CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

(Stock Code: 31)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Liqiang
Mr. Zhou Qingquan
Mr. Zhao Yuanchang
Mr. Wu Hongju
Mr. Guo Xianpeng

Non-Executive Directors

Mr. Ma Xingrui *(Chairman)*
Mr. Lee Hung Sang
(Independent Director)
Mr. Chow Chan Lum, Charles
(Independent Director)
Mr. Luo Zhenbang *(Independent Director)*
Mr. Gong Bo
Mr. Chen Dingyi
Ms. Chan Ching Har, Eliza
Mr. Wang Yujun
Mr. Xu Jianhua

AUDIT COMMITTEE

Mr. Chow Chan Lum, Charles *(Chairman)*
Mr. Luo Zhenbang
Mr. Wang Yujun

REMUNERATION COMMITTEE

Ms. Chan Ching Har, Eliza *(Chairman)*
Mr. Lee Hung Sang
Mr. Chow Chan Lum, Charles
Mr. Luo Zhenbang
Mr. Gong Bo

COMPANY SECRETARY

Mr. Mui Chok Wah

AUDITORS

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Standard Registrars Limited

LEGAL COUNSELS

Sit, Fung, Kwong & Shum
Richards Butler

PRINCIPAL BANKERS

Bank of China (Hong Kong)
Wing Hang Bank
Standard Chartered Bank

REGISTERED OFFICE

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The Board of Directors (the "Board") of China Aerospace International Holdings Limited (the "Company") announces the unaudited results and financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006 together with the comparative figures of the same period in 2005 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	**Six months ended 30.6.2006 (Unaudited) HK$'000**	30.6.2005 (Unaudited and restated) HK$'000
Continuing operations			
Turnover	3	**711,333**	914,645
Cost of sales and services		**(516,761)**	(610,864)
Gross profit		**194,572**	303,781
Other income		**8,037**	5,940
Distribution costs		**(24,692)**	(19,339)
Administrative expenses		**(98,970)**	(85,729)
Share of results of associates		**–**	274
Share of results of jointly controlled entities		**(3,793)**	(5,269)
Impairment loss on available-for-sale investments		**–**	(146,705)
Finance costs		**(9,495)**	(15,014)
Profit before taxation	4	**65,659**	37,939
Taxation	5	**(12,109)**	(3,338)
Profit for the period from continuing operations		**53,550**	34,601
Discontinued operation	6		
Loss for the period from discontinued operation		**–**	(15,607)
Profit for the period		**53,550**	18,994
Attributable to:			
Equity holders of the Company		**53,473**	18,833
Minority interests		**77**	161
		53,550	18,994
Earnings (loss) per share – Basic	7		
From continuing and discontinued operations		**HK2.5 cents**	HK0.9 cent
From continuing operations		**HK2.5 cents**	HK1.6 cents
From discontinued operation		**HK$nil**	HK(0.7) cent

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	**30.6.2006 (Unaudited) HK$'000**	31.12.2005 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	9	**606,485**	590,351
Prepaid lease payments		**60,540**	60,795
Investment properties		**27,960**	27,110
Interests in associates		**8,105**	8,027
Interests in jointly controlled entities		**65,617**	69,410
Available-for-sale investments		**89,591**	90,827
Pledged bank deposits		**110,560**	110,560
		968,858	957,080
Current assets			
Inventories		**193,211**	125,383
Trade and other receivables	10	**323,374**	274,742
Prepaid lease payments		**2,090**	2,070
Loans receivable		**258,077**	258,077
Amounts due from associates		**3,627**	3,627
Taxation recoverable		**1,591**	2,659
Bank balances and cash		**427,947**	474,767
		1,209,917	1,141,325
Current liabilities			
Trade and other payables	11	**601,959**	576,271
Amounts due to associates		**1,050**	1,050
Amount due to a major shareholder	12	**191,607**	184,593
Taxation payable		**30,503**	20,938
Obligations under finance leases			
– amount due within one year		**3,737**	7,692
Secured bank loans	13	**12,872**	16,925
Other loans		**6,958**	6,891
		848,686	814,360
Net current assets		**361,231**	326,965
Total assets less current liabilities		**1,330,089**	1,284,045

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30 June 2006

	Notes	**30.6.2006 (Unaudited) HK$'000**	31.12.2005 (Audited) HK$'000
Non-current liabilities			
Obligations under finance leases			
– amount due after one year		**1,420**	3,987
Secured bank loans	13	**183,800**	191,780
Deferred taxation		**8,687**	7,954
		193,907	203,721
Net assets		**1,136,182**	1,080,324
Capital and reserves			
Share capital	14	**214,242**	214,242
Reserves		**902,549**	846,945
Equity attributable to equity holders of the Company		**1,116,791**	1,061,187
Minority interests		**19,391**	19,137
Total equity		**1,136,182**	1,080,324

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	(Accumulated losses) retained profit HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005	2,142,420	939,048	14,044	23,916	(31,260)	–	1,080	(2,331,468)	757,780	19,434	777,214
Increase in fair value changes of available-for-sale investments	–	–	–	–	–	10,503	–	–	10,503	–	10,503
Exchange differences arising on translation of foreign operations	–	–	–	–	6,655	–	–	–	6,655	231	6,886
Reserves realised upon disposal of subsidiaries	–	–	–	–	(339)	–	–	–	(339)	–	(339)
Reserves realised upon disposal of associates	–	–	–	–	185	–	–	–	185	–	185
Net income recognised directly in equity	–	–	–	–	6,501	10,503	–	–	17,004	231	17,235
Profit for the year	–	–	–	–	–	–	–	286,403	286,403	(528)	285,875
Total recognised income (expense) for the year	–	–	–	–	6,501	10,503	–	286,403	303,407	(297)	303,110
Capital reduction	(1,928,178)	–	–	–	–	–	–	1,928,178	–	–	–
Cancellation of share premium account	–	(939,048)	–	–	–	–	–	939,048	–	–	–
At 31 December 2005 and 1 January 2006	214,242	–	14,044	23,916	(24,759)	10,503	1,080	822,161	1,061,187	19,137	1,080,324
Decrease in fair value changes of available-for-sale investments	–	–	–	–	–	(1,236)	–	–	(1,236)	–	(1,236)
Exchange difference arising on translation of foreign operations	–	–	–	–	3,289	–	–	–	3,289	177	3,466
Share of reserve of associates	–	–	–	–	78	–	–	–	78	–	78
Net income (expense) recognised directly in equity	–	–	–	–	3,367	(1,236)	–	–	2,131	177	2,308
Profit for the period	–	–	–	–	–	–	–	53,473	53,473	77	53,550
At 30 June 2006	214,242	–	14,044	23,916	(21,392)	9,267	1,080	875,634	1,116,791	19,391	1,136,182
At 1 January 2005	2,142,420	939,048	14,044	23,916	(31,260)	–	1,080	(2,331,468)	757,780	19,434	777,214
Profit for the period	–	–	–	–	–	–	–	18,833	18,833	161	18,994
At 30 June 2005	2,142,420	939,048	14,044	23,916	(31,260)	–	1,080	(2,312,635)	776,613	19,595	796,208

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended	
	30.6.2006	30.6.2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash from (used in) operating activities	**341**	(87,538)
Net cash (used in) from investing activities		
Proceeds from disposal of property, plant and equipment	**356**	184,666
Proceeds from disposal of investment properties	**–**	352,550
Purchase of property, plant and equipment	**(34,081)**	(36,689)
Other investing cash flows	**5,557**	8,068
	(28,168)	508,595
Net cash used in financing activities		
Repayments of borrowings	**(12,033)**	(244,425)
Repayment of finance lease obligations	**(6,522)**	(6,613)
Other financing cash flows	**(2,414)**	(6,039)
	(20,969)	(257,077)
Net (decrease) increase in cash and cash equivalents	**(48,796)**	163,980
Cash and cash equivalents at beginning of the period	**474,767**	326,050
Effect of foreign exchange rate changes	**1,976**	–
Cash and cash equivalents at end of the period	**427,947**	490,030
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**427,947**	500,012
Bank overdrafts	**–**	(9,982)
	427,947	490,030

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The condensed 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 Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Comparatives for 2005 have been restated to conform with the current period presentation for continuing and discontinued operations.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies”[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 March 2006.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.

3. SEGMENT INFORMATION

Business segments

In prior periods, the Group was also involved in the television manufacturing business. That operation was discontinued for the year ended 31 December 2005.

The Group's turnover and segment results analysed by business segments, which is the primary segment, are as follows:

For the six months ended 30 June 2006

	Turnover			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment result HK$'000
Manufacturing				
Plastic products	277,172	34,915	312,087	32,336
Liquid crystal display	123,463	–	123,463	9,852
Printed circuit boards	104,227	–	104,227	24,686
Intelligent chargers and security system	193,341	–	193,341	27,971
Other products	2,327	–	2,327	(3,453)
	700,530	34,915	735,445	91,392
Property	5,242	4,969	10,211	8,666
Trading	3	–	3	(300)
Finance	5,558	929	6,487	4,446
	711,333	40,813	752,146	104,204
Eliminations	–	(40,813)	(40,813)	(11,182)
	711,333	–	711,333	93,022
Unallocated corporate income				2,984
Unallocated corporate expense				(17,059)
				78,947
Share of results of jointly controlled entities				(3,793)
Finance costs				(9,495)
Profit before taxation				65,659
Taxation				(12,109)
Profit for the period from continuing operations				53,550

Inter-segment sales are charged at prevailing market prices.

3. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the six months ended 30 June 2005

	Turnover					Segment result	
	Continuing operations			Discontinued operation			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	External sales HK$'000	Consolidated total HK$'000	Continuing operations HK$'000	Discontinued operation HK$'000
Manufacturing							
Plastic products	241,533	24,035	265,568	–	265,568	26,044	–
Liquid crystal display	63,111	–	63,111	–	63,111	4,988	–
Audio-video products	–	–	–	115,244	115,244	–	(15,607)
Printed circuit boards	79,030	–	79,030	–	79,030	13,379	–
Intelligent chargers and security system	156,053	–	156,053	–	156,053	22,530	–
Other products	–	–	–	–	–	(676)	–
	539,727	24,035	563,762	115,244	679,006	66,265	(15,607)
Property	365,222	5,822	371,044	–	371,044	164,298	–
Trading	8,138	–	8,138	–	8,138	818	–
Finance	1,558	712	2,270	–	2,270	824	–
	914,645	30,569	945,214	115,244	1,060,458	232,205	(15,607)
Eliminations	–	(30,569)	(30,569)	–	(30,569)	(10,182)	–
	914,645	–	914,645	115,244	1,029,889	222,023	(15,607)
Unallocated corporate income						2,930	–
Unallocated corporate expense						(20,300)	–
						204,653	(15,607)
Share of results of associates						274	–
Share of results of jointly controlled entities						(5,269)	–
Impairment loss on available-for-sale investments						(146,705)	–
Finance costs						(15,014)	–
Profit before taxation						37,939	(15,607)
Taxation						(3,338)	–
Profit for the period						34,601	(15,607)

Inter-segment sales are charged at prevailing market prices.

4. PROFIT BEFORE TAXATION

	Continuing operations Six months ended	
	30.6.2006	30.6.2005
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	**1,045**	1,035
Depreciation on property, plant and equipment	**22,029**	22,773
Fair value changes of investment properties	**(850)**	–
(Gain) loss on disposal of property, plant and equipment	**(65)**	4,573
Interest income	**(5,557)**	(1,557)

Depreciation on property, plant and equipment for the six months ended 30 June 2005 in respect of discontinued operation amounted to HK$1,030,000 (1.1.2006 to 30.6.2006: nil).

5. TAXATION

	Continuing operations Six months ended	
	30.6.2006	30.6.2005
	HK$'000	HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**2,160**	12,183
PRC Enterprise Income Tax	**9,216**	561
	11,376	12,744
Deferred tax	**733**	(9,406)
Taxation attributable to the Company and its subsidiaries	**12,109**	3,338

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods.

Pursuant to relevant laws and regulations in the PRC, certain of the Company's subsidiaries are entitled to exemption from income tax under certain tax holidays and concessions. Income tax was calculated at rates given under the concessions.

6. DISCONTINUED OPERATION

On 13 September 2005, a subsidiary of the Company entered into a sale agreement to dispose of the entire television manufacturing business. The disposal was completed in February 2006. Accordingly, certain comparative figures were restated so as to reflect the results for the discontinued operation.

The results of the television manufacturing operation for the six months ended 30 June 2005 are as follows:

	HK$'000
Turnover	115,244
Cost of sales	(112,729)
Other income	276
Distribution costs	(2,602)
Administrative expenses	(15,796)
Loss for the period	(15,607)

In 2005, the television manufacturing operation contributed HK$25,764,000 to the Group's operating cash flows, received HK$7,030,000 in respect of investing activities and paid HK$33,491,000 in respect of financing activities.

7. EARNINGS (LOSS) PER SHARE – BASIC

From continuing and discontinued operations

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company for the period is based on the profit for the period attributable to the equity holders of the Company of HK$53,473,000 (1.1.2005 to 30.6.2005: HK$18,833,000) and on 2,142,420,000 shares (1.1.2005 to 30.6.2005: 2,142,420,000 shares) in issue during the period.

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the profit for the period from continuing operations of HK$53,473,000 (1.1.2005 to 30.6.2005: HK$34,440,000 representing the profit for the period attributable to the equity holders of the Company of HK$18,833,000 before taking into account of the loss for the period from discontinued operation of HK$15,607,000) and on 2,142,420,000 shares (1.1.2005 to 30.6.2005: 2,142,420,000 shares) in issue during the period.

7. EARNINGS (LOSS) PER SHARE – BASIC *(Continued)*

From discontinued operation

The calculation of the basic loss per share from discontinued operation for the six months ended 30 June 2005 is based on the loss for the period from discontinued operation of HK$15,607,000 and on 2,142,420,000 shares in issue during the period.

8. DIVIDEND

No interim dividend was paid by the Company during the current period. The directors do not recommend payment of an interim dividend.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group spent HK$34,081,000 (1.1.2005 to 30.6.2005: HK$38,519,000) on acquisition of property, plant and equipment.

The Group's investment properties were fair valued by Dudley Surveyors Limited, an independent qualified professional valuers not connected with the Group, at 30 June 2006. The resulting increase in fair value of investment properties of HK$850,000 has been recognised directly in the condensed consolidated income statement.

10. TRADE AND OTHER RECEIVABLES

At 30 June 2006, included in trade and other receivables are trade receivables of HK$211,147,000 (31.12.2005: HK$195,315,000). The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	30.6.2006 **HK$'000**	31.12.2005 HK$'000
Within 90 days	**206,913**	195,315
Between 91-180 days	**4,234**	–
	211,147	195,315

11. TRADE AND OTHER PAYABLES

At 30 June 2006, included in trade and other payables are trade payables of HK$288,284,000 (31.12.2005: HK$316,776,000). The following is an aged analysis of trade payables at the reporting date:

	30.6.2006	31.12.2005
	HK$'000	HK$'000
Within 90 days	**249,232**	280,739
Between 91-180 days	**3,983**	4,402
Between 181-365 days	**4,195**	1,440
Between 1 to 2 years	**1,232**	8,977
Over 2 years	**29,642**	21,218
	288,284	316,776

12. AMOUNT DUE TO A MAJOR SHAREHOLDER

The amount represents amount due to China Aerospace Science & Technology Corporation ("CASC") which bears interest at a range from 7.75% to 8.25% (2005: 4.5%) per annum and is repayable on 31 December 2006.

13. SECURED BANK LOANS

At 30 June 2006, the Group's certain investment properties, property, plant and equipment and bank deposits with aggregate net book values of HK$26,110,000, HK$34,375,000 and HK$110,560,000 respectively were pledged for the Group's bank loans.

14. SHARE CAPITAL

There was no movement in the authorised, issued and fully paid share capital of the Company during the interim reporting period.

15. CAPITAL COMMITMENTS

	30.6.2006 HK$'000	31.12.2005 HK$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
– capital contribution to investee companies	**2,829**	2,829
– purchase of property, plant and equipment	**6,716**	10,498
– properties under development	**24,847**	329
	34,392	13,656

16. CONTINGENT LIABILITIES

A subsidiary of the Company was named as a defendant in a litigation in respect of an alleged breach of the loan agreement in failing to advance the full amount of HK$330,000,000 to an independent third party in 1997. Concurrently, the subsidiary resisted the claim and counterclaimed against the independent third party and sued against its guarantor upon default on, including but not limited to, interest and payment of the loan amount advanced under the loan agreement and the mortgage. On 30 July 2004, the Court judged that the independent third party was entitled to damages consequent upon the subsidiary's breach of loan agreement. However, the subsidiary was also entitled to repayment of principal outstanding under the loan agreement and interest thereon in terms of the loan agreement and to judgement against both the owners of the pledged assets under the mortgage and the guarantor under the guarantee.

The compensation to be made to the independent third party and the loan principal and interest to be received by the subsidiary have not yet been concluded. In the opinion of the directors, the amount of compensation cannot be determined at this stage and no further impairment loss was made accordingly.

17. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

Name of related company	Relationship	Nature of transactions	Six months ended 30.6.2006 HK$'000	Six months ended 30.6.2005 HK$'000
CASC	Major shareholder	Interest expenses paid	**7,014**	3,975

17. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CASC which is controlled by the PRC government. Apart from the transactions with CASC disclosed in section (a) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In view of the nature of the Group's nature of business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled entities.

The Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those transactions, the directors are of the opinion that separate disclosure on these transactions and balances would not be meaningful.

18. POST BALANCE SHEET EVENT

On 20 March 2006, CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, entered into an agreement with CASC pursuant to which CASIL Clearing has agreed to purchase and CASC has agreed to sell approximately 79.25% of the issued share capital of Vanbao Development (Canada) Ltd., the related shareholders loan and 100% of the registered capital of Dongguan Huadun Enterprises Limited at an aggregate consideration of HK$92,884,290, payable by assigning of certain of the loans receivable of CASIL Clearing. As the aggregate book value of the loans receivable, which amounted to approximately HK$188 million to be assigned by CASIL Clearing to CASC or its nominee exceeds the aggregate consideration, CASC has agreed that the difference be set-off against the shareholder's loan due from the Company to CASC as at the date of completion (up to a maximum of HK$80,000,000) and the balance to be paid by CASC to CASIL Clearing in cash.

As CASC is the controlling shareholder of the Company, the entering into of the Sale and Purchase Agreement between CASIL Clearing and CASC constitutes a connected transaction for the Company under the Listing Rules and was approved by the Independent Shareholders by way of poll at the Extraordinary General Meeting on 26 April 2006. The transaction is expected to be completed on or before 30 September 2006.

The transaction will be accounted for in accordance with HKFRS 3. Since the fair values of the identified assets, liabilities and contingent liabilities required have not yet been finalised, in the opinion of the directors of the Company, it is not practicable to disclose the relevant information required under HKFRS 3.

BUSINESS REVIEW

For the first half of 2006, the Group had fully implemented its business restructuring plan and achieved improved results. The Group's overall asset allocation was optimized and our core competitiveness and advantages in major businesses were further enhanced, thereby maintaining a strong momentum for growth.

For the six months ended 30 June 2006, the Group recorded a turnover of HK$711,333,000, representing a decrease of 22% over the corresponding period; gross profit amounted to HK$194,572,000, representing a decrease of 36% when comparing to the same period of last year; profit before tax amounted to HK$65,659,000, representing a 73% increase over the corresponding period in 2005; profit attributable to shareholders was HK$53,550,000 (or HK2.5 cents per share), resulting in a substantial increase of 1.8 times over the same period of last year.

Although both turnover and gross profit as at 30 June 2006 decreased as compared with the corresponding period prior to the implementation of business restructuring and without taking into account the exceptional gains from disposal of property, turnover and operating profit from industrial manufacturing business, which mainly includes plastic injection and related processing, printed circuit boards, intelligent battery chargers and LCDs, have improved. During the first half of 2006, total turnover of the Group's industrial manufacturing business was HK$700,530,000, representing an increase of 30% as compared with the corresponding period of last year. Operating profit was HK$91,392,000, representing an increase of 38% as compared with the same period last year.

Our sustained growth in industrial manufacturing business was attributable to the Group's continued efforts and timely measures with respect to business adjustment and optimization, therefore we were able to secure a group of loyal customers, establish an efficient production and management system and enhance our product research and development. On such basis, all business divisions under the industrial manufacturing segment have achieved outstanding results, among which, LCD business has achieved remarkable results with turnover and operating profit substantially increased by 96% and 98% to HK$123,463,000 and HK$9,852,000 respectively as compared with the same period last year. While turnover from printed circuit boards amounted to HK$104,227,000 and operating profit amounted to HK$24,686,000, an increase of 32% and 85% respectively as compared with the same period last year. Turnover from plastic injection and intelligent battery chargers were HK$277,172,000 and HK$193,341,000 respectively, an increase of 15% and 24% as compared with the same period last year. The operating profit of plastic injection and intelligent battery chargers were HK$32,336,000 and HK$27,971,000 respectively, an increase of 24% as compared with last year.

BUSINESS REVIEW *(Continued)*

With an effort to further strengthen our core competitive edges in industrial manufacturing business as well as to enhance our operational efficiency, the Group commenced the construction of Phase III in the China Aerospace Industrial Park in Huizhou during the first half of 2006, which comprised three high standard electronic industrial plants with a total gross floor area of more than 40,000 sq.m. Such facilities are intended to accommodate the future development of the industrial manufacturing business. The construction work is expected to be completed by 2007 and would offer improved facilities for the development of industrial manufacturing business.

On 20 March 2006, the Group entered into a Sale and Purchase Agreement with China Aerospace Science & Technology Corporation ("CASC") for the acquisition of two property investment companies from CASC and setting-off of shareholder's loan. Pursuant to the Sale and Purchase Agreement, the Group would assign certain loans receivable with an aggregate book value of HK$188 million to CASC. In consideration, CASC had agreed to sell approximately 79.25% of the issued share capital of Vanbao Development (Canada) Limited, the related shareholders loan and 100% of the registered capital of Dongguan Huadun Enterprises Limited and set off shareholder's loan up to HK$80 million due from the Group to CASC, with balance paid in cash.

Upon completion of the transactions, the Group's loans receivable balance will be substantially reduced, thus further optimizing our asset quality and structure. The assets to be acquired from CASC mainly comprised land and/or land use rights, with strong capital appreciation potential and liquidity. Since the above transactions constituted a connected transaction of the Group, an ordinary resolution in respect of the Sale and Purchase Agreement has been duly approved by the independent shareholders at the Extraordinary General Meeting ("EGM") being held on 26 April 2006. To date, the equity transfer of Dongguan Huadun Enterprises Limited has been completed and the transfer of 79.25% issued share capital of Vanbao Development (Canada) Limited is still under processing. It is expected that the relevant transaction between the Group and CASC will be completed in the second half of the year.

Looking forward to the second half of the year, the Group will strive to maintain the growth momentum of the industrial manufacturing business as well as to further enhance our sales and profitability. For the development of science park and high technology industry business, the Group will actively pursue any opportunity to establish a foothold in such new frontier.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2006, the total assets of the Group were HK$2,178,775,000, of which the non-current portion and the current portion were HK$968,858,000 and HK$1,209,917,000 respectively. The total liabilities was about HK$1,042,593,000, of which the non-current and the current portion were HK$193,907,000 and HK$848,686,000 respectively. As at 30 June 2006, the Group had no contingent liabilities except for the litigation as disclosed under the "Condensed Financial Statements" Notes 16 on this report. As at 30 June 2006, the gearing ratio was 47.9%, representing a slight improvement compared to that of 48.5% at the end of last year and the current ratio was 1.43, which was relatively better than that of 1.40 at the end of last year.

The source of funding of the Group is mainly from its internal financial resources and banking facilities. The Group's cash on hand as at 30 June 2006 was about HK$538,507,000 (included pledged deposit of HK$110,560,000), mainly in HK dollars and the rest in RMB and US dollars. The Group reviews its cash flow and financial position periodically and does not engage any financial instruments or derivatives to hedge the exchange and the interest rate risks.

The Company announced on 20 March 2006 entered into a transaction ("Transaction") with CASC for the acquisition of two property investment companies from CASC and setting-off of shareholder's loan. CASIL Clearing Limited and CASC entered into the Sale and Purchase Agreement. The particulars of the Transaction were described in the circular dated 10 April 2006 despatched to the shareholders of the Company. The independent shareholders of the Company had approved the Transaction at the EGM held on 26 April 2006.

As at 30 June 2006, the Group has about 5,916 staff in both the Mainland and Hong Kong.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

CASIL Clearing Limited, a wholly-owned subsidiary of the Company, had made advances to certain independent third party companies in the past. The outstanding balance of the advances as at 30 June 2006 were as follows:

Borrowers	Interest rate	Securities	Outstanding balance as at 30 June 2006
Rich Echo Investment Limited	12.5%	Corporate and personal guarantees	HK$87,808,000
Chinluck Properties Limited**	15.0%	A piece of land and a personal guarantee	HK$70,269,000
East Pioneer International Limited	12.5%	Corporate and personal guarantees	HK$100,000,000

** A court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received in July 2004. The judgment was merely a fact finding and confined to issues of liability only. For the issues of damages, both parties have arranged for further hearing in October 2006.

DIRECTORS' AND EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2006, 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 Companies.

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 of the Listing Rules. Having made specific enquiry of all the directors of the Company for the first half of 2006 and in accordance with information provided, all the directors have compiled with the provisions under the Model Code of the relevant period.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the following declarations of interests by shareholders holding 5% or more of the issued capital of the Company have been recorded in the Register of Interests pursuant to Part XV of the Securities & Futures Ordinance:

Name	Capacity	Number of shares interested	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interests in controlled corporation *(Note 1)*	901,441,064	42.08%
Jetcote Investments Limited	Beneficial owner	109,864,176	5.13%
	Interests in controlled corporation *(Note 2)*	791,576,888	36.95%
		901,441,064	42.08%
Burhill Company Limited	Beneficial owner *(Note 2)*	398,303,980	18.59%
Sin King Enterprises Company Limited	Beneficial owner *(Note 2)*	393,272,908	18.36%

Notes:

1. These 901,441,064 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly owned subsidiary of China Aerospace Science & Technology Corporation.

2. All these companies 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.

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

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

CORPORATE GOVERNANCE

For the six months ended 30 June 2006, the Company had compiled throughout the period with the provisions of the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

On 27 December 2001, China Great Wall Industry Corporation ("GWIC") advanced US$6 million to CASIL Telecommunications Holdings Limited ("CASTEL"), then a subsidiary of the Company. Given that the financial assistance given by GWIC, an associate of the substantial shareholder of the Company, to CASTEL, was on normal commercial terms and no securities over assets had been given to GWIC in respect of the loan, the loan was a connected transaction under Listing Rule 14.24(8) of the relevant time and was exempt from disclosure or independent shareholders' approval requirement. CASTEL operated independently as a listed issuer and had not informed the Company of the transaction. Nevertheless, it is noted that the Company had described the loan as "other loans" from independent third party instead of loans from related parties in its 2001 and 2002 annual reports. CASTEL ceased to be the Company's subsidiary in September 2003 and the Company ceased to have any interests in CASTEL on 10 July 2005.

AUDIT COMMITTEE

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Mr. Chow Chan Lum, Charles (the Chairman) and Mr. Luo Zhenbang, and a non-executive director, Mr. Wang Yujun. The Audit Committee of the Company reviewed, discussed and approved this 2006 unaudited interim report that had been reviewed by the auditors, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company currently has a membership comprising three independent non-executive directors, Mr. Chow Chan Lum, Charles, Mr. Luo Zhenbang and Mr. Lee Hung Sang, and two non-executive directors, Ms. Chan Ching Har, Eliza (the Chairman) and Mr. Gong Bo. The major roles and functions of the Remuneration Committee are to formulate remuneration policy and to determine the remuneration of the Directors and senior management.

APPRECIATION

I would like to express, on behalf of the Board of Directors, my sincere gratitude to our shareholders, bankers, business partners, people from various social communities, as well as all staff of the Group for their long-time support.

By order of the Board
Zhao Liqiang
Executive Director

Hong Kong, 31 August 2006

Deloitte.
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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by China Aerospace International Holdings Limited to review the interim financial report set out on pages 2 to 15.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 August 2006