深圳中航實業股份有限公司

CATIC SHENZHEN HOLDINGS LIMITED

(Stock code 股份代號：0161)

07 Interim Report

中期報告

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Mr. Wu Guang Quan

Executive Directors
Mr. Lai Wei Xuan
Mr. Sui Yong
Mr. Cheng Bao Zhong
Mr. Liu Rui Lin
Mr. Xu Dong Sheng
Mr. You Lei
Mr. Wang Bao Ying

Independent non-executive Directors
Mr. Poon Chiu Kwok
Mr. Eugene Liu
Mr. Liu Xian Fa

Non-executive Directors
Mr. Wang Bin Bin
Mr. Li Cheng Ning

COMPANY SECRETARY

Mr. Zeng Jun
Mr. Huang Yong Feng

REGISTERED ADDRESS

Level 25, Hangdu Building
CATIC Zone, Shennan Road Central
Futian District, Shenzhen, PRC

PLACE OF BUSINESS IN HONG KONG

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Two International Finance Centre
No. 8 Finance Street, Central
Hong Kong

H SHARE REGISTRAR AND TRANSFER OFFICE (FOR SHARES TRANSFER)

Hong Kong Registrars Limited
Rooms 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISER

Loong & Yeung

PRINCIPAL BANKERS

Bank of China
China Construction Bank
Shenzhen Development Bank Co., Ltd.
China Minsheng Banking Corp., Ltd.
Industrial Bank Co., Ltd.

The Board ("Board") of directors ("Directors") of CATIC Shenzhen Holdings Limited ("the Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively "the Group") for the six months ended 30th June 2007 prepared in accordance with the International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**30th June 2007 Unaudited** *RMB'000*	31st December 2006 Audited *RMB'000*
ASSETS			
Non-current assets	*7*		
Property, plant and equipment		**749,151**	759,763
Investment properties		**197,556**	209,286
Construction-in-progress		**875,356**	446,349
Leasehold land and land use rights		**185,917**	50,706
Investments in associates		**27,248**	27,319
Available-for-sale investments		**457,663**	235,890
Deferred tax assets		**34,480**	34,090
Other non-current assets		**460,318**	8,335
		2,987,689	1,771,738
Current assets			
Inventories		**734,741**	615,586
Trade receivables	*8*	**499,868**	504,870
Notes receivable		**334,088**	265,741
Prepayments and other receivables		**158,369**	92,044
Financial assets at fair value through profit or loss		**88,979**	62,965
Other current assets		**2,733**	2,275
Cash and cash equivalents		**2,007,454**	740,912
		3,826,232	2,284,393
Current liabilities			
Trade payables	*9*	**535,644**	447,832
Notes payable		**43,037**	59,104
Current borrowings		**1,318,206**	938,548
Salary and staff welfare payable		**63,415**	63,596
Accruals and other payables		**499,272**	187,518
Current tax liabilities		**10,012**	14,545
		2,469,586	1,711,143
Net current assets		**1,356,646**	573,250
Total assets less current liabilities		**4,344,335**	2,344,988

The accompanying notes are an integral part of this condensed interim financial information.

	Note	30th June 2007 Unaudited RMB'000	31st December 2006 Audited RMB'000
Financed by:			
Capital and reserves			
Share capital		**636,000**	636,000
Share premium		**161,105**	161,105
Other reserves		**477,409**	313,346
Retained earnings		**278,602**	186,903
		1,553,116	1,297,354
Minority interests		**1,167,520**	997,943
Total equity		**2,720,636**	2,295,297
Non-current liabilities			
Non-current borrowings		**1,550,442**	10,000
Deferred tax liabilities		**60,060**	26,794
Deferred income on government grants		**13,197**	12,897
		1,623,699	49,691
Total equity and non-current liabilities		**4,344,335**	2,344,988

The accompanying notes are an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30th June **2007** ***RMB'000***	 2006 (Restated – Note 3) *RMB'000*
Revenue	*4*	**1,508,039**	1,190,839
Cost of sales		**(1,152,187)**	(899,323)
Gross profit		**355,852**	291,516
Other income		**9,572**	6,355
Selling expenses		**(76,882)**	(60,990)
General and administrative expenses		**(134,192)**	(110,682)
Other gain		**26,043**	23,122
Operating profit	*5*	**180,393**	149,321
Finance costs – net		**(32,958)**	(21,076)
Share of (loss)/profit of associates		**(1,525)**	37
Profit before taxation		**145,910**	128,282
Taxation	*6*	**(22,088)**	(17,656)
Profit for the half-year		**123,822**	110,626
Attributable to:			
– equity holders of the Company		**91,699**	82,825
– minority interests		**32,123**	27,801
		123,822	110,626
		RMB per share	*RMB per share* (Restated)
Earnings per share for profit from continuing operations attributable to the equity holders of the Company for the half-year, basic and diluted (expressed in RMB per share)	*10*	**0.1442**	0.1290
Dividends		**–**	–

The accompanying notes are an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Minority interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000* (Restated)	*RMB'000* (Restated)	*RMB'000*	*RMB'000*
Balance as at 1st January 2006	642,000	165,198	241,644	116,772	607,893	1,773,507
Profit for the half-year	–	–	–	82,825	27,801	110,626
Capital contributed by minority interests	–	–	–	–	159,650	159,650
Transfer of equity interest to minority interests following a subsidiary's share segregation reform	–	–	(61,673)	–	61,673	–
Dividend relating to 2005	–	–	–	(3,852)	(6,291)	(10,143)
Balance as at 30th June 2006	642,000	165,198	179,971	195,745	850,726	2,033,640
Balance as at 1st January 2007	636,000	161,105	313,346	186,903	997,943	2,295,297
Profit for the half-year	–	–	–	91,699	32,123	123,822
Fair value gains from available-for-sale investments, net of tax	–	–	164,063	–	24,444	188,507
Capital contributed by minority interests	–	–	–	–	151,410	151,410
Reduction in minority interests	–	–	–	–	(5,945)	(5,945)
Dividends relating to 2006	–	–	–	–	(32,455)	(32,455)
Balance as at 30th June 2007	**636,000**	**161,105**	**477,409**	**278,602**	**1,167,520**	**2,720,636**

The accompanying notes are an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30th June 2007	2006
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash (used in)/generated from operations	**(38,068)**	177,277
Interest paid	**(31,850)**	(16,389)
Tax paid	**(27,011)**	(48,547)
Net cash (used in)/generated from operating activities	**(96,929)**	112,341
Cash flows from investing activities		
Purchase of property, plant and equipment	**(31,804)**	(67,211)
Purchase of leasehold land and land use rights	**(7,223)**	(16,826)
Additions to construction-in-progress	**(380,743)**	(1,057)
Additions to other non-current assets	**(252,950)**	(599)
Reduction in minority interests	**(4,547)**	–
Proceeds from disposal of property, plant and equipment	**188**	113
Deemed disposal of a subsidiary	**(2,973)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	**29**	2,062
Purchase of available-for-sale investments	**–**	(31,310)
Government grants received	**1,300**	–
Interest received	**3,139**	–
Net cash used in investing activities	**(675,584)**	(114,828)
Cash flows from financing activities		
Proceeds from borrowings	**1,920,100**	395,294
Dividends paid	**–**	(3,852)
Capital contribution to subsidiaries by minority interests	**151,410**	159,650
Dividends paid to minority interests of subsidiaries	**(32,455)**	(6,291)
Net cash generated from financing activities	**2,039,055**	544,801
Net increase in cash and cash equivalents	**1,266,542**	542,314
Cash and cash equivalents at 1st January	**740,912**	259,610
Cash and cash equivalents at 30th June	**2,007,454**	801,924

The accompanying notes are an integral part of this condensed interim financial information.

Notes:

1. General information

CATIC Shenzhen Holdings Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sale of watches and clocks, liquid crystal displays, printed circuit boards, cable television equipment and other high-tech electronic products in the PRC.

2. Basis of preparation

This condensed consolidated interim financial statements for the six months ended 30th June 2007 (the "Interim Financial Statements") has been prepared in accordance with International Accounting Standard 34, "Interim financial reporting". The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31st December 2006 (the "2006 Financial Statements") as set out in the 2006 annual report of the Company dated 6th June 2007.

3. Accounting policies

The accounting policies adopted in preparing the Interim Financial Statements are consistent with those of the 2006 Financial Statements. Accordingly, certain comparatives relating to the attributable cost of shares transferred by the Company to the A shares shareholders under the share segregation reform of Shenzhen Tian Ma Microelectronics Co., Ltd. ("Tian Ma") have been restated. Such cost, which was charged to the income statement in the last corresponding period, has been restated and debited to other reserves. As a result, the comparative profit after tax was increased by RMB24.538 million and the comparative interim earnings per share was increased to approximately RMB12.9 cents.

The following new standards, amendments to standards and interpretations are mandatory for interim period for the 6 months ended 30th June 2007:

- IAS 1: Amendments to Capital Disclosures, applicable for annual periods beginning on or after 1st January 2007. It is not required to apply the disclosure requirements in IAS 1 as the interim financial report includes only condensed financial statements and selected explanatory notes. Full disclosures as required by IAS 1 will be disclosed in the year-end financial statements;

- IFRS 7: Financial Instruments Disclosures, applicable for annual periods beginning on or after 1st January 2007. It is not required to apply the disclosure requirements in IFRS 7 as the interim financial report includes only condensed financial statements and selected explanatory notes. Full disclosures as required by IFRS 7 will be disclosed in the year-end financial statements;

- IFRIC-Int 7: Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies', applicable for annual periods beginning on or after 1st March 2006. This interpretation is not relevant for the Group;

- IFRIC -Int 8: Scope of IFRS 2, Share-based Payment, applicable for annual periods beginning on or after 1st May 2006. This interpretation is not relevant for the Group;

- IFRIC-Int 9: "Reassessment of Embedded Derivatives", applicable for annual periods beginning on or after 1st June 2006. This interpretation has no material impact on the Group;

- IFRIC-Int 10: Interim Financial Reporting and Impairment, applicable for annual periods beginning on or after 1st November 2006. The interpretation has no material impact on the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for interim period for the 6 months ended 30th June 2007 and have not been early adopted:

- IFRS 8: Operating Segments, effective for annual periods beginning on or after 1st January 2009. The Group will apply IFRS 8 from annual periods beginning 1st January 2009 and the management is currently assessing its impact on the Group;

- IFRIC-Int 11: IFRS 2 - Group and Treasury Share Transactions, effective for annual periods beginning on or after 1st March 2007. The interpretation has no material impact on the Group;

- IFRIC-Int 12: Service Concession Arrangements, effective for annual periods beginning on or after 1st January 2008. The interpretation has no material impact on the Group;

- IFRIC-Int 13: Customer Loyalty Programmes, effective for annual periods beginning on or after 1st July 2008. The Group will apply IFRIC-Int 13 from annual period beginning 1st July 2008 and the management is currently assessing the impact on the Group;

- IAS 23 Revised, "Borrowing Costs", effective for annual periods beginning on or after 1st January 2009. The Group will apply IAS 23 revised from annual periods beginning 1st January 2009, and the management is currently assessing its impact on the Group.

4. Segment reporting

The revenue and profit/(loss) after taxation of the Group for the six months ended 30th June 2007 by activities are classified as follows:

	Revenue		**Profit/(loss) after taxation**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000* (Restated)
LCD	**765,553**	640,921	**37,979**	42,194
PCB	**372,350**	303,062	**64,958**	56,087
Timepieces	**328,601**	207,310	**5,564**	(3,031)
Lease	**26,572**	22,433	**20,845**	16,507
Others	**14,963**	17,113	**(1,564)**	(3,477)
Unallocated items	**–**	–	**(3,960)**	2,346
Total	**1,508,039**	1,190,839	**123,822**	110,626

5. Operating profit

The following items have been included in arriving operating profit:

	Unaudited 30th June 2007	30th June 2006
	RMB'000	*RMB'000* (Restated)
Amortisation of leasehold land and land use rights	**3,084**	731
Amortisation of other non-current assets	**2,316**	1,404
Depreciation		
– property, plant and equipment	**55,393**	44,003
– investment properties	**3,646**	7,286
(Gain)/Loss on disposal of property, plant and equipment	**934**	(8)
Provision for inventory obsolescence	**3,101**	1,674
(Reversal of)/provisions for impairment losses in respect of		
– trade receivables	**(718)**	980
– other receivables	**(4,058)**	111
(Gain)/Loss from financial assets at fair value through profit or loss		
– fair value gain	**(26,043)**	(22,972)
Interest expenses on borrowings	**26,375**	19,898

6. Taxation

Pursuant to the relevant income tax laws of the PRC, the Group and its associates established by the Group in the Shenzhen Special Economic Zone are subject to income tax at a rate of 15% while those established in other areas in the PRC are subject to income tax at a rate of 33%. For the six months ended 30th June 2007, the tax charge of the Group amounted to approximately RMB22,088,000 (the same period of 2006: RMB17,656,000, restated).

7. Non-current Assets

For the six months ended 30th June 2007, the Group has incurred a capital expenditure of approximately RMB672,720,000 (year ended 31st December 2006: RMB54,300,000). The Group did not have any substantial disposal of fixed assets during the period.

8. Trade receivables

The Group's credit terms on sale of goods range from 30 to 90 days, and the aging analysis is as follows:

	As at 30th June 2007 Unaudited	As at 31st December 2006 Audited
	RMB'000	*RMB'000*
Current	**202,922**	245,947
30–60 days	**140,675**	143,453
60–90 days	**92,432**	81,917
Over 90 days	**133,326**	103,768
	569,355	575,085
Less: provision for impairment losses	**(69,487)**	(70,215)
	499,868	504,870

9. Trade payables

	As at 30th June 2007 Unaudited	As at 31st December 2006 Audited
	RMB'000	*RMB'000*
Current	**208,846**	253,684
30–60 days	**155,524**	120,919
60–90 days	**128,117**	37,397
Over 90 days	**43,157**	35,832
	535,644	447,832

10. Earnings per share

Earnings per share is calculated by dividing the net profit for the period of approximately RMB91,699,000 (the same period of 2006: approximately RMB82,825,000 restated) by the total number of ordinary shares in issue of 636,000,000 shares (2006: 642,000,000 shares) of the Company.

11. Statutory reserve movements

Except for the fair value gains from available-for-sale investments, net of tax, of approximately RMB164,063,000, the statutory reserve of the Group did not have any changes for the six months ended 30th June 2007.

DIVIDENDS

The Board has recommended the distribution of an interim dividend of RMB6 cents per share for the six months ended 30th June 2007, totaling RMB38,160,000 (interim dividend of 2006: RMB6 cents per share, totaling RMB38,520,000) from the retained earnings, subject to the approval by the shareholders at the extraordinary general meeting of the Company to be held on a date to be confirmed. The Company will make a further announcement as to the date of the extraordinary general meeting and the period during which the register of members of the Company will be closed.

BUSINESS REVIEW

The consolidated turnover and profit of the Company for the six months ended 30th June 2007 were primarily derived from the following subsidiaries:

Name of subsidiary	Percentage of equity held by the Company	Principal activities
Shenzhen Tian Ma Microelectronics Co., Ltd. ("Tian Ma")	52.62%	Manufacture and sale of liquid crystal displays and modules (LCD)
Shenzhen Shennan Circuit Corp. ("Shennan")	95.00%	Manufacture and sale of printed circuit boards (PCB)
Shenzhen Fiyta Holdings Limited ("Fiyta")	52.24%	Manufacture and sale of mid-to-high-end timepieces

For the six months ended 30th June 2007, the Group's consolidated turnover (continuing operation and discontinued operation) was approximately RMB1,508,039,000, representing an increase of approximately 26.64% compared with RMB1,190,839,000 over the same period of last year. The gross profit was approximately RMB355,852,000, representing an increase of approximately 22.07% compared with RMB291,516,000 over the same period of last year. The consolidated profit attributable to shareholders (after minority interests) was approximately RMB91,699,000, compared with a profit of approximately RMB58,287,000 (approximately RMB82,825,000 restated) during the same period of last year. The earnings per share was approximately RMB14.42 cents, compared with the earnings per share of approximately RMB9.08 cents (approximately RMB12.9 cents restated) during the same period of last year.

In the first half of 2007, the Company continue to improve business development and fundamental management. In order to achieve the strategic goal of "limited diversification", the Company strengthened the investment in projects that have a growth potential and provide a long term and stable income to the Company, and completed the registration procedures with the Industry and Commerce Bureau for the change of its name to 深圳中航集團股份有限公司 on 8th August 2007. Upon the registration procedure in Hong Kong completed, the Company will formally adopt the new name. The Company intends to issue 200,000,000 H shares and 150,000,000 domestic legal person shares. Furthermore, the Company announced on 29th June 2007 that it would subscribe new shares ("Nanguang New Shares") of Shenzhen Nanguang (Group) PLC) ("Nanguang Company") with a total subscription price not exceeding RMB800,000,000 subject to the approval of the independent shareholders of the Company. Upon the subscription completed, the Company's shareholding in Nanguang Company will be increased from 10.70% to 43.42%. In addition, the Board has proposed the third share segregation reform proposal in respect of the share segregation reform of Fiyta. Under the third share segregation reform proposal, the Company proposes to offer 3.1 shares for every 10 shares held by the holders of Fiyta A Shares in exchange for the holders of Fiyta A Shares to agree that all the non-circulating shares of Fiyta be changed to listed A Shares.

LCD

The turnover of the LCD business of the Group for the first half of the year was approximately RMB765,553,000, representing an increase of approximately 19.45% compared with RMB640,921,000 over the same period of last year. The profit after taxation for the first half of the year was approximately RMB37,979,000 (including, among other things, the amortization of the formation expense of Shanghai Tian Ma Microelectronics Company Limited of approximately RMB4,930,000) compared with approximately RMB42,194,000 (restated) for the same period of last year.

The LCD business of the Group are focus on two major markets, namely, markets of electronic consumers' goods (mainly mobile phones and MP3) and industrial products (mainly car cradles and industrial control products). In the first half of 2007, the global market of display panels saw a fierce competition and the market share of consumer TFT products recorded a significant increase. The profitability of industrial products of the Group was relatively higher in the first half of the year. Although the turnover of industrial products amounted to less than 40% of the aggregate turnover, it generated over 60% of profit. Its orders are stable and its client base, mainly consists of European and American clients, has a larger room for expansion.

The production line of the 4.5 generation tube size thin film transistor liquid-crystal displays (TFT-LCD) of the joint venture company Shanghai Tian Ma Microelectronics Company Limited was in good progress. By far, all construction projects were topped out, co-ordination problems with the city administration were basically solved, consortium was formed, project construction funding was basically materialized, and registered capital will be materialized in the third quarter. Production preparation and research and development have been smooth, with three patents of new invention have passed examination, while six others are in the process of application. It is expected that major construction work, equipment installation, testing and adjustment will be completed in September, and the facility will commence pilot production in October.

PCB

The turnover of the PCB business of the Group for the first half of the year was approximately RMB372,350,000, representing an increase of approximately 22.86% compared with RMB303,062,000 over the same period of last year. The profit after taxation for the first half of the year was approximately RMB64,958,000, representing an increase of approximately 15.82% compared with RMB56,087,000 over the same period of last year.

In the first half of 2007, the PCB industry generally saw a promising development trend. The downstream demand was strong, reflecting the characteristic of the high season. Facing the pressure of the increased costs of raw material and other expenses, the Group acted proactively to attract orders from clients. In the first half of the year, the growth of sales revenue mainly came from the increased sales of medium to high end products with over 10 layers. This proportion of sales increased to 66% from 60% of the same period of last year.

The capability expansion and technical enhancement project of the PCB business was going well. RMB670 million was planned to invest in this project, and as at the end of the first half of the year, accumulated investment amounted to RMB147 million. Currently, the project has begun internal decoration, equipment installation, testing and adjustment, logistic protection and production preparation (market, material, quality, compiling technical documents, etc). A series of work including the establishment of the multi-factory ERP system and staff training has begun. Pilot production was scheduled for September this year.

The Group's "High and Multi-layer Communication Backplane" project proudly received the "Second Class Award for Advanced Technology in Guangdong Province" (廣東省科學技術獎二等獎) and the "2006 Shenzhen City Technological Innovation Award" (2006年度深圳市科技創新獎).

Timepieces

The turnover of the timepiece business of the Group for the first half of the year was approximately RMB328,601,000, representing an increase of approximately 58.51% compared with RMB207,310,000 over the same period of last year. The profit after taxation was approximately RMB5,564,000, representing an increase of approximately 283.57% compared with loss after taxation of RMB3,031,000 over the same period of last year.

The Group's "Fiyta" timepieces continued its emphasis on brand strategy and value sales. The co-ordination between research, production and sales was strengthened through channels such as joint meetings and symposiums. Concrete progress was made to several aspects including R&D and the marketing of new products, line series of products and supply chain improvement. During the six months ended 30th June 2007, 18 patent applications on exterior and two patent applications on practical use were filed.

As planned, the Group's "Harmony" chain stores were under continuous and active expansion, its chain network of renowned timepieces has been steadily optimized, in which its brand name has been improved. As at 30th June 2007, Harmony has 57 chain stores in major and medium cities nationwide. Meanwhile, it has continued strengthening its cooperation with international brands, a regular meeting scheme with focal brands and major brands was established. With the new established communication mechanism, commonly faced problems during the marketing and sales process were solved effectively.

The Group's "Fiyta" timepieces proudly received the "Annual Stylish Grand Prize" (年度卓越風格大獎) in the timepiece category of the 2006 Chic Media Awards (時尚傳媒大獎).

PROSPECT

With regard to the outlook of the second half of 2007, the Group is highly confident in the prospect of the development of its core businesses. The Group will continue to act according to the needs of its long-term development strategy, to strengthen the existing businesses and enhance the core competence of the existing businesses while actively expand new businesses with high growth rate. Meanwhile, the Group will fully implement advanced management methodologies such as Balance Score Card and Lean Six Sigma, devise a strategic management flow, and improve overall operational efficiency and profitability.

LCD

In the second half of 2007, due to higher profitability the Group will put more effort in the industrial control and car cradle markets that dominated by high-end black and white products. We will strive to gain a greater market share and sales revenue, as well as increase business profit. Meanwhile, we will maintain and deepen the strategic co-operative relationship with TFT suppliers in order to ensure a stable source of supply. Moreover, we will be actively seeking new application areas for CSTN, in addition to mobile phones and MP4.

PCB

It is expected that in the second half of 2007 the PCB industry will continue its steady growth. Facing the constant rise of the prices of raw materials, the Group will further strengthen our effort in developing strategic clients, continuously adjust product structure and prepare for new orders following the operation of the new factory. In order to enhance the utility rate of bottle-neck facilities and in turn the production output, we will continue to implement advanced management methodologies.

Timepieces

With the favorable domestic economy and market demand, in the second half of 2007 the Group will persist in brand strategy, steadily develop the Fiyta brand, gradually expand its sales in overseas markets, and constantly enhance technical R & D and industrial design capability. The promotion and marketing of Harmony retail shops will be maintained and brand co-operation will be expanded. Upon the foundation of consolidating and adjusting existing sales network, new sales points will be added in an active manner.

LIQUIDITY AND CAPITAL RESOURCES

As at 30th June 2007, the Group had cash and cash equivalents totaling approximately RMB2,007,454,000. The Group's bank loans included approximately RMB1,318,206,000 short-term loans with annual interest rates ranging from 5.02% to 6.57% and approximately RMB1,550,442,000 long-term loans with annual interest rates ranging from 4.77% to 7.2%. The Group has been strengthened and perfected the regulations in respect of the management of tradable financial assets, defining the procedures of decision-making, implementation and risk control.

LOAN-TO-EQUITY RATIO

As at 30th June 2007, the Group's loan-to-equity ratio (bank loans to shareholders' equity ratio) was 105.44% (31st December 2006: 41.33%).

PLEDGED ASSETS

As at 30th June 2007, the Group did not have any pledged loan (as at 31st December 2006: RMB37,600,000).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSIT

During the six months ended 30th June 2007, the Company did not have any entrusted deposit and overdue term deposit in any form.

MANAGEMENT CONTRACT

During the six months ended 30th June 2007, the Company did not enter into any contract or had any existing contract in relation to the management or administration of its general business or any major business.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2007.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2007, as far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executive) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or had otherwise notified to the Company:

Long position in the Shares:

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Substantial Shareholder				
China Aviation Industry Corporation I *(Note 1)*	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.89%
China Aviation Industry Corporation II *(Note 2)*	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.89%
China National Aero-Technology Import and Export Corporation *(Note 3)*	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.89%
CATIC Shenzhen Company *(Note 4)*	Beneficial owner	400,000,000 domestic legal person shares	100%	62.89%

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Other Shareholders				
Li Ka-Shing	Interest of controlled corporations and founder of discretionary trusts	15,156,000 H shares *(Note 5)*	6.42%	2.38%
Cheung Kong (Holdings) Limited	Interest of controlled corporation	15,156,000 H shares *(Note 5)*	6.42%	2.38%
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	15,156,000 H shares *(Note 5)*	6.42%	2.38%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	15,156,000 H shares *(Note 5)*	6.42%	2.38%
Li Ka-Shing Unity Trustee Company Limited	Trustee and beneficiary of a trust	15,156,000 H shares *(Note 5)*	6.42%	2.38%
華銀集團投資發展有限公司	Beneficial owner	15,216,000 H shares	6.44%	2.39%
Jiang Jian Jun *(Note 6)*	Interest of controlled corporation	15,216,000 H shares	6.44%	2.39%

Notes:

(1) China Aviation Industry Corporation I (中國航空工業第一集團公司) owns 50% interest in China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) which in turn owns 100% interest in CATIC Shenzhen Company ("CATIC Shenzhen"). Hence, it is deemed to be interested in the Shares owned by CATIC Shenzhen.

(2) China Aviation Industry Corporation II (中國航空工業第二集團公司) owns 50% interest in China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) which in turn owns 100% interest in CATIC Shenzhen. Hence, it is deemed to be interested in the Shares owned by CATIC Shenzhen.

(3) China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) owns 100% interest in CATIC Shenzhen. Hence, it is deemed to be interested in the Shares owned by CATIC Shenzhen.

(4) Mr. Wu Guang Quan is the president of CATIC Shenzhen, Mr. Sui Yong is the chief accountant of CATIC Shenzhen, Mr. Cheng Bao Zhong is the vice-president of CATIC Shenzhen, and Mr. Wang Bao Ying is the manager of the strategy and management department of CATIC Shenzhen. They do not own any Shares in the Company, and have no equity interest in CATIC Shenzhen.

(5) The above five references to 15,156,000 H Shares in the Company refer to the same equity interest comprising of:

(A) The 7,578,000 H shares held by Empire Grand Limited ("Empire Grand"), a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH"); and

(B) The 7,578,000 H shares held by Hutchison International Limited ("HIL") which is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL").

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of the Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH. Certain subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the Securities and Futures Ordinance, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the Securities and Futures Ordinance, TUT1, TDT1, TDT2 and CKH is deemed to be interested in the aggregate 15,156,000 H Shares of the Company held by Empire Grand and HIL.

(6) Jiang Jian Jun was interested by virtue of his 100% beneficial interest in 華銀集團投資發展有限公司.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30th June 2007, so far as is known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executive of the Company is interested in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions which the Directors or supervisors or chief executives were taken or deemed to have under such provisions of the Securities and Futures Ordinance) or which are required to be entered into the register maintained by the Company under section 352 of the Securities and Futures Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the six months ended 30th June 2007, the Company did not have any change of directors, supervisors and senior management.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30th June 2007 was the Company and its subsidiaries or its holding company a party to any arrangement to enable any directors, supervisors or management members to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No director or supervisor had any significant interest, either direct or indirect, in any contract or arrangement of significance to the business of the Company as at 30th June 2007 or at any time during the period.

EMPLOYEES AND SALARIES

As at 30th June 2007, the Group had a total of approximately 9,212 employees (the same period of 2006: 7,528 employees), with employee related costs of approximately RMB174,986,000 (the same period of 2006: RMB112,596,000). The additional staff members were mainly employed to meet the business development demands of the Group. The Group formulated its competitive salary policy based on the reference of market condition and individual employee's performance.

CONTINGENT LIABILITIES

The Company provided a one-year guarantee for a credit facility of RMB190,000,000 in favour of Fiyta, a half-year guarantee for a credit facility of RMB42,000,000 and an eight-year guarantee for a syndicated loan of RMB215,660,000 in favour of Shanghai Tian Ma Microelectronics Company Limited.

OTHER SIGNIFICANT EVENTS

1. Acquisition of 75% of the investment interest and the transferred debt in the Industrial Company

On 30th January 2007, the Company entered into a transfer agreement (the "Transfer Agreement") with 廣東國際信託投資公司破產清算組 (Insolvency and Liquidation Committee of Guangdong International Trust Investment Company), 深圳市一浪投資有限公司 (Shenzhen Yilang Investment Company Limited) ("Shenzhen Yilang") and CATIC Shenzhen Company ("CATIC Shenzhen"), and a cooperation agreement (the "Cooperation Agreement") with Shenzhen Yilang and CATIC Shenzhen, pursuant to which the Company would acquire the 75% investment in 廣東國際大廈實業有限公司 (Guangdong International Building Industrial Company Limited) ("Industrial Company") and a debt of RMB630,000,000. As CATIC Shenzhen is a substantial shareholder of the Company, the Cooperation Agreement and the Transfer Agreement constitute connected transactions under the Listing Rules. The Company has complied with the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Further details please refer to the circular of the Company dated 29th March 2007.

The Cooperation Agreement and the Transfer Agreement and the transactions contemplated thereunder were approved at the extraordinary general meeting held on 14th May 2007 and the relevant equity transfer are now processed with the industry and commerce authorities.

2. Change of company name and amendment to articles of association

In order to devote its efforts to seek continuous and sustainable development and diversify its operations, on 30th March 2007, the Board proposed to change the Chinese name of the Company from 深圳中航實業股份有限公司 to 深圳中航集團股份有限公司. The English name of the Company will remain unchanged.

The proposed change of the Company name will not affect any rights of any shareholder of the Company. Following the effective change of the name of the Company, share certificates for the new shares of the Company will be issued in the new name of the Company. Further details please refer to the circular of the Company dated 4th April 2007.

The proposal was approved at the extraordinary general meeting held on 21st May 2007. On 8th August 2007, the Company completed the registration procedure of change of name with the Industry and Commerce Bureau. Upon the registration procedure in Hong Kong completed, the Company will formally adopt the new name.

3. Subscription of Nanguang Issue

The Company has issued the announcement and the circular on 31st October 2006 and 21st November 2006 respectively in relation to the Company's intention to participate in the issue of 140,000,000 new shares by the Nanguang Company ("Nanguang Issue"). In the announcement dated 31st October 2006, the Company announced that it would invest not more than RMB200,000,000 in the Subscription (i.e. the previously proposed subscription of not more than 26,595,744 but not less than 24,177,949 Nanguang New Shares at the subscription price range from RMB7.52 to RMB8.272 each by the Company in the Nanguang Issue). The Subscription constituted a discloseable and connected transaction of the Company and was duly approved by the independent shareholders in the extraordinary general meeting held on 8th January 2007. The Subscription has not yet been implemented.

On 29th June 2007, the Board announced its intention to increase its scale of investment in the Nanguang Issue. The Company intends to subscribe for not more than 106,382,978 but not less than 53,333,333 Nanguang New Shares at a price range of RMB7.52 to RMB15.00 per Nanguang New Share ("New Subscription Proposal"). The total subscription price payable by the Company shall not exceed RMB800,000,000. Assuming the Company would subscribe 106,382,978 Nanguang New Shares at RMB7.52 per share, the Company's shareholding in Nanguang Company will be increased from 10.70% to 43.42%. Upon completion of the Subscription, the Company's shareholding in Nanguang Company will be accounted for by the Company by equity method. Depending on the prevailing market conditions and market price of the shares of Nanguang Company upon the launch of the Nanguang Issue and the final subscription price, the Company may or may not proceed with the Subscription.

The New Subscription Proposal constitutes a connected transaction of the Company. The shareholders' resolutions approving the New Subscription Proposal will be considered by the independent shareholders of the Company at the extraordinary general meeting of the Company to be held on 7th September 2007 and (if passed) shall supersede the ordinary resolution approving the Subscription passed in the extraordinary general meeting held on 8th January 2007 and shall be valid and effective for 12 months.

The New Subscription Proposal also constitutes a discloseable transaction of the Company. Further details please refer to the announcement of the Company dated 20th July 2007.

SUBSEQUENT EVENTS

1. Short-term Commercial Paper Program

The resolutions regarding the issue of short-term commercial papers with an amount not exceeding RMB450,000,000 as set out in the announcement of the Company dated 31st August 2006 were approved by the shareholders of the Company in the extraordinary general meeting held on 18th October 2006 by way of special resolutions. Since the extraordinary general meeting, no short-term commercial papers or any underwriting agreement in connection therewith have been signed.

The Company intends to vary the authorization of the maximum amount for the issue of short-term commercial papers given by the shareholders of the Company at the extraordinary general meeting from RMB450,000,000 to RMB500,000,000. The matters relating to the variation of the maximum amount for the issue of the short-term commercial papers were considered and approved in the meeting of the Board of the Company held on 3rd July 2007 and shall require approval in the extraordinary general meeting of the Company.

According to the Regulations on the Administration of Short-term Commercial Papers (短期融資券管理辦法), the said commercial papers will be issued to institutional investors approved by the People's Bank of China, who participate in the inter-bank debt market (銀行間債券市場) in the People's Republic of China. The term of maturity of the commercial papers shall not be more than 365 days from the date of issue and the interest rates shall be determined in accordance with the market circumstances. The proceeds of these commercial papers will mainly be used as working capital for operation of the Company, with a view to reducing the costs of financing of the Company and improving the financing structure. Further details please refer to the announcement of the Company dated 3rd July 2007.

2. Issue New H Shares and New Domestic Shares

On 3rd July 2007, the Board resolved to convene the extraordinary general meeting and the class meetings of the holders of H shares and domestic shares for the grant of the proposed Specific Mandates by the independent shareholders to the Board to issue not more than 200,000,000 new H shares of the Company ("New H Shares") and not more than 150,000,000 new domestic shares of the Company ("New Domestic Shares"), representing not more than 31.45% and 23.58% of the total issued share capital of the Company respectively as at the date of the announcement dated 3rd July 2007. The issue price of New H Shares will be determined base on (i) the closing price of the H shares of the Company as quoted on the Stock Exchange on the date of signing of the relevant placing agreement; or (ii) the average closing price of the H shares of the Company as quoted on the Stock Exchange for the 5 trading days immediately prior to the signing of relevant placing agreement, subject to a adjustment at a discount of more than 20%, but in any event, the issue price will not be less than the latest audited net asset value per share.

The New Domestic Shares will not be issued at a price more than the issue price of the New H Shares and in any event, such issue price will not be less than the latest audited net asset value per share of the Company.

The new issue of H shares and domestic shares is subject to, among other things, the obtaining of the necessary approvals from the relevant PRC regulatory authorities. The Company has not made the relevant application to the China Securities Regulatory Commission, National Social Security Fund Council of the PRC and State-owned Assets Supervision and Administration Commission. Depending on market conditions, the Directors may or may not exercise the mandates to issue the New H Shares and/or the New Domestic Shares.

Further details please refer to the announcement of the Company dated 3rd July 2007.

3. Share Segregation Reform of Fiyta

On 16th July 2007, the Board of the Company has proposed the third proposal in relation to the share segregation reform of Fiyta, pursuant to which the Company, being the only holder of non-circulating shares of Fiyta, proposes to offer 3.1 shares for every 10 shares held by the holders of Fiyta A shares in exchange for the holders of Fiyta A shares to agree that all the non-circulating shares of Fiyta be changed to listed A Shares ("Third Fiyta Proposal"). If the Third Fiyta Proposal is fully implemented, the share capital amount of Fiyta will remain unchanged but will thereafter comprise 76.61% A Shares and an unchanged 23.39% B shares. Under the negotiation with the holders of Fiyta A shares, it is not proposed to make any amendment to the Third Fiyta Proposal.

The Company's 52.24% interests in Fiyta are non-circulating shares of Fiyta. According to the Third Fiyta Proposal, the Company will transfer a total of 18,832,500 shares, representing 7.55% of the total number of shares of Fiyta, to the holders of Fiyta A shares. After the Third Fiyta Proposal is implemented, (i) the Company's interest in Fiyta will be reduced from 52.24% to 44.69%. Fiyta will, however, remain a subsidiary of the Company as it is still under the control of the Company; and (ii) the Company's non-listed shareholding in Fiyta will be changed into listed and tradable A Shares in the PRC. Based on the net asset per share of Fiyta as reported in the annual report 2006 of Fiyta, upon implementation of the Third Fiyta Proposal, the net asset value of the Company will be reduced by about RMB41,054,850.

The transfer of shares by the Company in relation to the Third Fiyta Proposal, if implemented, will not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules. Further details please refer to the announcement of the Company dated 16th July and 23rd July 2007.

COMPLIANCE WITH THE CODE

The Company has complied with all the provisions of the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June 2007, except for the deviation from Code A2.1 in respect of that the roles and responsibilities between the chairman and Chief Executive Officer (General Manager) should be separate and should not be performed by the same individual. In order to better comply with the provisions of the Code and enhance the operation and development of the Company, in the Board meeting held on 13th April 2007, the Board passed a resolution to approve the resignation of Mr. Wu Guang Quan as General Manager. The Board is currently in the process of seeking a new General Manager. Since the Company is a holding company without daily operation, the temporary vacancy of the position of General Manager has no adverse effect on the Company.

CONDUCT ON SHARE DEALINGS

The Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules has been adopted as a code of securities transactions for directors and supervisors of the Company. The Company, having made specific enquiries to its directors and supervisors, confirms that, throughout the six months ended 30th June 2007, all directors and supervisors met the criteria laid down in the said code for securities transactions by directors.

AUDIT COMMITTEE

The Board has formed an audit committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The committee members currently comprises all the independent non-executive Directors, namely Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa. The Audit Committee has reviewed and confirmed the Company's interim results report for the six months ended 30th June 2007.

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this interim report.

As at the date of this report, the Board has totally 13 Directors, namely Mr. Wu Guang Quan, Mr. Lai Wei Xuan, Mr. Sui Yong, Mr. Cheng Bao Zhong, Mr. Liu Rui Lin, Mr. Xu Dong Sheng, Mr. You Lei and Mr. Wang Bao Ying as executive Directors, Mr. Wang Bin Bin and Mr. Li Cheng Ning as non-executive Directors, and Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa as independent non-executive Directors.

By order of the Board,
Wu Guang Quan
Chairman

Shenzhen, PRC, 20th August 2007