Shenzhen Aerospace Science & Technology Plaza as planned. The auxiliary building, the annex building, and the core tube of the main building were topped out consecutively. The other construction works are progressing at present. Recently, the two non-controlling shareholders of Shenzhen Aerospace, due to its own strategic adjustment, transferred its holding of 40% interests in total to an independent third party by way of public tender. However, this transfer will not have material effect on the Company’s control and operating strategy towards Shenzhen Aerospace. In the second half of 2014, Shenzhen Aerospace will continue to step up those construction works, decoration and tendering works, striving for early completion of the work. Meanwhile, the works of business promotion and leasing have been started.

Shenzhen Aerospace recorded a fair value gain of investment property of HK\$33,402,000 in the first half of 2014. As at 30 June 2014, the property under construction and land use right of Shenzhen Aerospace Science & Technology Plaza was valued at approximately HK\$3,491,272,000.

Internet of Things

In the first half of 2014, Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) (“Aerospace Digitnexus”) had completed research and development of software platform and had more practical knowledge in core technology, products and markets. These set a clearer concept for future development. In the first half of 2014, the turnover was HK\$3,928,000 and the operating loss was HK\$8,248,000.

On 22 July 2014, the Company, Digilink Systems Limited (“Digilink”), a wholly-owned subsidiary of the Company which in turn owns the entire interest in Aerospace Digitnexus, entered into the Subscription Agreement with two strategic investors. Pursuant to the Subscription Agreement, the two strategic investors will subscribe a total of 83,815,915 shares of Digilink in a consideration of HK\$90,000,000. Upon the completion of the subscription, the shareholding of the Company in Digilink will decrease to 41.72%, which diversifies the shareholding of Digilink and expands the capital base so as to reduce investment risk.

In the second half of 2014, Aerospace Digitnexus will put effort in optimizing its product techniques, strengthening its market development, project management and human resources, and striving for the early completion of capital increase in order to lay a foundation for the company’s further development and profit realization.

Assets

As at 30 June 2014, the total assets of the Company and the subsidiaries were HK\$8,651,552,000, of which the non-current assets were HK\$5,847,594,000, representing a slight increase as compared with that of HK\$5,842,135,000 as at 31 December 2013. The current assets were HK\$2,803,958,000, representing a slight decrease as compared with that of HK\$2,845,045,000 as at 31 December 2013. The equity attributable to shareholders of the Company was HK\$4,671,303,000, representing a slight decrease as compared with that of HK\$4,696,014,000 as at 31 December 2013. The decrease in equity attributable to shareholders of the Company was due to the depreciation of Renminbi and the distribution of dividend of 2013 by the Company during the period. Based on the issued share capital of 3,085,022,000 shares during the period, the net assets per share attributable to shareholders of the Company was HK\$1.51.

As at 30 June 2014, a cash deposit of the Company and the subsidiaries of approximately HK\$26,363,000 had been pledged to banks to obtain credit facilities, and Shenzhen Aerospace had obtained a syndicated loan by securing the land use right and property under construction thereof at value of RMB2,800,000,000 to a syndicate comprising banks and a financial institution.

Liabilities

As at 30 June 2014, the total liabilities of the Company and the subsidiaries were HK\$3,148,613,000, of which the non-current liabilities were HK\$2,089,107,000, representing an increase of 8.97% as compared with that of HK\$1,917,086,000 as at 31 December 2013. The current liabilities were HK\$1,059,506,000, representing a decrease of 11.95% as compared with that of HK\$1,203,368,000 as at 31 December 2013. The increase in non-current liabilities was mainly due to the increase in bank loans, whereas the decrease in current liabilities was mainly due to the corresponding decrease in current liabilities upon a deemed disposal of a subsidiary, Shenzhen Rayitek. As at 30 June 2014, the Company and the subsidiaries had bank and other borrowings of HK\$1,476,309,000.

Shenzhen Aerospace entered into a syndicated loan agreement of RMB1,500,000,000 with a syndicate of financial institutions in 2011 for the payment of construction costs of Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction works, the construction costs will increase significantly. Shenzhen Aerospace will gradually drawdown the loan to pay the construction costs. Therefore, the relevant bank debt will gradually increase. As at 30 June 2014, Shenzhen Aerospace had drawn down the loan in the amount of RMB648,000,000.

Operating expenses

The administrative expenses of the Company and the subsidiaries in the first half of 2014 were HK\$163,949,000, representing an increase of 7.57% as compared with the same period of last year. The finance costs amounted to HK\$39,953,000, of which HK\$22,468,000 had been capitalized and recorded as the construction cost of Shenzhen Aerospace Science & Technology Plaza.

Contingent liabilities

As at 30 June 2014, the Company and the subsidiaries did not have any other material contingent liabilities.

Financial ratios

	First half of 2014	First half of 2013
Gross Profit Margin	21.75%	20.46%
Return on Net Assets	1.71%	8.09%
	30 June 2014	31 December 2013
Assets- Liabilities Ratio	36.39%	35.92%
Current Ratio	2.65	2.36
Quick Ratio	2.39	2.15

Liquidity

The source of funds of the Company and the subsidiaries mainly relies on internal resources, banking facilities and short term deposits. The free cash, bank balance and short-term bank deposits as at 30 June 2014 amounted to HK\$1,837,129,000, the majority of which were in Hong Kong Dollars and Renminbi.

Capital expenditure and investment commitment

As at 30 June 2014, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the condensed consolidated financial statements was HK\$585,120,000, mainly for the capital expenditure of the construction of Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction of Shenzhen Aerospace Science & Technology Plaza, Shenzhen Aerospace will draw down the syndicated loan by stages to settle related construction costs.

Financial risks

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

Human resources and remuneration policies

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

As at 30 June 2014, the Company and the subsidiaries have a total of approximately 6,900 employees based in the Mainland China and Hong Kong respectively.

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

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the first half of 2014.

CORPORATE GOVERNANCE

For the six months ended 30 June 2014, the Company had complied throughout the period with the provisions of the *Corporate Governance Code and Corporate Governance Report* as set out in Appendix 14 of the Listing Rules.

DIRECTORS' AND EXECUTIVE'S INTERESTS IN SHARES

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

As at 30 June 2014, save as disclosed below, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers*.

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

AUDIT COMMITTEE

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

The Audit Committee of the Company reviewed, discussed and approved the unaudited condensed consolidated financial statements for the six months ended 30 June 2014 that had been reviewed by the auditor, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

The Nomination Committee of the Company currently has a membership comprising three Independent Non-Executive Directors, Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, and two Non-Executive Directors, Mr Zhang Jianheng (Chairman) and Mr Chen Xuechuan. The responsibilities of the Nomination Committee are to review the structure, the number of members and its composition for the execution of the Company's policy.

EVENTS AFTER THE REPORTING PERIOD

On 22 July 2014, the Company, Digilink Systems Limited ("Digilink"), a wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Brilliant (Hong Kong) Investment Limited and Amber Treasure Global Limited. Pursuant to the Subscription Agreement, Brilliant (Hong Kong) Investment Limited will subscribe for 46,567,593 shares of Digilink at the consideration of HK\$50,000,000 and Amber Treasure Global Limited will subscribe for 37,248,322 shares of Digilink at the consideration of HK\$40,000,000. Upon the completion of the subscription, the shareholding of the Company in Digilink will decrease to 41.72%. Details of which please refer to the Company's announcement dated 22 July 2014.

On 30 July 2014 (Canadian time), a Purchase and Sale Agreement for the sale by the Vendor and purchase by the Purchaser of the Property was entered into between an indirect subsidiary of the Company, Vanbao Development (Canada) Ltd. (as vendor), and the Purchaser, Cressey Projects Corporation, following a public tender of the Property. The consideration for the Property is CAD19,200,000 (equivalent to approximately HK\$138,508,800). The sale and purchase of the Property is expected to be completed on the later of 45 days following the satisfaction of the Purchaser's conditions or 60 days following the satisfaction of the Vendor's conditions. Details of which please refer to the Company's announcement dated 31 July 2014.

APPRECIATION

Mr Wu Zhuo resigned as Non-Executive Director and Vice Chairman of the Company on 31 March 2014 on his graceful retirement. The Board extends its highly praised respect and heartfelt gratitude to Mr Wu Zhuo for his outstanding contributions to the Company's development during his tenure of services as Chairman and Vice Chairman of the Company.

At the same time, the Company would like to express its heartfelt thanks to all its employees, and shareholders, banks, business partners and other people from the society who have rendered support to the Company's development.

By order of the Board,
Zhang Jianheng
Chairman

Hong Kong, 18 August 2014

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

Executive Directors

Mr Li Hongjun (*President*)

Mr Jin Xuesheng

Non-Executive Directors

Mr Zhang Jianheng (*Chairman*)

Mr Chen Xuechuan

Mr Shi Weiguo

Independent Non-Executive Directors

Mr Luo Zhenbang

Ms Leung Sau Fan, Sylvia

Mr Wang Xiaojun

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