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## CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

### ANNOUNCEMENT OF INTERIM RESULTS 2018

The Board of Directors (the “Board”) of China Aerospace International Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018 together with the comparative figures of the same period in 2017 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended	
		30.6.2018	30.6.2017
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
Turnover	3	1,764,701	1,675,180
Cost of sales		(1,307,228)	(1,191,586)
Gross profit		457,473	483,594
Other income	4	15,875	29,651
Other gains and losses	4	(4,147)	(11,214)
Selling and distribution expenses		(26,198)	(29,974)
Administrative expenses		(147,800)	(152,513)
Research and development expenses		(41,907)	(37,178)
Fair value changes of investment properties		75,195	105,907
Allowance of doubtful debts		(18,031)	—
Finance costs		(32,826)	(27,806)
Share of results of associates		7,176	1,105
Share of results of joint ventures		(3,242)	(6,529)
Profit before taxation	5	281,568	355,043
Taxation	6	(57,540)	(86,657)
Profit for the period		224,028	268,386

		<b>Six months ended</b>	
		<b>30.6.2018</b>	30.6.2017
		<b>(Unaudited)</b>	(Unaudited)
<i>NOTE</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		<b>164,229</b>	201,323
Non-controlling interests		<b>59,799</b>	67,063
		<b>224,028</b>	268,386
		<b>224,028</b>	268,386
Basic earnings per share	7	<b>HK5.32 cents</b>	HK6.53 cents
		<b>HK5.32 cents</b>	HK6.53 cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2018*

		<b>Six months ended</b>	
		<b>30.6.2018</b>	30.6.2017
		<b>(Unaudited)</b>	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period		<b>224,028</b>	268,386
Other comprehensive (expense) income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translating foreign operations			
- subsidiaries		<b>(100,725)</b>	225,367
- associates		<b>(2,066)</b>	4,392
- joint ventures		<b>(8,398)</b>	22,303
Other comprehensive (expense) income for the period		<b>(111,189)</b>	252,062
Total comprehensive income for the period		<b>112,839</b>	520,448
		<b>112,839</b>	520,448
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>81,728</b>	389,546
Non-controlling interests		<b>31,111</b>	130,902
		<b>112,839</b>	520,448
		<b>112,839</b>	520,448

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2018**

	<i>NOTES</i>	<b>30.6.2018</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31.12.2017 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>1,118,637</b>	1,104,487
Prepaid lease payments		<b>94,249</b>	97,390
Investment properties		<b>9,518,858</b>	9,568,215
Interests in associates		<b>147,835</b>	142,725
Interests in joint ventures		<b>741,590</b>	753,230
Deposits paid for property, plant and equipment		<b>40,854</b>	56,975
Other long-term assets		<b>164,024</b>	124,653
		<b>11,826,047</b>	11,847,675
<b>Current assets</b>			
Inventories		<b>402,705</b>	348,216
Trade and other receivables	9	<b>1,384,139</b>	1,277,204
Prepaid lease payments		<b>4,299</b>	4,176
Amount due from a related party		<b>31</b>	851
Financial assets at fair value through profit or loss		<b>13,486</b>	13,720
Pledged bank deposits		<b>13,501</b>	20,098
Short-term bank deposits		<b>7,800</b>	—
Bank balances and cash		<b>797,704</b>	1,063,168
		<b>2,623,665</b>	2,727,433
<b>Current liabilities</b>			
Trade and other payables	10	<b>1,210,551</b>	1,550,229
Contract liabilities		<b>80,898</b>	—
Taxation payable		<b>79,664</b>	81,241
Unsecured bank borrowings		<b>18,935</b>	19,185
Other loan		<b>8,482</b>	8,594
Loan from a controlling shareholder		<b>—</b>	599,520
		<b>1,398,530</b>	2,258,769
<b>Net current assets</b>		<b>1,225,135</b>	468,664
<b>Total assets less current liabilities</b>		<b>13,051,182</b>	12,316,339

	<b>30.6.2018</b> <b>(Unaudited)</b> <i>HK\$'000</i>	31.12.2017 <b>(Audited)</b> <i>HK\$'000</i>
<b>Non-current liabilities</b>		
Loan from a controlling shareholder	<b>591,716</b>	—
Loan from a related party	<b>809,586</b>	676,379
Deferred taxation	<b>2,442,880</b>	2,433,748
	<b>3,844,182</b>	3,110,127
	<b>9,207,000</b>	9,206,212
<b>Capital and reserves</b>		
Share capital	<b>1,154,511</b>	1,154,511
Reserves	<b>5,925,291</b>	5,936,114
<b>Equity attributable to owners of the Company</b>	<b>7,079,802</b>	7,090,625
<b>Non-controlling interests</b>	<b>2,127,198</b>	2,115,587
	<b>9,207,000</b>	9,206,212

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2018*

**1. BASIS OF PREPARATION**

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

The financial information relating to the year ended 31 December 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

## 2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

There are no material impact of transition to HKFRS 15 on retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

### Impact on liabilities as at 1 January 2018

	<u>Note</u>	<u>Carrying amount</u> <u>previously reported at</u> <u>31 December 2017</u> HK\$'000	<u>Impacts of</u> <u>adopting</u> <u>HKFRS 15</u> HK\$'000	<u>Carrying</u> <u>amount under</u> <u>HKFRS 15 at</u> <u>1 January 2018</u> HK\$'000
Trade and other payables	a	1,550,229	(100,184)	1,450,045
Contract liabilities	a	-	100,184	100,184

Note:

- (a) As at 1 January 2018, advances from customers of HK\$100,184,000 in respect of purchase orders of goods placed with the Group previously included in the trade and other payables were reclassified to contract liabilities as the Group has obligations to transfer goods or services to its customers for which the Group has received consideration from the customer.

There are no material impact of applying HKFRS 15 on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the current interim period. The following table summarises the impact of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

### Impact on liabilities as at 30 June 2018

	<u>As reported</u> HK\$'000	<u>Adjustments</u> HK\$'000	<u>Amounts</u> <u>without</u> <u>application of</u> <u>HKFRS 15</u> HK\$'000
Trade and other payables	1,210,551	80,898	1,291,449
Contract liabilities	80,898	(80,898)	-

## **2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"**

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

As at 1 January 2018, no additional credit loss allowance has been recognised in retained profits as the directors of the Company consider that the amount is immaterial.

### 3. TURNOVER AND SEGMENT INFORMATION

The Group determines its operating and reportable segments based on the internal reports reviewed by the President, the chief operating decision maker ("CODM") of the Group, that are used to make strategic decisions. There are 8 operating and reportable segments, namely Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and industrial property investment) and Aerospace Service (including property investment in Shenzhen Aerospace Science & Technology Plaza, Internet of Things and Cross-border e-commerce) which represent the major industries in which the Group is engaged.

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

#### For the six months ended 30 June 2018

	Turnover			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	529,937	25,307	555,244	19,014
Liquid crystal display	284,636	345	284,981	22,673
Printed circuit boards	407,710	—	407,710	22,735
Intelligent chargers	286,834	912	287,746	11,405
Industrial property investment	8,156	10,574	18,730	18,642
	<u>1,517,273</u>	<u>37,138</u>	<u>1,554,411</u>	<u>94,469</u>
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	220,303	3,066	223,369	246,435
Internet of Things	28	—	28	(7,255)
Cross-border e-commerce	23,967	—	23,967	(9,025)
	<u>244,298</u>	<u>3,066</u>	<u>247,364</u>	<u>230,155</u>
Operating and reportable segment total	1,761,571	40,204	1,801,775	324,624
Elimination	—	(40,204)	(40,204)	—
Other Business	3,130	—	3,130	3,034
	<u>1,764,701</u>	<u>—</u>	<u>1,764,701</u>	<u>327,658</u>
Unallocated corporate income				6,868
Unallocated corporate expenses				(24,066)
				<u>310,460</u>
Share of results of associates				7,176
Share of results of joint ventures				(3,242)
Finance costs				(32,826)
Profit before taxation				<u>281,568</u>

**For the six months ended 30 June 2017**

	Turnover			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	588,762	23,181	611,943	37,773
Liquid crystal display	288,239	52	288,291	22,725
Printed circuit boards	357,095	—	357,095	50,002
Intelligent chargers	208,402	763	209,165	16,811
Industrial property investment	7,801	9,487	17,288	10,013
	<u>1,450,299</u>	<u>33,483</u>	<u>1,483,782</u>	<u>137,324</u>
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	191,408	402	191,810	270,805
Internet of Things	2	—	2	(1,252)
Cross-border e-commerce	28,487	—	28,487	(3,378)
	<u>219,897</u>	<u>402</u>	<u>220,299</u>	<u>266,175</u>
Operating and reportable segment total	1,670,196	33,885	1,704,081	403,499
Elimination	—	(33,885)	(33,885)	—
Other Business	4,984	—	4,984	3,530
	<u>1,675,180</u>	<u>—</u>	<u>1,675,180</u>	407,029
Unallocated corporate income				18,522
Unallocated corporate expenses				(37,278)
				<u>388,273</u>
Share of results of associates				1,105
Share of results of joint ventures				(6,529)
Finance costs				(27,806)
Profit before taxation				<u>355,043</u>

Segment results represent the profit earned/loss incurred by each segment without allocations of interest income, changes in fair value of financial assets at fair value through profit or loss, share of results of joint ventures and associates, interest expenses and other corporate income and corporate expenses.

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

**4. OTHER INCOME AND OTHER GAINS AND LOSSES**

	Six months ended	
	30.6.2018 HK\$'000	30.6.2017 HK\$'000
The Group's other income mainly comprises:		
Bank interest income	<u>5,930</u>	<u>7,748</u>
The Group's other gains and losses mainly comprise:		
Net gain (loss) from change in fair value of financial assets at fair value through profit or loss	513	(5,542)
Net exchange loss	<u>(5,469)</u>	<u>(5,625)</u>



## 5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2018	30.6.2017
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	1,584	1,742
Depreciation of property, plant and equipment	<u>73,880</u>	<u>49,807</u>

## 6. TAXATION

	Six months ended	
	30.6.2018	30.6.2017
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	6,710	7,165
PRC Enterprise Income Tax	<u>9,121</u>	<u>14,640</u>
	15,831	21,805
Deferred tax charge	<u>41,709</u>	<u>64,852</u>
	<u>57,540</u>	<u>86,657</u>

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

## 7. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2018	30.6.2017
	HK\$'000	HK\$'000
<b>Earnings</b>		
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	<u>164,229</u>	<u>201,323</u>
	30.6.2018	30.6.2017
	'000	'000
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic earnings per share	<u>3,085,022</u>	<u>3,085,022</u>

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

## 8. DIVIDEND

2017 final dividend of HK3 cents (1.1.2017 to 30.6.2017: 2016 final dividend of HK2 cents) per share amounting to HK\$92,551,000 (1.1.2017 to 30.6.2017: HK\$61,700,000) was declared by the Company during the period. The directors of the Company do not recommend payment of an interim dividend for the interim period.

## 9. TRADE AND OTHER RECEIVABLES

At 30 June 2018, included in trade and other receivables are trade receivables of HK\$971,839,000 (31.12.2017: HK\$914,976,000). The Group allows an average credit period of 90 days to its trade customers.

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

	<b>30.6.2018</b> <i>HK\$'000</i>	31.12.2017 <i>HK\$'000</i>
Within 90 days	<b>836,826</b>	840,166
Between 91 - 180 days	<b>99,476</b>	60,286
Between 181 - 365 days	<b>35,537</b>	14,524
	<b>971,839</b>	914,976

## 10. TRADE AND OTHER PAYABLES

	<b>30.6.2018</b> <i>HK\$'000</i>	31.12.2017 <i>HK\$'000</i>
Trade payables	<b>452,493</b>	470,925
Accrued charges	<b>147,494</b>	178,313
Receipt in advance	<b>40,750</b>	132,413
Other payables	<b>569,814</b>	768,578
	<b>1,210,551</b>	1,550,229

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

	<b>30.6.2018</b> <i>HK\$'000</i>	31.12.2017 <i>HK\$'000</i>
Within 90 days	<b>439,678</b>	377,785
Between 91 - 180 days	<b>6,960</b>	29,475
Between 181 - 365 days	<b>64</b>	57,764
Over 1 year	<b>5,791</b>	5,901
	<b>452,493</b>	470,925

## **BUSINESS REVIEW**

### **OVERVIEW**

For the six months ended 30 June 2018, the Company and its subsidiaries reported an unaudited turnover of HK\$1,764,701,000, representing an increase of 5.34% as compared with that of HK\$1,675,180,000 for the same period of 2017. Profit for the period was HK\$224,028,000, representing a decrease of 16.53% as compared with that of HK\$268,386,000 for the same period of 2017. Profit attributable to the shareholders was HK\$164,229,000, representing a decrease of 18.43% as compared with that of HK\$201,323,000 for the same period of 2017. Basic earnings per share attributable to the shareholders was HK5.32 cents (first half of 2017: HK6.53 cents).

With the support of the controlling shareholder, China Aerospace Science & Technology Corporation (“CASC”), the Company's wholly-owned subsidiary, CASIL New Century Technology Development (Shenzhen) Company Limited\* (航科新世紀科技發展(深圳)有限公司), CASC and Bank of Beijing renewed an unsecured loan of RMB500,000,000 for another five years' term in the first half of the year, making it possible for the Company and its subsidiaries to obtain funds to develop the business at stable and low financing costs in the interest rate hike cycle. Details of which please refer to the Company's announcement published on 3 April 2018.

CASC also completed its group restructuring. Upon completion, CASC directly holds 100% interest in Burhill Company Limited (“Burhill”), and Burhill in turn directly holds a total of 1,183,598,636 shares of the Company, accounting for 38.37% of the issued share. Jetcote Investments Limited and Sin King Enterprises Company Limited, the former shareholders, no longer hold any shares in the Company. Details of which please refer to the Company's announcement published on 21 May 2018.

In the first half of 2018, the Company's turnover recorded a stable growth. However, the increase in operating costs affected the gross profit. The gross profit margin reduced from 28.87% of the same period last year to 25.92% of the current period. The operation of Shenzhen Aerospace Science & Technology Plaza contributed stable incomes and profit to the Company. Taking into consideration the Company's development and working capital as a whole, the Board decided not to distribute any interim dividend.

In the face of several adverse factors including the enhanced environment standards, the increase in rent and the production costs of labour, raw materials and energy, and the drastic fluctuation of exchange rates, the hi-tech manufacturing business of the Company underwent many challenges. For the six months ended 30 June 2018, hi-tech manufacturing business recorded a turnover of HK\$1,517,273,000, representing an increase of 4.62% as compared with that of HK\$1,450,299,000 for the same period of 2017, and realised an operating profit of HK\$94,469,000, representing a decrease of 31.21% as compared with that of HK\$137,324,000 for the same period of 2017.

The effort in expanding the plastic products business in the mainland market became noticeable, relationships with new clients were gradually established and certain new products started mass production, offsetting the impact of decreasing orders from some Japanese customers due to their relocation of production sites. The overall market for office equipment was relatively stable, and the newly developed businesses of high-end audio and auto parts became new profit points of plastic product business. As for the electroplating business, with the new electroplating gantry line of electroplating factory in Boluo, Huizhou being put into production step by step, its businesses will mainly focus on electroplating products such as auto parts and household appliances. The intelligent charger business gradually introduced the production of new products such as mini projectors with a view to expand the scope of product structure.

The businesses of rigid printed circuit boards (“PCB”), flexible PCB and surface mounted technology (“SMT”) in the printed circuit board business have achieved a growth. Among them, the growth of rigid PCB business mainly contributed from the growth of high-density printed circuit production. However, adverse factors as the raise of labour and environment protection costs, and depreciation of new plant and equipment all affected earnings performance of the businesses. On-board products of the liquid crystal display (“LCD”) business has developed from pure LCD products to Chip-on-Glass (“COG”) module products, expanding the market of vehicle-borne products.

In the first half of the year, Shenzhen Aerospace Technology Investment Company Limited\* (深圳市航天高科投資管理有限公司) (“Shenzhen Aerospace”) and its wholly-owned subsidiary, Shenzhen Aerospace Technology Property Management Company Limited\*(深圳市航天高科物業管理有限公司), recorded a total turnover of HK\$220,303,000 (first half of 2017: HK\$191,408,000) and a segment profit of HK\$246,435,000 (first half of 2017: HK\$270,805,000), and if not considering the effect of the change in the fair value of the investment property, the operating profit was HK\$186,715,000 (first half of 2017: HK\$174,138,000). On 30 June 2018, the valuation of Shenzhen Aerospace Science & Technology Plaza was about RMB7,691,000,000 (30 June 2017: RMB7,432,000,000).

Regarding the withdrawal of the Company's joint venture, Hainan Aerospace Investment Management Company Limited (海南航天投資管理有限公司) (“Hainan Aerospace”), from the development of the project of the Complex Zone of the Launching Site in Hainan, Hainan Aerospace and Municipal Government of Wenchang are discussing arrangements as agreed for the return of the remaining project funds. As of 30 June 2018, the carrying amount of Company’s interest in Hainan Aerospace was approximately HK\$673,714,000 (30 June 2017: HK\$661,228,000). For the first half of the year, loss of Hainan Aerospace attributable to the Company was approximately HK\$3,614,000, representing a marked reduction of 48.65% as compared with that of a loss of HK\$7,038,000 for the same period of 2017.

The cross-border e-commerce logistics business, the major business of Aerospace Digitnexus Information Technology (Shenzhen) Limited\* (航天數聯信息技術(深圳)有限公司) (“Aerospace Digitnexus”), suffered a decline in sales due to the new tax policies. Besides, the business of internet of things application was in the business transformation stage, causing its business performance not living up to the expectation. For the six months ended 30 June 2018, turnover of Aerospace Digitnexus and its subsidiary amounted to HK\$23,995,000, representing a decrease of 15.77% as compared with that of HK\$28,489,000 for the same period of 2017, and operating loss was HK\$16,280,000 (first half of 2017: loss of HK\$4,630,000).

## **PROSPECTS**

Looking into the second half of the year, trade frictions between China and the United States are getting tenser. It is expected that it will be hard to relieve such tense trade relations in the short run. Rising trade protectionism often brings uncertainty to global trade flows. Trade disputes are expected to intensify that may affect foreign trade, investment and economic confidence, and increase downside risks to the economy.

The industrial enterprises will make every effort to expand the market, expand production capacity, improve the research and development of core technologies and their own technological level, and strengthen the market competitiveness.

Shenzhen Aerospace will commit itself to improve the property management standard of Shenzhen Aerospace Science & Technology Plaza and provide tenants with quality services. Aerospace Digitnexus will strive to develop new business models so as to seek a breakthrough for the business operation.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS PERFORMANCE**

The unaudited turnover of the Company and its subsidiaries for the six months ended 30 June 2018 was HK\$1,764,701,000, representing an increase of 5.34% as compared with that of HK\$1,675,180,000 for the same period of 2017. Profit for the period was HK\$224,028,000, representing a decrease of 16.53% as compared with that of HK\$268,386,000 for the same period of 2017.

### **PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY**

Profit attributable to shareholders of the Company for the current period was HK\$164,229,000, representing a decrease of 18.43% as compared with that of HK\$201,323,000 for the same period of 2017.

The increase in turnover was mainly due to the increase in the business of hi-tech manufacturing, whereas the decrease in profits attributable to shareholders was mainly due to the decrease in fair value gain of investment properties as compared to the same period of last year, the effect of changes in Renminbi exchange rate and an increase in production costs of hi-tech manufacturing.

Based on the issued share capital of 3,085,022,000 shares during the period, the basic earnings per share was HK5.32 cents, representing a decrease of 18.53% as compared with that of HK6.53 cents for the same period of 2017.

### **DIVIDENDS**

The Board decided not to distribute an interim dividend for 2018.

The distribution of 2017 final dividend of HK3 cents per share was approved by shareholders at the Annual General Meeting in May 2018 and warrants of which were dispatched to all shareholders on 22 June 2018.

### **RESULTS OF CORE BUSINESSES**

The core businesses of the Company and its subsidiaries are hi-tech manufacturing, internet of things application and cross border e-commerce logistics, and the operations of Shenzhen Aerospace Science & Technology Plaza.

The turnover of the hi-tech manufacturing is the main source of the Company's turnover that contributes a significant profit and cash flow. In recent years, the Company has gradually developed other new businesses. With the completion of Shenzhen Aerospace Science & Technology Plaza and that being turned into asset management, it brought in constant rental revenue and relatively minimized the Company's individual business risk.

#### **Hi-tech manufacturing**

In the first quarter of 2018, the global economy maintained a steady growth but the growth rate of consumer electronics market still leveled off. With the occurrence of uncertain factors such as US-China trade war and fluctuations of exchange rate in the second quarter of 2018, the already intense competition being faced by hi-tech manufacturing was further impacted. The turnover of the hi-tech manufacturing business for the six months ended 30 June 2018 was HK\$1,517,273,000, representing an increase of 4.62% as compared with the same period of last year and operating profit was HK\$94,469,000, representing a decrease of 31.21% as compared with the same period of last year. The results of the hi-tech manufacturing business are shown below:

	Turnover (HK\$'000)			Operating Profit (HK\$'000)		
	First half of 2018	First half of 2017	Changes (%)	First half of 2018	First half of 2017	Changes (%)
Plastic Products	529,937	588,762	(9.99)	19,014	37,773	(49.66)
Printed Circuit Boards	407,710	357,095	14.17	22,735	50,002	(54.53)
Intelligent Chargers	286,834	208,402	37.63	11,405	16,811	(32.16)
Liquid Crystal Display	284,636	288,239	(1.25)	22,673	22,725	(0.23)
Industrial Property Investment	8,156	7,801	4.55	18,642	10,013	86.18
<b>Total</b>	<b>1,517,273</b>	<b>1,450,299</b>	<b>4.62</b>	<b>94,469</b>	<b>137,324</b>	<b>(31.21)</b>

Looking forward to the second half of 2018, the global economy is yet to be optimistic while the competition in the electronic information industry will remain intense. The hi-tech manufacturing continues to put effort in the research and development of new products, enhancing the level of automation in production, and expanding the scale and capacity of production. In the meantime, it strives to reduce inventory and receivables, explore markets and businesses by ways of merger and acquisition or cooperation, and reach the target of market diversification so as to maintain stable business and sustainable development and ensure its continuous and stable growth.

### Shenzhen Aerospace Science & Technology Plaza

Shenzhen Aerospace Technology Investment Company Limited\* (深圳市航天高科投資管理有限公司) and its wholly-owned subsidiary, Shenzhen Aerospace Technology Property Management Company Limited\* (深圳市航天高科物業管理有限公司), respectively holds and manages Shenzhen Aerospace Science & Technology Plaza, recorded a total turnover of HK\$220,303,000 (first half of 2017: HK\$191,408,000) and a segment profit of HK\$246,435,000 (first half of 2017: HK\$270,805,000) in the first half of 2018.

As at 30 June 2018, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,691,000,000.

### Internet of Things Application and Cross-border E-commerce Logistics

Facing keen competitions, the clearance centre in Kaiping of Aerospace Digitnexus Information Technology (Shenzhen) Limited\* (航天數聯信息技術(深圳)有限公司) ("Aerospace Digitnexus") was striving to raise efficiency and explore markets. Its subsidiary, Jiangmen Aerospace Digitnexus Technology Company Limited\* (江門航天數聯科技有限公司), also started a traceable agricultural products project at the end of last year, planning to integrate and upgrade the agricultural product sector in several regions of the country through using Radio Frequency Identification ("RFID") labels so as to provide traceable tracking of delivery time and location information of products. At present, each business is still in the development stage, absolute advantage is yet to be formed. In the first half of 2018, Aerospace Digitnexus and its subsidiary recorded a turnover of HK\$23,995,000 (first half of 2017: HK\$28,489,000) and an operating loss of HK\$16,280,000 (first half of 2017: loss of HK\$4,630,000).

In the second half of 2018, Aerospace Digitnexus and its subsidiary will continue to improve the operation of the clearance centre in Kaiping and the development of traceable agricultural products project, while integrating with mature products in the market and forming market influence speedily in order to strive for a record of profit.

## ASSETS

(HK\$'000)	30 June 2018	31 December 2017	Changes (%)
Non-Current Assets	<b>11,826,047</b>	11,847,675	(0.18)
Current Assets	<b>2,623,665</b>	2,727,433	(3.80)
<b>Total Assets</b>	<b>14,449,712</b>	14,575,108	(0.86)

The non-current assets were more or less the same as compared to the end of last year and change of which was mainly due to currency translation differences, while the decrease in current assets was mainly due to a decrease in bank deposit balance caused by the payment of dividend and other operating costs. The equity attributable to shareholders of the Company was HK\$7,079,802,000, representing a decrease of 0.15% as compared with that of HK\$7,090,625,000 as at 31 December 2017. Based on the issued share capital of 3,085,022,000 shares during the period, the net assets per share attributable to shareholders of the Company was HK\$2.29.

As at 30 June 2018, a cash deposit of HK\$13,501,000 and bills receivable of HK\$85,931,000 of the Company and its subsidiaries had been pledged to banks to obtain credit facilities. As to the mortgage of part of Shenzhen Aerospace Science & Technology Plaza at value of approximately RMB1,900,000,000 by Shenzhen Aerospace to Aerospace Science & Technology Finance Company Limited\* (航天科技財務有限公司), it will be performed once the application of property right certificates is completed.

## LIABILITIES

(HK\$'000)	30 June 2018	31 December 2017	Changes (%)
Non-Current Liabilities	<b>3,844,182</b>	3,110,127	23.60
Current Liabilities	<b>1,398,530</b>	2,258,769	(38.08)
<b>Total Liabilities</b>	<b>5,242,712</b>	5,368,896	(2.35)

In the first half of the year, a wholly owned subsidiary of the Company entered into an extension agreement with CASC, the controlling shareholder of the Company, and Bank of Beijing to renew an unsecured loan in the sum of RMB500,000,000 at a fixed interest rate 5% per annum for a period of 5 years. Details of which please refer to the Company's announcement made on 3 April 2018.

The increase in non-current liabilities and the decrease in current liabilities were mainly due to the reclassification of a controlling shareholder's loan from current liabilities to non-current liabilities. As at 30 June 2018, the Company and its subsidiaries had bank and other borrowings of HK\$1,420,237,000.

## OPERATING EXPENSES

The administrative expenses of the Company and its subsidiaries in the first half of 2018 were HK\$147,800,000, representing a decrease of 3.09% as compared with the same period of last year. The finance costs amounted to HK\$32,826,000.

## CONTINGENT LIABILITIES

As at 30 June 2018, the Company and its subsidiaries did not have any material contingent liabilities.

## FINANCIAL RATIOS

	First half of 2018	First half of 2017
Gross Profit Margin	25.92%	28.87%
Return on Net Assets	2.43%	3.18%

  

	30 June 2018	31 December 2017
Assets- Liabilities Ratio	36.28%	36.84%
Current Ratio	1.88	1.21
Quick Ratio	1.58	1.05

## LIQUIDITY

The source of funds of the Company and its subsidiaries mainly relies on internal resources and banking facilities. As at 30 June 2018, the free cash and bank balance amounted to HK\$797,704,000, the majority of which were in Hong Kong Dollars and Renminbi.

## CAPITAL EXPENDITURE

As at 30 June 2018, the capital commitments of the Company and its subsidiaries contracted for but not provided in the condensed consolidated financial statements was HK\$64,690,000, mainly for the acquisition of fixed assets.

## FINANCIAL RISKS

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

## HUMAN RESOURCES AND REMUNERATION POLICIES

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

As at 30 June 2018, the Company and its subsidiaries had a total of approximately 6,850 employees based in the mainland and Hong Kong respectively.

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

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the first half of 2018.

## CORPORATE GOVERNANCE

For the six months ended 30 June 2018, the Company complied throughout the period with the provisions of the *Corporate Governance Code* and *Corporate Governance Report* as set out in Appendix 14 of the Listing Rules.



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

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules as the required standard for the Directors of the Company to trade the securities of the Company. Having made specific enquiry to all the Directors of the Company and in accordance with information provided, all the Directors have complied with the provisions under the Model Code in the first half of 2018.

As at 30 June 2018, save for Mr Gong Bo, Mr Mao Yijin and Mr Xu Liangwei, the Directors of the Company, are the officers of the substantial shareholder, China Aerospace Science & Technology Corporation, and its subsidiaries, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests or short positions 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*.

## **AUDIT COMMITTEE**

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

The Audit Committee of the Company reviewed, discussed and approved the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 that had been reviewed by the auditor, Deloitte Touche Tohmatsu.

## **REMUNERATION COMMITTEE**

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

## **NOMINATION COMMITTEE**

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

## **STATEMENT OF COMPLIANCE**

The financial information relating to the year ended 31 December 2017 that is included in the Interim Report 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

## **APPRECIATION**

I hereby express my profound gratitude to my fellow Directors and all staff of the Company for their dedication, loyal services and invaluable contributions during the period. Grateful thanks are also due to shareholders, bankers, business partners and members of the community who have supported the Company's development all along.

By order of the Board,  
**Gong Bo**  
*Chairman*

Hong Kong, 28 August 2018

*At the date of this announcement, the Board of Directors of the Company comprises:*

<b><i>Executive Directors</i></b>	<b><i>Non-Executive Directors</i></b>	<b><i>Independent Non-Executive Directors</i></b>
Mr Li Hongjun ( <i>President</i> )	Mr Gong Bo ( <i>Chairman</i> )	Mr Luo Zhenbang
Mr Jin Xuesheng	Mr Mao Yijin	Ms Leung Sau Fan, Sylvia
	Mr Xu Liangwei	Mr Wang Xiaojun

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