



**INTERIM  
REPORT  
2007**



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED  
航天科技國際集團有限公司

Stock Code : 31

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### **Executive Directors**

Mr Zhao Liqiang (*President*)  
Mr Zhou Qingquan  
Mr Zhao Yuanchang  
Mr Wu Hongju  
Mr Guo Xianpeng

#### **Non-Executive Directors**

Mr Ma Xingrui (*Chairman*)  
Mr Chow Chan Lum, Charles  
(*Independent Director*)  
Mr Luo Zhenbang  
(*Independent Director*)  
Mr Wang Junyan (*Independent Director*)  
Mr Gong Bo  
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 Chow Chan Lum, Charles  
Mr Luo Zhenbang  
Mr Wang Junyan  
Mr Gong Bo

### QUALIFIED ACCOUNTANT

Mr Luk Chi Keung

### COMPANY SECRETARY

Mr Chan Ka Kin, Ken

### AUDITORS

Deloitte Touche Tohmatsu

### SHARE REGISTRAR

Tricor Standard Limited  
(formerly known as "Standard Registrars Limited")

### LEGAL COUNSELS

Richards Butler  
Sit, Fung, Kwong & Shum

### PRINCIPAL BANKS

Bank of China (Hong Kong)  
CITIC Ka Wah Bank  
Wing Hang Bank

### REGISTERED OFFICE

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18 Tak Fung Street Hung Hom  
Kowloon Hong Kong  
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## BUSINESS REVIEW

2007 is the beginning year for the Group's implementation of the new development strategies after assets restructuring and optimization. In the first half of the year, in order to cope with the Group's development strategies, the Company grasped the opportunity in the flourishing Hong Kong capital market to raise a capital of HK\$386 million by way of Open Offer. This fund raising activity obtained the strong support from our shareholders and achieved a satisfactory result. Meanwhile, the Group continued to enhance the efforts in market development, strengthen cost control and reduce finance costs, the principal businesses maintained a steady growth and the major financial ratios continued to improve.

In the first half of 2007, the Group's total turnover increased by approximately 3% as compared with the same period in last year. The Group's gross profit ratio slightly decreased by 2% as compared with the same period in last year, maintaining at the level of 25% in spite of the pressure from fierce market competition and increase in overall costs as faced by the hi-tech manufacturing business, such as the adverse factors of the increase in direct costs of wages and raw materials, the appreciation in the RMB and the changes in the policies on domestic processing enterprises in the Mainland. For the first half of 2007, the turnover of the hi-tech manufacturing business was approximately HK\$753,321,000, representing an increase of approximately 2.4% as compared with the same period in last year; the operating profit was HK\$92,929,000, representing an increase of approximately 1.7% as compared with the same period in last year. The performances of intelligent chargers and liquid crystal display were distinguished and their turnovers recorded at HK\$210,726,000 and HK\$128,625,000 respectively, representing an increase of 9.0% and 4.1% respectively as compared with the same period in last year; their operating profits were HK\$34,878,000 and HK\$11,936,000, representing an increase of 24.7% and 21.1% respectively when compared with the same period in last year. The turnover of plastic products was HK\$318,661,000, representing an increase of 2.1% as compared with the same period in last year; the operating profit was HK\$33,442,000, representing an increase of 3.4% as compared with the same period in last year. The sales of printed circuit boards declined during the first half of the year as affected by reduced orders and pressure from clients to reduce prices. It reported a turnover of HK\$95,309,000, representing a decrease of 8.5% as compared with the same period in last year; the operating profit was HK\$16,731,000, representing a decrease of 32.2% as compared with the same period in last year.

The Group's new factory extension in Huizhou Industrial Park commenced operations in the first half of 2007. The new factory space with an area of about 45,000 square meters primarily provides ancillary facilities for the further development of the hi-tech manufacturing business and serves as a new impetus to the future growth of the hi-tech manufacturing business.

The business of Shanghai Aerospace Technology Investment Company Limited (the "Joint Venture") had made a good progress. The Joint Venture was established jointly by the Group's wholly-owned subsidiary, CASIL New Century Technology Development (Shenzhen) Company Limited, and a wholly-owned subsidiary of the government of Minhang District in Shanghai. In the first half of 2007, the Joint Venture formulated and approved the planning of the Aerospace Technology Park, and also commenced the construction of the infrastructure projects. The Joint Venture will continue to introduce different enterprises and projects into the Aerospace Technology Park, including but not limited to such areas as new energy, rare earth motor and composite materials. It is anticipated that the Joint Venture will attract more potential high-tech enterprises to move into the Park in the future.

To cope with the booming economy and capital market in China, during the first half of the year, the Group, on the premise of strict control of investment risk, made certain investments in the Mainland's and Hong Kong's capital markets and provided related advisory services, and hence generated an additional income of approximately HK\$105 million.

The Company had acquired the entire shareholding of Dongguan Huadun Enterprises Limited ("Dongguan Huadun") under the assets swap agreement entered into with China Aerospace Science & Technology Corporation in 2006. Dongguan Huadun has been selling its land and property assets after the completion of the acquisition. In June 2007, the remaining land asset of Dongguan Huadun has been sold to an independent third party. The transaction is expected to be completed in the second half of 2007 and the profits arising therefrom will be reflected in the final results of 2007.

In June 2007, the Company announced that it proposes to raise about HK\$386 million by way of Open Offer of 428,483,980 Offer Shares at HK\$0.90 each on the basis of one Offer Share for every five shares held by the shareholders. With the strong support from the shareholders, the Open Offer was oversubscribed by 3 times. The Open Offer was completed in July 2007 and the details of which were set out in the announcements dated 6 June 2007 and 17 July 2007 and the circular to the shareholders dated 27 June 2007.

The Open Offer strengthened the financial position of the Group and offered to all shareholders an equal opportunity to increase their investment in the Company and to participate in the Company's future prospects. The net proceeds of the Open Offer, after expenses, amounted to approximately HK\$378 million, of which a sum of approximately HK\$80 million will be used to finance the development costs of the Aerospace Technology Park, a sum of approximately HK\$157 million will be used for the repayment of debts and the remaining as additional working capital.

## **LOOKING FORWARD**

The Group has closely liaised with its major shareholder in relation to the directions and strategies of new business development and has established certain foundations thereof. At present, the Group has started to research the feasibility of projects related to the composition development of science and technology park and integrated property development. Looking forward to the second half of 2007, the Company, under the leadership of the Board of Directors, will continue to maintain stable development of its hi-tech manufacturing business and enhance sales performance and profitability. Meanwhile, the Group will try to achieve breakthrough in new business areas, in particular in science and technology park development and integrated property development projects, in hope of becoming the main growth point of the Group's future performance and enhance greater value for the shareholders' investment.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The unaudited interim results of the Group for the six-month period ended 30 June 2007 was that the turnover was approximately HK\$727,523,000, representing an increase of approximately 3% as compared with the same period in last year. The administrative expenses were HK\$103,380,000, representing an increase of 4.4% as compared with the same period in last year. The finance costs were HK\$5,916,000, representing a substantial decrease of 37.7% as compared with the same period in last year. The profits attributable to shareholders were HK\$157,806,000, representing a remarkable increase of 195% as compared with that of HK\$53,473,000 for the same period of 2006. For the first half year of 2007, the Group's net asset yield was 11.12% and the earnings per share was HK\$0.068, based on the issued share capital of 2,310,925,000 shares after being adjusted for the effect of Open Offer of 428,483,980 Offer Shares. The Directors resolved not to declare any interim dividend in respect of the period ended 30 June 2007.

In the first half of 2007, the Group's turnover recorded a slight increase from the same period of 2006, which was mainly due to the pressure of the fierce market competition and the increased overall costs. The increase in administrative expenses from the same period of 2006 was a result of the rise in labour and management costs. The reduced finance costs as compared with that of the same period of 2006 was due to the reduction of amounts payable to the major shareholder, hence as well as the related interest expenses. The surge in overall profits as compared with the same period of 2006 was due to the profits gained on disposal of certain investment properties and a profit of HK\$105,187,000 arising from the provision of investment advisory services by a subsidiary.

As at 30 June 2007, the unaudited total assets of the Group were HK\$2,569,277,000, of which the non-current assets and the current assets were HK\$1,164,338,000 and HK\$1,404,939,000 respectively. The total liabilities were HK\$1,094,402,000, of which the non-current and the current liabilities were HK\$185,144,000 and HK\$909,258,000 respectively. The equity attributable to equity holders of the Company, after minority interests, was HK\$1,418,494,000 and the net assets per share was HK\$0.61, based on the adjusted issued share capital of 2,310,925,000 shares. The liabilities/assets ratio and the current ratio were 42.59% and 1.55 respectively, representing an improvement from 44.32% and 1.40 since the end of last year. Upon the completion of the Open Offer, the Company has received shareholders' funds of approximately HK\$386 million and the Company's current assets are hence increased accordingly. As the Company will utilise part of the proceeds for repayment of loans, the current liabilities will be reduced accordingly. It is expected that the finance costs of the Group in the second half of 2007 will be reduced substantially, leading to a further improvement of the financial ratios. Save as the litigation disclosed under the paragraph headed "Corporate Governance" in the 2007 interim report, the Group did not have any material contingent liabilities as at 30 June 2007.

The source of funding of the Group mainly relies on internal resources and banking facilities. The Group's cash and bank balance as at 30 June 2007 was HK\$794,622,000, most of which was 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 into any financial instruments or derivatives to hedge the exchange and the interest rate risks.

Certain of the Group's real estates and investments have been mortgaged to banks to secure financings with interest calculated at LIBOR plus margin. The remaining mortgage term is about 5 years.

The Group's remuneration policy is based on the employee's qualifications, experience and performance as well as by reference to market trends. The Group will continue to strengthen the level of human resources management, strictly implement the performance-based appraisal system to encourage employees to enhance their performance and contribute to the Group continuously. As at 30 June 2007, the Group has a total of about 6,300 staff members based in the Mainland and Hong Kong.

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2007, 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 of shareholder	Capacity	Number of shares held for long positions	Percentage of issued share capital of the Company	Number of shares held for short positions	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Interested in controlled corporations (note 1)	911,108,864	42.53%	300,000,000 (note 3)	14%
Jetcote Investments Limited	Beneficial owner	109,864,176	5.13%	-	-
	Interested in controlled corporations (note 2)	801,244,688	37.40%	300,000,000 (note 3)	14%
		911,108,864	42.53%	300,000,000	14%
Burhill Company Limited	Beneficial owner (note 2)	407,971,780	19.04%	300,000,000 (note 3)	14%
Sin King Enterprises Company Limited	Beneficial owner (note 2)	393,272,908	18.36%	-	-
Montpelier Asset Management Limited	Investment manager (note 4)	154,794,600	7.23%	-	-
Montpelier Global Funds Limited - The Montpelier Fund	Beneficial owner (note 4)	114,552,850	5.35%	-	-

*Notes:*

- (1) These 911,108,864 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, and its subsidiaries.
- (2) These 801,244,688 shares are duplicated in the interests held by Burhill Company Limited and Sin King Enterprises Company Limited, wholly-owned subsidiaries of Jetcote Investments Limited.
- (3) These 300,000,000 shares held for short positions had been discharged on 7 August 2007.
- (4) Montpelier Asset Management Limited has been appointed by Montpelier Global Funds Limited as Investment Manager and the shareholding of Montpelier Global Funds Limited in the Company is duplicated in the interests held by Montpelier Asset Management 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 2007, the Company had complied throughout the period with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Pursuant to Rule 13.20 of the Listing Rules, CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, had made an advance in the past to Chinluck Properties Limited ("Chinluck"), an independent third party. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of Chinluck. CASIL Clearing was alleged a breach of the loan agreement in failing to advance the full amount of HK\$330,000,000 to Chinluck. CASIL Clearing resisted the claim and counterclaimed against Chinluck 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. A Court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 2005. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, it was held by the Court in December 2006 that, inter alia, CASIL Clearing is required to pay a nominal damages of HK\$100 to Chinluck for its breach of agreement to advance the remaining portion of the loan and Chinluck is required to pay the outstanding principal and the accrued interest under the loan agreement and the mortgage for its breach of the repayment obligations. The nominal damage of HK\$100 payable by CASIL Clearing to Chinluck is to be set off against the amount of the judgement to be calculated and agreed between the parties. As the calculation of the judgement sum had not been agreed by both parties, the amount of the judgement sum was hence confirmed by the Court in June 2007. As of 31 December 2006, the outstanding balance of the advance was HK\$70,269,000.

The Company had announced on 6 June 2007 that it proposed to raise approximately HK\$386,000,000, before expenses, by issuing 428,483,980 Offer Shares at HK\$0.90 each by way of Open Offer of new Shares, on the basis of one Offer Share for every five existing Shares held by the Qualified Shareholders of the Company on the Record Date, the date by reference to which entitlements to the Open Offer are to be determined, and payable in full on acceptance. The net proceeds of the Open Offer, after expenses, was approximately HK\$378,000,000 and will be used as to (i) approximately HK\$80 million to finance the development costs of the Shanghai Industrial Park; (ii) approximately HK\$157 million for the repayment of debts; and (iii) the remaining net proceeds of the Open Offer of HK\$141 million as additional working capital. As of 31 August 2007, the announcement date of the 2007 interim result of the Company, the Company had utilized a portion of the proceeds from the Open Offer as planned and the remaining proceeds of approximately HK\$253 million had not be utilized.

## **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 the 2007 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 Wang Junyan, 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.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES**

As at 30 June 2007, 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.

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 and in accordance with information provided, all the directors have complied with the provisions under the Model Code during the first half of 2007.

## **APPRECIATION**

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

By order of the Board  
**Ma Xingrui**  
*Chairman*

Hong Kong, 31 August 2007



## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

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

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 13 to 26, which comprises the condensed consolidated balance sheet of China Aerospace International Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

31 August 2007

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	Six months ended	
		30.6.2007 (Unaudited) HK\$'000	30.6.2006 (Unaudited) HK\$'000
Turnover	3	<b>727,523</b>	705,775
Cost of sales		<b>(547,961)</b>	(516,761)
Gross profit		<b>179,562</b>	189,014
Other income		<b>140,213</b>	12,745
Selling and distribution expenses		<b>(22,877)</b>	(24,692)
Administrative expenses		<b>(103,380)</b>	(98,970)
Fair value changes of investment properties		<b>13,812</b>	850
Finance costs		<b>(5,916)</b>	(9,495)
Share of results of jointly controlled entities		<b>(8,410)</b>	(3,793)
Profit before taxation	4	<b>193,004</b>	65,659
Taxation	5	<b>(34,055)</b>	(12,109)
Profit for the period		<b>158,949</b>	53,550
Attributable to:			
Equity holders of the Company		<b>157,806</b>	53,473
Minority interests		<b>1,143</b>	77
		<b>158,949</b>	53,550
Earnings per share – basic	6	<b>HK6.8 cents</b>	HK2.3 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	30.6.2007 (Unaudited) HK\$'000	31.12.2006 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	657,616	634,124
Prepaid lease payments		63,325	61,888
Investment properties	8	157,509	160,562
Interests in jointly controlled entities		57,933	63,831
Available-for-sale investments		117,395	101,331
Pledged bank deposits		110,560	110,560
		<b>1,164,338</b>	1,132,296
<b>Current assets</b>			
Inventories		177,754	134,106
Trade and other receivables	9	439,777	267,198
Prepaid lease payments		2,220	2,153
Loans receivable		70,269	70,269
Held-for-trading investments		1,591	–
Taxation recoverable		1,225	1,400
Pledged bank deposits		45,252	–
Bank balances and cash		638,810	658,756
		<b>1,376,898</b>	1,133,882
<b>Assets classified as held for sale</b>	8	<b>28,041</b>	20,300
		<b>1,404,939</b>	1,154,182
<b>Current liabilities</b>			
Trade and other payables	10	682,300	591,307
Amounts due to associates		1,050	1,050
Amount due to a major shareholder	11	104,537	116,161
Taxation payable		70,522	40,927
Obligations under finance leases			
– amount due within one year		1,225	2,634
Secured bank loans	12	42,235	65,172
Other loans		7,389	7,167
		<b>909,258</b>	824,418
<b>Net current assets</b>		<b>495,681</b>	329,764
<b>Total assets less current liabilities</b>		<b>1,660,019</b>	1,462,060

## CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

At 30 June 2007

	Notes	30.6.2007 (Unaudited) HK\$'000	31.12.2006 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Secured bank loans	12	158,901	166,401
Deferred taxation		26,243	22,616
Obligations under finance leases			
– amount due after one year		–	44
		<b>185,144</b>	189,061
		<b>1,474,875</b>	1,272,999
<b>Capital and reserves</b>			
Share capital	13	214,242	214,242
Reserves		1,204,252	1,006,170
<b>Equity attributable to equity holders of the Company</b>			
<b>Minority interests</b>		<b>1,418,494</b>	1,220,412
		<b>56,381</b>	52,587
		<b>1,474,875</b>	1,272,999



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company											
	Share capital HK\$'000	Special capital reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 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
Increase in fair value changes of available-for-sale investments	-	-	-	-	10,504	-	-	-	-	10,504	-	10,504
Increase in fair value of land and buildings transferred to investment properties	-	-	-	-	-	4,188	-	-	-	4,188	-	4,188
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(289)	-	-	-	(289)	-	(289)
Exchange difference arising on translation of foreign operations	-	-	-	12,248	-	-	-	-	-	12,248	597	12,845
Net income recognised directly in equity	-	-	-	12,248	10,504	3,899	-	-	-	26,651	597	27,248
Reserves realised upon disposal of associates	-	-	-	38	-	-	-	-	-	38	-	38
Profit for the year	-	-	-	-	-	-	-	-	110,966	110,966	4,096	115,062
Total recognised income for the year	-	-	-	12,286	10,504	3,899	-	-	110,966	137,655	4,693	142,348
Capital contribution from a major shareholder arising from acquisition of subsidiaries	-	-	-	-	-	-	21,570	-	-	21,570	-	21,570
Capital contribution from a minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	20,000	20,000
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	8,757	8,757
<b>At 31 December 2006 and 1 January 2007</b>	<b>214,242</b>	<b>14,044</b>	<b>23,916</b>	<b>(12,473)</b>	<b>21,007</b>	<b>3,899</b>	<b>21,570</b>	<b>1,080</b>	<b>933,127</b>	<b>1,220,412</b>	<b>52,587</b>	<b>1,272,999</b>
Increase in fair value changes of available-for-sale investments	-	-	-	-	16,064	-	-	-	-	16,064	-	16,064
Exchange difference arising on translation of foreign operations	-	-	-	21,700	-	-	-	-	-	21,700	2,651	24,351
Share of exchange reserve of jointly controlled entities	-	-	-	2,512	-	-	-	-	-	2,512	-	2,512
Net income recognised directly in equity	-	-	-	24,212	16,064	-	-	-	-	40,276	2,651	42,927
Profit for the period	-	-	-	-	-	-	-	-	157,806	157,806	1,143	158,949
Total recognised income for the period	-	-	-	24,212	16,064	-	-	-	157,806	198,082	3,794	201,876
<b>At 30 June 2007</b>	<b>214,242</b>	<b>14,044</b>	<b>23,916</b>	<b>11,739</b>	<b>37,071</b>	<b>3,899</b>	<b>21,570</b>	<b>1,080</b>	<b>1,090,933</b>	<b>1,418,494</b>	<b>56,381</b>	<b>1,474,875</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										Minority interests	Total equity
	Share capital	Special capital reserve	General reserve	Translation reserve	Investment revaluation reserve	Property revaluation reserve	Capital reserve	Capital redemption reserve	Retained profit	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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)
Share of reserve of associates	-	-	-	78	-	-	-	-	-	78	-	78
Exchange difference arising on translation of foreign operations	-	-	-	3,289	-	-	-	-	-	3,289	177	3,466
Net income recognised directly in equity	-	-	-	3,367	(1,236)	-	-	-	-	2,131	177	2,308
Profit for the period	-	-	-	-	-	-	-	-	53,473	53,473	77	53,550
Total recognised income for the period	-	-	-	3,367	(1,236)	-	-	-	53,473	55,604	254	55,858
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

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended	
	30.6.2007 (Unaudited) HK\$'000	30.6.2006 (Unaudited) HK\$'000
Net cash generated by operating activities	<b>62,471</b>	341
Net cash used in investing activities		
Proceeds from disposal of properties	<b>24,793</b>	–
Purchase of property, plant and equipment	<b>(30,859)</b>	(34,081)
Increase in pledged bank deposits	<b>(45,252)</b>	–
Other investing cash flows	<b>6,513</b>	5,913
	<b>(44,805)</b>	(28,168)
Net cash used in financing activities		
Repayments of bank loans	<b>(30,437)</b>	(12,033)
Repayment of finance lease obligations	<b>(1,453)</b>	(6,522)
Decrease in amounts due to a major shareholder	<b>(15,106)</b>	–
Other financing cash flows	<b>(2,434)</b>	(2,414)
	<b>(49,430)</b>	(20,969)
Net decrease in cash and cash equivalents	<b>(31,764)</b>	(48,796)
Cash and cash equivalents at beginning of the period	<b>658,756</b>	474,767
Effect of foreign exchange rate changes	<b>11,818</b>	1,976
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>638,810</b>	427,947

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2007*

### 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 Hong Kong Accounting Standard 34, Interim Financial Reporting.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, 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 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

### 3. SEGMENT INFORMATION

#### *Business segments*

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

#### Six months ended 30 June 2007

	Turnover			Segment result HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Manufacturing				
Plastic products	282,922	35,739	318,661	33,442
Liquid crystal display	128,625	-	128,625	11,936
Printed circuit boards	95,309	-	95,309	16,731
Intelligent chargers	210,726	-	210,726	34,878
Other products	-	-	-	(4,058)
	717,582	35,739	753,321	92,929
Property	8,105	4,318	12,423	36,750
Trading	1,836	-	1,836	(698)
	727,523	40,057	767,580	128,981
Eliminations	-	(40,057)	(40,057)	(9,759)
	727,523	-	727,523	119,222
Unallocated corporate income				111,647
Unallocated corporate expense				(23,539)
				207,330
Finance costs				(5,916)
Share of results of jointly controlled entities				(8,410)
Profit before taxation				193,004
Taxation				(34,055)
Profit for the period				158,949

Inter-segment sales are charged at prevailing market prices.

### 3. SEGMENT INFORMATION (Continued)

#### **Business segments** (Continued)

Six months ended 30 June 2006

	Turnover			Segment result HK\$'000
	External sales HK\$'000	Inter- segment sales HK\$'000	Total 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	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)
	705,775	39,884	745,659	99,758
Eliminations	–	(39,884)	(39,884)	(10,253)
	705,775	–	705,775	89,505
Unallocated corporate income				6,501
Unallocated corporate expense				(17,059)
				78,947
Finance costs				(9,495)
Share of results of jointly controlled entities				(3,793)
Profit before taxation				65,659
Taxation				(12,109)
Profit for the period				53,550

Inter-segment sales are charged at prevailing market prices.

#### 4. PROFIT BEFORE TAXATION

	<b>Six months ended</b>	
	<b>30.6.2007</b>	30.6.2006
	<b>HK\$'000</b>	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	<b>1,079</b>	1,045
Depreciation of property, plant and equipment	<b>23,277</b>	22,029
Gain on disposal of assets classified as held for sale	<b>(3,005)</b>	–
Gain on disposal of held-for-trading investments	<b>(1,640)</b>	(2,068)
Gain on disposal of prepaid lease payments at nil cost	<b>(16,214)</b>	–
Interest income	<b>(7,035)</b>	(5,557)
Service income (Note)	<b>(105,187)</b>	–

Note: The amount represents commission income earned by a subsidiary of the Company on arrangement and consultancy services rendered to a third party with respect of certain securities investments held by that party and is included under other income.

#### 5. TAXATION

	<b>Six months ended</b>	
	<b>30.6.2007</b>	30.6.2006
	<b>HK\$'000</b>	HK\$'000
Current tax		
Hong Kong Profits Tax	<b>3,784</b>	2,160
PRC Enterprise Income Tax	<b>27,937</b>	9,216
Deferred tax	<b>31,721</b>	11,376
	<b>2,334</b>	733
Income tax expense	<b>34,055</b>	12,109

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods. Taxation arising in other jurisdictions is calculated at rates prevailing in the relevant jurisdictions.

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

## 5. TAXATION *(Continued)*

On 16 March 2007, the People's Republic of China ("PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC which will take effect on 1 January 2008. However, the detailed implementation rules regarding the New Tax Law have yet to be made public. Consequently, the Group is not able to make an estimate of the expected financial effect of the New Tax Law on the Company's condensed consolidated financial statements in the coming year. The enactment of the New Tax Law is not expected to have any significant financial effect on the amounts accrued in the condensed consolidated balance sheet in respect of taxation payable and deferred taxation.

## 6. EARNINGS PER SHARE – BASIC

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\$157,806,000 (2006: HK\$53,473,000) and on 2,310,925,000 shares (2006: 2,310,925,000 shares) in issue during the period and after being adjusted for the effect of open offer of 428,483,980 offer shares at a price of HK\$0.90 per offer share subsequent to 30 June 2007 as mentioned in note 16.

## 7. DIVIDEND

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

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group spent approximately HK\$30,859,000 (six months ended 30 June 2006: HK\$34,081,000) on acquisition of property, plant and equipment.

In June 2007, the Group entered into a sale and purchase agreement to dispose of certain investment properties and thus these properties with a carrying value of HK\$28,041,000 at 30 June 2007 were reclassified to assets held for sale. The disposal is expected to complete in September 2007, in which the beneficial ownership will be passed to the acquirers.

The fair values of the Group's investment properties at 30 June 2007 have been arrived at on the basis of valuations carried out on that date by Dudley Surveyors Limited ("Dudley") for properties situated in Hong Kong, Knight Frank Hong Kong Limited ("Knight Frank") for properties situated in the PRC and Atkinson Appraisal Consultants Limited ("Atkinson") for properties situated overseas. Dudley, Knight Frank and Atkinson are independent qualified professional valuers not connected with the Group and members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The resulting increase in fair value of investment properties of HK\$13,812,000 (six months ended 30 June 2006: HK\$850,000) has been recognised directly in the condensed consolidated income statement.



## 9. TRADE AND OTHER RECEIVABLES

At 30 June 2007, included in trade and other receivables are trade receivables of HK\$236,575,000 (31.12.2006: HK\$229,827,000). 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:

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>236,575</b>	221,637
Between 91-180 days	-	8,190
	<b>236,575</b>	229,827

## 10. TRADE AND OTHER PAYABLES

At 30 June 2007, included in trade and other payables are trade payables of HK\$326,721,000 (31.12.2006: HK\$268,350,000).

The following is an aged analysis of trade payables at the reporting date:

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>293,715</b>	236,508
Between 91-180 days	<b>2,756</b>	5,872
Between 181-365 days	<b>4,645</b>	348
Between 1 to 2 years	<b>316</b>	5,256
Over 2 years	<b>25,289</b>	20,366
	<b>326,721</b>	268,350

## 11. AMOUNT DUE TO A MAJOR SHAREHOLDER

The amount represents amount due to China Aerospace Science & Technology Corporation ("CASC") which bears interest at 7.75% per annum on principal amount and is repayable on 31 December 2007.

## 12. SECURED BANK LOANS

At 30 June 2007, the Group's certain investment properties, property, plant and equipment, bank deposits and available-for-sale investments with aggregate carrying value of HK\$43,035,000 (31.12.2006: HK\$42,180,000), HK\$18,267,000 (31.12.2006: HK\$18,502,000), HK\$155,812,000 (31.12.2006: HK\$110,560,000) and HK\$59,280,000 (31.12.2006: HK\$51,168,000) respectively, were pledged for the Group's bank loans and banking facilities.

## 13. SHARE CAPITAL

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

## 14. CAPITAL COMMITMENTS

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
– capital contribution to investee companies	<b>2,829</b>	2,829
– purchase of property, plant and equipment	<b>11,598</b>	1,954
– properties under development	<b>6,750</b>	–
	<b>21,177</b>	4,783

## 15. 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	
			<b>30.6.2007</b>	30.6.2006
			<b>HK\$'000</b>	HK\$'000
CASC	Major shareholder	Interest expenses paid	<b>3,482</b>	7,014

## 15. 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.

## 16. POST BALANCE SHEET EVENT

The Company had announced on 6 June 2007 that it proposed to raise approximately HK\$386 million, before expenses, by way of open offer of 428,483,980 offer shares ("Offer Shares") at a price of HK\$0.90 per Offer Share, on the basis of one Offer Share for every five existing shares held by the qualifying shareholders of the Company (hereinafter collectively referred to as "Open Offer") on the Record Date (as defined in the prospectus of the Company dated 27 June 2007). The Open Offer was completed on 18 July 2007 and the listing and dealing of the shares on The Stock Exchange of Hong Kong Limited was commenced on 20 July 2007.

China Aerospace Science & Technology Corporation, the controlling shareholder of the Company, through its wholly-owned subsidiaries, subscribed a total of 182,221,772 Offer Shares and its shareholding in the Company remained 42.53% upon the completion of the Open Offer.