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CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 31)

ANNOUNCEMENT

MAJOR TRANSACTION

General Mandate regarding Contracts for the Construction of the Shenzhen Aerospace Science & Technology Plaza

MAJOR AND CONNECTED TRANSACTION

Facility agreement with a syndicate of financial institutions

The Directors announce that the Company intends to seek a general mandate from its Shareholders in respect of the entering into all contracts (including but not limited to design, supplies of construction materials and constructions) in respect of the provisionally named Shenzhen Aerospace Science & Technology Plaza during the Construction Period, of which contracts will be entered into with third party contractors, either by public tender or by invitation, with the price set with reference to the then prevailing market price and as recommended by price consultants.

An approval to a major and connected transaction is also sought for the Independent Shareholders' approval in relation to a syndicate loan agreement and a supplemental agreement in respect of a RMB1,500 million facility for a period of 5 years entered into by Shenzhen Aerospace and the Finance Syndicate after the trading hours of 14 January 2011, in which the land use right of a parcel of land in Shenzhen shall be mortgaged in favour of the Finance Syndicate as security and Shenzhen Aerospace shall take on insurance in favour of the Finance Syndicate.

An Independent Board Committee has been appointed to consider the terms of the Facilities and to advise and recommend the Independent Shareholders to vote, and Somerley Limited has been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms thereof.

A circular setting out details of the proposed construction plan of Shenzhen Aerospace Science & Technology Plaza and the Facilities will be despatched to shareholders on or before 16 February 2011, together with the notice of the Extraordinary General Meeting.

Further to the announcement and the circular dated 30 November 2007 and 18 December 2007 respectively in respect of the formation of Shenzhen Aerospace, an indirect 60% owned subsidiary of the Company and the announcement dated 14 March 2008 in respect of the acquisition by Shenzhen Aerospace in a public auction of a land use right of a parcel of land in Shenzhen, the PRC, the Board of Directors of the Company announces that:

- a. Shenzhen Aerospace intends to adopt a construction plan and budget cost as recommended by a professional project development consultant in respect of the Shenzhen Aerospace Science & Technology Plaza and a general mandate is to be sought from its shareholders in respect of the entering into of contracts in respect of the construction of the Shenzhen Aerospace Science & Technology Plaza; and
- b. a syndicate loan agreement and a supplemental agreement in respect of a RMB1,500 million facility for a period of 5 years were entered into by Shenzhen Aerospace and the Finance Syndicate after the trading hours of 14 January 2011.

The Shenzhen Aerospace Science & Technology Plaza

The Shenzhen Aerospace Science & Technology Plaza (formerly referred to as Shenzhen Aerospace International Centre in the Company's previous announcement and circular) is to be situated at the northern reclamation district of the east of Nanshan Houhai Centre District with a site area of 12,618.67 square metre. The land use right is for a term of 50 years commencing from 14 March 2008 and is for commercial office purpose. Shenzhen Aerospace intends to adopt a construction plan as recommended by a professional project development consultant of Shenzhen Aerospace. The construction plan comprises a twin-tower skyscraper office building, together with a 6-storey shopping complex and 4-storey underground shopping arcade and parking lots that will amount to a gross floor area of 196,405.51 square metre.

The Shenzhen Aerospace Science & Technology Plaza is intended to serve as an initiative and innovative aerospace technology transformation platform and the operating headquarter of CASC in southern China for the research and development centres of aerospace technology applications, centres of international economic technology co-operations, and operational and management centres.

The construction of the foundation works, construction design and site clearance, retaining and protecting for foundation excavation, and earthworks had been completed. Administrative approvals for temporary land use, road, sewage, fire control, energy saving, retaining and protecting for foundation excavation and earthworks, as well as combined use of three parcels of land had been obtained. The submission and approval procedures for the construction plan are in progress. Barring any unforeseen circumstances, it is estimated that the construction of the Shenzhen Aerospace Science & Technology Plaza will be completed within 30 months from the commencement of the overall construction works.

According to the proposal of the price consultant employed by Shenzhen Aerospace, it is estimated that the construction costs of the Shenzhen Aerospace Science & Technology Plaza (excluding land costs and cost of design consultants but including the foundation works and site clearance) will amount to RMB1,401 million (approximately HK\$1,653 million) to RMB1,409 million (approximately HK\$1,662 million), based on current price of construction materials and labour cost etc.. It is expected that the construction costs will be funded by internal resources of Shenzhen Aerospace, the Facilities and other facilities from financial and/or banking institutions. It is expected that the Company will not have to make further

investment in Shenzhen Aerospace. The shareholders of Shenzhen Aerospace have already contributed a registered capital of RMB700 million, which had been approved by the shareholders of the Company in 2008.

Proposed General Mandate Sought — Major Transaction

The estimated total construction costs exceed 25% of the unaudited consolidated total assets of the Company of HK\$4,913 million (approximately RMB4,164 million) and the market capitalisation of the Company. If all contracts in relation to the construction of the Shenzhen Aerospace Science & Technology Plaza are entered into within a 12-month period, such contracts will be aggregated pursuant to rule 14.22 of the Listing Rules and the transaction contemplated under the contracts will constitute a major transaction of the Company, which will be subject to shareholders' approval in a general meeting. It is estimated that save in respect of the main contractor contract to be determined by public tender, there will be numerous other contracts in respect of the detailed design, supplies of construction materials and construction of the Shenzhen Aerospace Science & Technology Plaza. It is considered by the Board of Directors of the Company that it will be extremely onerous and cumbersome and will affect the progress of the construction when contracts exceeding the disclosure threshold of a major transaction have to be signed only after seeking shareholders' approval in a general meeting.

For the reasons given above and in order to give the Directors the flexibility to enter into contracts for the construction of the Shenzhen Aerospace Science & Technology Plaza at the appropriate time and price so as to maximize the benefits to the Company, the Directors will seek a general mandate from its shareholders to enter into all contracts (including but not limited to design, supplies of construction materials and constructions) in respect of the Shenzhen Aerospace Science & Technology Plaza during the Construction Period on the basis that:

- a. the aggregate value of the contracts to be entered into shall not exceed RMB1,409 million (as adjusted with price index in relation to labour costs and construction materials as may be announced by the relevant price bureau and leading suppliers);
- b. save for contracts of construction works below the value of RMB2,000,000, contracts of purchase of equipment and materials below the value of RMB1,000,000, contracts of construction services below the value of RMB500,000, and special cases which will be approved by the board of directors of Shenzhen Aerospace, the developer, all contracts which will only be entered into by way of public tender, according to the relevant rules and regulations of Shenzhen and the PRC;
- c. in respect of contracts entered into by private invitation, the price will be set with reference to the then prevailing market price after consultation with qualified price consultant in the PRC; and
- d. in the event contracts are to be entered into with connected persons of the Company, the relevant requirements under the Listing Rules will be complied with.

The Facilities

After the trading hours of 14 January 2011, Shenzhen Aerospace has entered into a syndicate loan agreement and a supplemental agreement with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen, being members of the Finance Syndicate, in respect of a RMB1,500 million

facility which will include a bank guarantee of up to RMB150 million and advances of RMB1,350 million for construction purpose for a period of 5 years from the first drawdown date. The commitments of Aerospace Finance, ICBC Shenzhen and BOC Shenzhen under the Facilities are RMB450 million, RMB300 million and RMB750 million, respectively. The drawdown period shall be three years from the date of the first drawdown. Repayment shall be made from the fourth year of the Facilities by 8 equal quarterly installments. Interest will be equal to the base lending rate (as announced by the People's Bank of China) at the relevant date of advances and payable quarterly. Interest rate will be adjusted on 1 January of the subsequent year if there is any change of interbank base lending rate. In case there is no reference rate available and the parties cannot agree on an interest rate, the latest interest rate under the Facilities shall apply. Default interest shall be 50% to 100% over the interest rate, depending on the type of default and breach.

The land use right of the Shenzhen Aerospace Science & Technology Plaza shall be mortgaged in favour of the Finance Syndicate as security and Shenzhen Aerospace shall take on insurance policies on its assets, the construction, third parties liabilities and all mandatory insurance as may be required by the relevant PRC authorities and law and name the Finance Syndicate as joined insured or beneficiaries in respect of all insurances relating to the development.

Pursuant to the supplemental agreement between Shenzhen Aerospace and the Finance Syndicate, prior to the repayment in full of the Facilities, up to 50% of the sale proceeds from the Shenzhen Aerospace Science & Technology Plaza should be deposited into a designated account maintained with BOC Shenzhen and that during period of temporary release of land mortgage (if so required by the PRC authorities or under relevant PRC law and regulations), all rental receipts shall be deposited with accounts maintained with the Finance Syndicate.

Prepayment is permitted. No charges will be levied provided that not less than 30 business days prior notice is given to the Finance Syndicate by Shenzhen Aerospace. Prepayment is not subject to charges.

Aerospace Finance is the arranger of the Facilities and shall be entitled to receive an upfront one-off arranger fee equivalent to 0.1% of the Facilities. ICBC Shenzhen is the agent bank of the Facilities and shall be entitled to receive an one-off agency fee equivalent to 0.2% of the advance drawn down. Shenzhen Aerospace shall be responsible for all costs and expenses incurred by the Finance Syndicate (including legal fee and valuation fee) in respect of the negotiation and preparation of the legal documentation in respect of the Facilities and shall reimburse the Finance Syndicate for all losses, costs and expenses in respect of the enforcement of the Facilities.

The syndicate loan agreement shall become effective on the later of (i) the signing of the agreement by the parties thereto with the company seal/chop duly attested and (ii) the approval by the Independent Shareholders of the Company. It is one of the conditions precedent for the first drawdown of the advances that the resolutions of shareholders of Shenzhen Aerospace in respect of the Loan Documents (being the syndicate loan agreement and the land mortgage) be submitted to the agent bank. It is the intention of the Board that the shareholders' resolution of Shenzhen Aerospace will only be passed after the Independent Shareholders have approved the Facilities and the related mortgage and fee payment. Other condition precedent documents include the main contractor contract, approvals by relevant PRC authorities in respect of the development (including environmental and planning) and the Facilities (if any), registration of the land mortgage, insurance policies with the Finance

Syndicate as joint insured and PRC legal opinion. It is also a requirement of the Facilities that during the 5-year period of the Facilities, the Company shall not hold less than 51% interests in Shenzhen Aerospace without the agent bank's prior consent.

The terms of the Facilities are negotiated after arm's length negotiation. The Directors (excluding the Independent Non-Executive Directors who will form their views after considering the advice of the Independent Financial Adviser) consider that the terms of the Facilities are on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Facilities are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Information on the Company, Shenzhen Aerospace and members of the Finance Syndicate

The Company is an investment holding company and its subsidiaries are principally engaged in hi-tech manufacturing, aerospace and aerospace services.

Shenzhen Aerospace is a 60% indirectly owned subsidiary of the Company. The other 40% interests of Shenzhen Aerospace is owned by 航天科技投資控股有限公司 (Aerospace Technology Investment Holdings Limited)[#]; a wholly-owned subsidiary of CASC, the major shareholder of the Company, and 深圳航天科技創新研究院 (Shenzhen Science & Technology Institute)[#]. The approved business scope of Shenzhen Aerospace are development and transfer of technologies, provision of technological advisory and services, the establishment of enterprises, the research and manufacturing of satellite related products, development of infrastructure and related businesses, the management and leasing of properties. Its current project is the development of the Shenzhen Aerospace Science & Technology Plaza.

Aerospace Finance is a subsidiary of CASC and its subsidiaries whose approved business scope include (i) provision of finance and fund raising advisory, credit verification and related consultancy and agency services to members of the CASC group; (ii) provision of fund receiving and payment services for transactions conducted by members of the CASC group; (iii) approved insurance agency business; (iv) provision of guarantees for members of the CASC group; (v) provision of entrusted loans and entrusted investment services to members of the CASC group; (vi) acceptance and discounting of bills for members of the CASC group; (vii) settlement of transfers of fund between members of the CASC group and design of plans for related settlements and clearances; (viii) accepting deposits from members of the CASC group; (ix) dealing with loans and financing lease for members of the CASC group; (x) inter-bank lending; (xi) issue of finance company bonds with approval; (xii) underwriting enterprise bonds of members of the CASC group; (xiii) equity investment in financial institutions; (xiv) investment in marketable securities; (xv) buyer credits and financing lease in respect of products of members of the CASC group.

BOC Shenzhen is a branch of Bank of China.

ICBC Shenzhen is a branch of Industrial and Commercial Bank of China.

Reasons for and benefit of construction of the Shenzhen Aerospace Science & Technology Plaza

Given that the prosperous development of property market in Shenzhen as a result of the acceleration of the structural change in industries in recent years and the substantial development of the four core industries, such as advance technology, finance, logistics and culture, that leads to a keen demand in high quality offices in the foreseeable future, it is anticipated that the Company, through Shenzhen Aerospace Science & Technology Plaza, would benefit from favourable return through the development, management and operations

of the Shenzhen Aerospace Science & Technology Plaza. The development of Shenzhen Aerospace Science & Technology Plaza is expected to further strengthen the Company's property investment portfolio. In the long run, the Company will benefit from the provision of steady cash flow by Shenzhen Aerospace from the recurring rental income of the Shenzhen Aerospace Science & Technology Plaza.

Major and Connected Transaction

Aerospace Finance, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the mortgage of the land use right of the Shenzhen Aerospace Science & Technology Plaza in favour of the Finance Syndicate as security constitutes a non-exempted continuing connected transaction of the Company. In addition, the aggregate of the amount of the Facilities represents more than 25% but less than 75% of the market capitalisation of the Company and constitutes a major transaction. Accordingly, the Facilities are subject to Independent Shareholders' approval and CASC and its associates shall abstain from voting on this resolution at the Extraordinary General Meeting.

Independent Board Committee and Independent Financial Adviser

An Independent Board Committee comprising all the Independent Non-Executive Directors of the Company (who do not have any material interests in the Facilities) has been appointed to consider the terms of the Facilities and matters related to the transactions, and to advise the Independent Shareholders accordingly.

Somerley Limited has been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Facilities.

General

Owing to the approaching Chinese New Year holidays, the Company may need more time to prepare and verify the content of circular. As such, the circular setting out, among others, details of the proposed construction plan of Shenzhen Aerospace Science & Technology Plaza, the Facilities, Letter from the Independent Board Committee and Letter to the Independent Board Committee and the Independent Shareholders from Independent Financial Adviser will be despatched to shareholders on or before 16 February 2011, together with the notice of Extraordinary General Meeting.

Terms used in this Announcement

“Aerospace Finance”	航天科技財務有限責任公司 (Aerospace Science & Technology Finance Company Limited) [#] ; a subsidiary of CASC and its subsidiaries established in the PRC as a limited liability company and whose business activities are subject to the supervision of the China Banking Regulatory Commission;
“BOC Shenzhen”	中國銀行股份有限公司深圳南頭支行 (Bank of China, Shenzhen Nantou Sub-branch) [#] ;
“CASC”	China Aerospace Science & Technology Corporation, a state-owned enterprise established in the PRC. As of the date of this Announcement, it holds a 37.06% shareholding in the Company and is a controlling shareholder of the Company;
“Company”	China Aerospace International Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on The Stock Exchange of Hong Kong Limited;
“Construction Period”	the 30-month period from the commencement of the overall construction work as described in the section headed “The Shenzhen Aerospace Science & Technology Plaza”;
“Extraordinary General Meeting”	the extraordinary general meeting to be convened by the Company for the purpose of approving the General Mandate and the Facilities;
“Facilities”	the RMB1,500 million facility for a period of 5 years, which will include a bank guarantee of up to RMB150 million to the main contractor(s) and advances of up to RMB1,350 million pursuant to the syndicate loan agreement dated 14 January 2011 with Aerospace Finance, ICBC Shenzhen and BOC Shenzhen, being members of the Finance Syndicate;
“Finance Syndicate”	Aerospace Finance, ICBC Shenzhen and BOC Shenzhen;
“General Mandate”	the general mandate to be granted to the directors of the Company in respect of contracts to be entered into in respect of the construction of the Shenzhen Aerospace Science & Technology Plaza;
“HK\$”	Hong Kong dollars, the legal currency of the Hong Kong Special Administrative Region of the PRC;
“ICBC Shenzhen”	中國工商銀行股份有限公司深圳深圳灣支行 Industrial and Commercial Bank of China, Shenzhen Shenzhen Bay Sub-branch;
“Independent Board Committee”	an independent committee of the Board of Directors of the Company comprising Mr Chow Chan Lum, Charles, Mr Luo Zhenbang and Mr Wang Junyan, being all the independent non-executive directors;

“Independent Financial Adviser”	Somerley Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Facilities;
“Independent Shareholders”	all shareholders of the Company excluding CASC and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	The People’s Republic of China (for the purpose of this announcement, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan);
“RMB”	Reminbi, the legal currency of the PRC; and
“Shenzhen Aerospace”	深圳市航天高科投資管理有限公司 (Shenzhen Aerospace Hi-tech Investment Management Company Limited) [#] (in the announcement of the Company dated 30 November 2007, it was originally proposed that the name of Shenzhen Aerospace be 深圳航天科技投資管理有限公司 (Shenzhen Aerospace Technology Investment Company Limited) [#]).

By order of the Board
Rui Xiaowu
Chairman

Hong Kong, 14 January 2011

As at the date of this announcement, the Board of Directors of the Company comprises:

Executive Directors	Non-Executive Directors	Independent Non-Executive Directors
Mr Li Hongjun (<i>President</i>) Mr Jin Xuesheng	Mr Rui Xiaowu (<i>Chairman</i>) Mr Wu Zhuo (<i>Vice Chairman</i>) Mr Chen Xuechuan Mr Shi Weiguo Dr Chan Ching Har, Eliza Mr Zhou Qingquan	Mr Chow Chan Lum, Charles Mr Luo Zhenbang Mr Wang Junyan

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

For the purpose of this Announcement, the exchange rate of RMB: HK\$ is RMB0.84754: HK\$1.00 (being the mid-rate quoted by the People's Bank of China on 14 January 2011).