THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you have sold all your shares in China Aerospace International Holdings Limited, you should at once hand this Circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

If you are in any doubt as to any aspect of this Circular or as to any action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

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)

MAJOR AND CONTINUING CONNECTED TRANSACTION PROVISION OF CERTAIN FINANCIAL SERVICES BY AEROSPACE FINANCE PURSUANT TO THE FINANCIAL SERVICES AGREEMENT AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

A notice convening the Extraordinary General Meeting of China Aerospace International Holdings Limited to be held at Whampoa 01 & 02, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, at 10:30 a.m. on Tuesday, 23 July 2019 is set out on pages 52 to 53 of this Circular.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the share registrar of the Company, Tricor Standard Limited, of Level 22 (will change to Level 54 with effect from 11 July 2019), Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 10:30 a.m., Saturday, 20 July 2019. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

28 June 2019

CONTENTS

In this Circular, the following expressions shall have the following meanings, unless the context otherwise requires:

"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 subsidiary established in the PRC as a limited liability company and whose business activities are subject to the supervision of the China Banking and Insurance Regulatory Commission;
"Board"	the Board of Directors of the Company;
"CASC"	中國航天科技集團有限公司* (China Aerospace Science & Technology Corporation), a state-owned enterprise established in the PRC. As of the Latest Practicable Date, it held a 38.37% shareholding in the Company and is the controlling shareholder of the Company;
"Commercial Banks"	being Bank of China Limited, China Construction Bank Corporation, Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of Communications Co., Ltd., Bank of Beijing Co., Ltd, China Merchants Bank Co., Ltd. and China Everbright Bank Company Limited;
"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;
"connected person"	has the meaning ascribed to it under the Listing Rules;
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules;
"Director(s)"	the directors of the Company;
"Existing Facilities"	the RMB1,300 million facility granted by Aerospace Finance to 深圳市航天高科投資管理有限公司* (Shenzhen Aerospace Technology Investment Management Company Limited), a company incorporated in the PRC as a limited liability company and is an indirect subsidiary of the Company, for a period of 12 years from the first drawdown date (being 20 October 2016) and secured by a mortgage of the land use right of the Shenzhen Aerospace Science & Technology Plaza. For details of the Existing Facilities, please refer to the announcement and the circular of the Company dated 30 August 2016 and 14 September 2016, respectively. For details of the outstanding principals, interest rates, etc. of the Existing Facilities, please refer to "Existing Loans" in the Letter from the Board;

"Extraordinary General Meeting"	the extraordinary general meeting to be convened by the Company for the purpose of approving the provision of deposit services under the Financial Services Agreement;
"Finance Department"	the Finance Department of the Company;
"Financial Services Agreement"	a financial services agreement dated 10 June 2019 entered into between Aerospace Finance and the Company (for itself and on behalf of the PRC Subsidiaries) in relation to certain financial services provided by Aerospace Finance to the PRC Subsidiaries;
"Independent Board Committee"	an independent committee of the Board of Directors comprising Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, being all the Independent Non-Executive Directors;
"Independent Financial Adviser"	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of deposits services (including the maximum daily balance) under the Financial Services Agreement;
"Independent Shareholders"	all shareholders of the Company excluding CASC and its associates;
"Latest Practicable Date"	21 June 2019, being the latest practicable date for ascertaining information for inclusion in this Circular;
"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 Circular, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan);
"PRC Subsidiaries"	the subsidiaries of the Company as of the date of the Financial Services Agreement that are incorporated or established in the People's Republic of China;
"RMB"	Renminbi, the legal currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Share(s) "	the ordinary share(s) in the share capital of the Company;
"Shareholders"	shareholders of the Company; and
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

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

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)

Executive Directors:
Mr Liu Meixuan *(Chairman)*
Mr Li Hongjun *(President)*

Non-Executive Directors:
Mr Liu Xudong
Mr Mao Yijin
Mr Xu Liangwei

Independent Non-Executive Directors:
Mr Luo Zhenbang
Ms Leung Sau Fan, Sylvia
Mr Wang Xiaojun

Registered Office:
Room 1103–1107A
11th Floor, One Harbourfront
18 Tak Fung Street, Hung Hom
Kowloon
Hong Kong

28 June 2019

To the Shareholders of the Company.

Dear Sir or Madam,

MAJOR AND CONTINUING CONNECTED TRANSACTION PROVISION OF CERTAIN FINANCIAL SERVICES BY AEROSPACE FINANCE PURSUANT TO THE FINANCIAL SERVICES AGREEMENT AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The Board of Directors announces that, on 10 June 2019, the Company entered into the Financial Services Agreement with Aerospace Finance in respect of provision of the following financial services to the PRC Subsidiaries for a period of three years:

(1) an unsecured revolving credit facility of an amount up to RMB700 million for the funding of the PRC Subsidiaries' major business operations;

(2) deposits of an aggregate maximum daily balance of RMB700 million;

(3) settlement services as approved by China Banking and Insurance Regulatory Commission ("CBIRC"); and

(4) other financial services as approved by China Banking and Insurance Regulatory Commission, including but not limited to, intra-group entrusted loan services between the PRC Subsidiaries, foreign exchange services, financial leasing, bills discounting and bills acceptance.

The provision of deposit services under the Financial Services Agreement as mentioned above is subject to the approval of the Independent Shareholders at the Extraordinary General Meeting.

The purpose of this Circular is to provide you with further information regarding (1) the Financial Services Agreement, (2) the recommendation of the Independent Board Committee, (3) the letter of advice from the Independent Financial Adviser and (4) the notice of Extraordinary General Meeting.

FINANCIAL SERVICES AGREEMENT

Financial Services

(1) an unsecured revolving credit facility of an amount up to RMB700 million for the funding of the PRC Subsidiaries' major business operations;

(2) deposits of an aggregate maximum daily balance of RMB700 million;

(3) settlement services as approved by China Banking and Insurance Regulatory Commission; and

(4) other financial services as approved by China Banking and Insurance Regulatory Commission, including but not limited to intra-group entrusted loan services between the PRC Subsidiaries, foreign exchange services, financial leasing, bills discounting and bills acceptance.

Term

3 years commencing from the date of passing of the resolution at the Extraordinary General Meeting.

Pricing Policies

(1) Provision of the credit facility: In determining the interest rates to be charged, Aerospace Finance undertook that it would make reference to the market interest rates and provide certain discounts, which shall be equal to or more favourable to the PRC Subsidiaries than that of the same type of loan offered by the Commercial Banks. In general, the lending rate will be more favourable than that of the same type of loan offered by the Commercial Banks.

(2) Deposits: Aerospace Finance undertook that it would make reference to the market deposit rates and apply certain concessional terms, which shall be equal to or more favourable to the PRC Subsidiaries than that of the same type of deposit offered by the Commercial Banks when taking deposits from the PRC Subsidiaries. In general, the deposit rate will be more favourable to the PRC Subsidiaries than that of the same type of deposit offered by the Commercial Banks.

(3) Settlement services: Aerospace Finance will provide settlement services to the PRC Subsidiaries on a free-of-charge basis. Aerospace Finance shall bear its own costs in relation to the provision of such services.

(4) Other financial services: in additional to the above financial services, Aerospace Finance will make reference to the market rates and apply certain concessional terms when providing such financial services to the PRC Subsidiaries. The fees to be charged by Aerospace Finance shall not be higher than the fees prescribed by the relevant government authorities for the same type of service (if applicable).

Renewals

Subject to compliance with the relevant requirements under the Listing Rules including, where necessary, announcement or obtaining the Independent Shareholders' approval at the relevant time, the Financial Services Agreement may be extended for terms of no more than 3 years upon the mutual agreement by the parties.

Demand of Return of Deposits

Under the Financial Services Agreement, the PRC Subsidiaries may make term deposits with Aerospace Finance with different maturity periods according to their needs. Parties will have to negotiate on a case by case basis in respect of breaking of term deposits. Withdrawal of demand deposits placed with Aerospace Finance does not require any notice period and demand deposits can be withdrawn immediately under normal circumstances (without the occurrence of the events set out below). Nevertheless, the PRC Subsidiaries may demand returning of deposits with 3 business days' advance notice on occurrence of certain events, of which Aerospace Finance should notify the Company and the PRC Subsidiaries on the date of occurrence, including:

(a) the occurrence of any material event(s) such as a bank run on Aerospace Finance, Aerospace Finance being unable to pay any debts due, Aerospace Finance being unable to collect any significant loans due, or director(s) or senior management of Aerospace Finance being involved in any criminal offence;

(b) the occurrence of any event(s) such as significant organizational change or operational risks that may affect the normal operations of Aerospace Finance;

(c) Aerospace Finance's asset-liability ratios being unable to fulfill the following requirements# under Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups:

(1) its capital adequacy ratio must not be lower than 10%;

(2) the balance of the money borrowed must not be more than the total amount of its capital;

(3) the guarantee balance must not be more than the total amount of its capital;

(4) the ratio of its short-term securities investments to the total amount of its capital must not be higher than 40%;

(5) the ratio of its long-term investments to the total amount of its capital must not be higher than 30%; or

(6) the ratio of its own fixed assets to the total amount of its capital must not be higher than 20%;

China Banking and Insurance Regulatory Commission may, in light of business development of finance companies or the needs of prudent supervision, make adjustments to the above-mentioned ratios

(d) Aerospace Finance being subject to any material administrative penalty and/or ordered to make rectifications by the regulatory authorities such as China Banking and Insurance Regulatory Commission; or

(e) the occurrence of any other event(s) that may pose material security risks to the funds deposited with Aerospace Finance.

The Directors and senior management of the Company (other than those who also has a position in either CASC or Aerospace Finance) will make the decision as to whether to serve the advance notice.

Aerospace Finance undertook that it will compensate the PRC Subsidiaries in full for their direct losses, damages, third parties' claims or other liabilities incurred or suffered if it violates any term under the Financial Services Agreement. Given that certain of the above circumstances may render Aerospace Finance's undertaking of limited effect, CASC, as guarantor, has provided an irrevocable and unconditional letter of guarantee to the Company and the PRC Subsidiaries, as beneficiaries, to protect all payment obligations of Aerospace Finance on a joint liabilities basis.

Shareholders should note that the immediate return of term deposit from Commercial Banks is uncertain under the above circumstances. Typically, in a bank run situation, depositors may not be in a position to demand return of term deposit which maturity has yet to be due from Commercial Banks. Aerospace Finance is responsible for treasury function of the group of which the Company and its subsidiaries forms part. Aerospace Finance serves an important role to match the demand and supply of funds amongst the group companies of CASC, including the PRC Subsidiaries. However, compared with Commercial Banks, Aerospace Finance is of a smaller scale of business and has no access to inter-bank market for immediately available fund. It will have to serve notice to its banks or lenders for fund, which will take time. As such, a three business days advance notice is required to break term deposit on the above exceptional circumstances.

As advised by Zhong Lun Law Firm, the Company's PRC legal adviser, despite there is the statutory offsetting mechanism under the PRC Contract Law for overdue payment obligations, the statutory offsetting system for specialized financial institutions has not yet been established in China, the current effective regulations such as the "Measures for the Administration of Finance Companies of Enterprise Groups" and "Lending General Provisions " have not given the financial companies or the depositors a legal right of set-off. Neither the PRC Subsidiaries nor Aerospace Finance have the right of set-off in respective of their payment obligations under the Financial Services Agreement. The Company is of the view that in case Aerospace Finance is to rely on PRC Contract Law to set-off, the loan outstanding from the relevant PRC Subsidiary must be an overdue one and as such, the PRC Subsidiary is obliged to pay in any event and will not affect the deposits of the other PRC Subsidiaries.

Termination

The Financial Services Agreement may be amended (subject to compliance with the requirements under the Listing Rules and the approval by Independent Shareholders (if applicable)) or terminated upon the written agreement of both parties.

Proposed Annual Caps

The proposed annual caps for the three years from the date of passing of the relevant resolution at the Extraordinary General Meeting for the continuing connected transactions under the Financial Services Agreement are as follows:

	Five months ending December 2019 *(RMB '000)*	**Twelve months ending December 2020** *(RMB '000)*	**Twelve months ending December 2021** *(RMB '000)*	**Seven months ending July 2022** *(RMB '000)*
Maximum daily balance of credit (including accrued interests and handling fees) granted by Aerospace Finance to the PRC Subsidiaries	700,000	700,000	700,000	700,000
Maximum interest payable under the credit facility	13,854	33,250	33,250	19,396
Maximum daily balance of deposits (including accrued interests) to be placed by the PRC Subsidiaries with Aerospace Finance	700,000	700,000	700,000	700,000
Maximum interest receivable under the deposits	8,021	19,250	19,250	11,229
Minimum interest receivable under the deposits	4,375	10,500	10,500	6,125
Service fees in relation to the financial services other than the revolving credit facility, deposits and settlement services	125	342	441	292

Given the Company's business is conducted in Hong Kong, remittances from Aerospace Finance will have to comply with the relevant requirements related to foreign exchange of China, such procedures will take time and hence reduce the effectiveness of such financial services to the Company. While the Company (for itself and on behalf of the PRC Subsidiaries) entered into the Financial Services Agreement with Aerospace Finance, the Company will unlikely be using the above financial services for the above mentioned reasons. As such, the above financial services are mainly for the use of the PRC Subsidiaries which principal place of businesses are in the PRC.

The terms of the Financial Services Agreement were negotiated after arm's length negotiation. The amount of the credit facility was determined having regards to the outstanding balance of Existing Facilities (being RMB789,100,000) and the working capital requirement of the Company and its subsidiaries. The amount of deposits was determined having regards to, amongst others, the cashflow of the Company and the PRC Subsidiaries. The amount of interest payable by the PRC Subsidiaries were determined having regards to the prevailing rates provided by Commercial Banks assuming the maximum credit facility is drawndown and is placed for a full three-year period, whereas the amount of interest receivable by the PRC Subsidiaries were determined having regards to the prevailing rates provided by Commercial Banks assuming the maximum deposit amount is placed for one and three-year full periods respectively. The amount of services fees payable for other financial services was determined having regards to the services fees paid by the Company and the PRC Subsidiaries.

During the period from 20 November 2013 to 19 November 2016, certain PRC Subsidiaries entered into a settlement account management agreement with Aerospace Finance, pursuant to which Aerospace Finance provided deposit services and settlement services to the relevant subsidiaries which allowed them to make deposits or withdrawals through the RMB deposit accounts with Aerospace Finance, subject to the condition that the maximum daily outstanding balance of all deposits placed by all the subsidiaries of the Company should not be more than RMB100,000,000 in aggregate. For details, please refer to the announcement of the Company dated 4 November 2013. Since November 2016, the deposit amount of all subsidiaries had been maintained at a trivial amount so as to maintain the accounts with Aerospace Finance, being less than 0.1% of all relevant percentage ratio of the Company.

EXISTING LOANS

As of the Latest Practicable Date, the outstanding principal of the existing loans was RMB1,289,100,000, of which a sum of RMB789,100,000, bearing an interest at the rate of 4.41% p.a. and payable quarterly under the Existing Facilities, is repayable by instalments from 2021, the remaining RMB500,000,000 under the entrusted loan agreement dated 2 April 2018 entered into between a subsidiary of the Company, CASC and Bank of Beijing, bearing an interest at the rate of 5% p.a. and payable in a lump sum on maturity, is due in March 2023.

GUARANTEE

CASC, as guarantor, has provided an irrevocable and unconditional letter of guarantee to the Company and the PRC Subsidiaries, as beneficiaries, to protect all payment obligations of Aerospace Finance on a joint liabilities basis. The letter of guarantee stated that, *inter alia*, the PRC Subsidiaries are not required to go through the relevant legal procedures before demanding CASC to repay the PRC Subsidiaries the amounts owed by Aerospace Finance, and CASC will have the obligation to immediately repay the PRC Subsidiaries all payment obligations of Aerospace Finance when Aerospace Finance fails to repay the deposit balance, accrued interest, other balances receivable from Aerospace Finance, and losses and damages arising therefrom. The joint liability guarantee will be in force throughout the term of the Financial Services Agreement and will remain so until two years following the expiration of the primary liability under the Financial Services Agreement.

INTERNAL CONTROL PROCEDURES

The Board has adopted a set of internal control procedures to monitor the transactions contemplated under the Financial Services Agreement, any staff of the Company who also has a position in either CASC or Aerospace Finance will not be involved in the internal control procedures, the major terms of which are:

(1) The Company shall assign deposit limits to each of the PRC Subsidiaries, and their deposit balances with Aerospace Finance shall not exceed their respective limits so assigned. If a PRC Subsidiary intends to place deposits in excess of the assigned limit, it should seek the approval of the Finance Department. In such circumstances, the deposit limits of other PRC Subsidiaries may need to be reduced or existing deposits may need to be withdrawn so that the overall deposits limit is maintained.

(2) Prior to placing deposits or obtaining other services by the PRC Subsidiaries with Aerospace Finance, the respective company shall obtain at least three quotations from independent financial institutions for similar deposit service or other service in similar nature, to the extent commercially practicable. Such quotations shall be compared to those from Aerospace Finance. The financial controller of the Company and the general manager of the Finance Department will be responsible for deciding whether to accept deposit conditions offered by Aerospace Finance or obtain other services, based on the above information, and seek approval from an Executive Director.

(3) The PRC Subsidiaries shall withdraw the deposits from Aerospace Finance on an irregular basis to ensure the security and liquidity of the deposits.

(4) In case the relevant cap for the prevailing year for services provided by Aerospace Finance may be exceeded, the PRC Subsidiaries shall suspend those services with Aerospace Finance for the remaining time of that year.

(5) Without the approval from the Board of Directors (and the approval from Independent Shareholders, if necessary), the respective companies shall not offer unauthorized commitments, such as securities, guarantees and promises, to Aerospace Finance to obtain loans.

(6) Aerospace Finance agreed to make available to the Company during the term of the Financial Services Agreement (i) those publicly available information including Aerospace Finance's complete set of audited annual financial report, (ii) quarterly management accounts of Aerospace Finance, (iii) monthly financial information and risk monitoring indicators of Aerospace Finance to be submitted to the CBIRC, (iv) the annual business reports of Aerospace Finance to be submitted to the CBIRC, (v) information regarding any change the senior management of Aerospace Finance, and (vi) the annual rating of Aerospace Finance and information relating to its business approval from the regulators of Aerospace Finance. Aerospace Finance also agreed to cooperate with the auditor of the Company to review the accounting records of Aerospace Finance in connection with those stipulated under the Financial Services Agreement. The Finance Department is responsible for contacting the PRC Subsidiaries and Aerospace Finance reviewing the above information to be provided by Aerospace Finance, and closely monitoring the transactions contemplated under the Financial Services Agreement, including reviewing and keeping transaction evidences and monthly statements from Aerospace Finance, drafting relevant reports and reporting at appropriate times. Any problems identified shall be immediately reported to the management of the Company and the Board.

(7) The Finance Department shall report on the transactions under the Financial Services Agreement to the Board of Directors on a quarterly basis.

(8) The Finance Department shall meet with the finance department of each of the PRC Subsidiaries so as to review the transactions, learn from experiences and rectify weaknesses on an annual basis.

The Directors consider that the above internal control procedures adopted by the Company are appropriate and sufficient, and that the procedures and measures provide assurance to the Independent Shareholders that the deposits will be appropriately monitored. The Company will implement the above procedures and measures during the term of the Financial Services Agreement.

REASONS FOR AND BENEFIT OF ENTERING INTO THE FINANCIAL SERVICES AGREEMENT

The long-standing Sino-US trade dispute is expected to take some time to resolve. This makes the export companies, like those of the Company's subsidiaries, continue to face various difficulties in business. The Company's subsidiaries have tried to explore business in China, but the recovery of receivables usually takes longer than those in the other markets and that may affect the liquidity of the relevant subsidiaries in the long run.

The business development of the Company and its subsidiaries has to be supported by capital. Even if the Company obtains offshore financings, remittance of capital to the PRC Subsidiaries is subject to foreign exchange control in which compliance takes time and may not readily meet the funding requirements of the PRC Subsidiaries. Hence, it is an alternative for the Company to seek for financing by engaging with Aerospace Finance and in addition to obtaining financing from Commercial Banks and other financial institutions, which could be valuable at the time of a possible slowdown of economy and tightened credit environment in the PRC.

The Financial Services Agreement is non-exclusive and does not limit the choice of the PRC Subsidiaries to engage other banks or financial institutions to meet their needs in financial services. Therefore, the entering into the Financial Services Agreement will allow the PRC Subsidiaries a flexible choice of one more financial services provider and that encourages the other financial institutions to provide more competitive terms to the PRC Subsidiaries. The Financial Services Agreement offers the PRC Subsidiaries with terms and conditions (including interest) that are equal to or more favourable than other commercial banks in the PRC for the relevant financial services. A deposit account is required for each of the PRC Subsidiaries to operate under the Financial Services Agreement such as the placing of deposits, the transfer of funds under the entrusted loans arrangement and/or the drawdown of credit facility, if any. It is anticipated that the PRC Subsidiaries will benefit from the followings:

1. earning more deposit interest from the deposits; and

2. the use of the PRC Subsidiaries' idle funds more effectively through the entrusted loans between the PRC Subsidiaries arranged by Aerospace Finance at a comparatively lower fee so as to reduce finance expenses.

In addition, it is expected that the entering into of and the consummation of transactions under the Financial Services Agreement will not have any material impact on the financial positions of the Company and the PRC Subsidiaries. The Company and its subsidiaries adopt a set of stringent internal control procedures to safeguard its cash and deposits, including those placed with Commercial Banks and Aerospace Finance. Certain additional safeguards applicable to Aerospace Finance relate principally to information to be prepared by Aerospace Finance. Overall, the Directors are of the view that the internal control measures applicable to Aerospace Finance would not require substantial resources over those applicable to Commercial Banks, while having the benefit of monitoring the financial information/position and compliance status of Aerospace Finance on a regular basis.

According to the relevant regulations of the People's Bank of China and the China Banking and Insurance Regulatory Commission, the customers of Aerospace Finance are limited to CASC and its enterprise group entities (including the Company and its subsidiaries). Therefore, the potential risk level of Aerospace Finance is correspondingly low as compared with other financial institutions that have to deal with external customers. As Aerospace Finance serves the treasury function of the CASC group which purpose of set up is to help save costs of borrowing and increase interest income of the CASC and its enterprise group entities (including the Company and its subsidiaries). The Financial Services Agreement provides that the terms offered by Aerospace Finance will be on equal or better terms than Commercial Banks. As such, having considered the benefits set out above, the Company considers that the whole Financial Services Agreement is in the interest of the Company and its Shareholders.

Given the deposit is capped against credit facilities, the Directors are of the view that the credit facilities under the Financial Services Agreement is a protection to the PRC Subsidiary instead of an extra collateral to Aerospace Finance. In the past, the PRC Subsidiaries open settlement account with Aerospace Finance, without the credit cap limitation. Further, it is a term of the Financial Services Agreement that CASC shall provide guarantee to further protect the PRC Subsidiaries against its payment obligation. As such, the Directors are of the view that such improvement in protection given to the Company and its subsidiaries is in the interest of the Company and its Shareholders.

Since the establishment of Aerospace Finance, the Finance Department has sought quotations from Aerospace Finance, in addition to Commercial Banks to meet its funding needs. In recent years, Aerospace Finance has been offering better terms, such as lower interest rate or lesser collateral. As such, as at the Latest Practicable Date, the Company and its subsidiaries had no outstanding bank borrowings. In deciding whether to take an offer from Aerospace Finance, the Company and its subsidiaries will also take into account of other factors, such as maintaining banking relationship with the Commercial Banks.

Aerospace Finance has a better understanding of the operations of the Company and its subsidiaries and therefore offers more convenient and efficient services than other commercial banks in the PRC. The Company is expected to benefit from this. Over the years, Aerospace Finance has arranged or provided several loans to the Company and certain subsidiaries, the terms of which were more favourable than the then interest rates offered by those commercial banks in some loans and hence reduced the Company's interest expenses or without the requirement to provide collaterals in the other loans.

INFORMATION ON THE COMPANY, CASC AND AEROSPACE FINANCE

The Company is an investment holding company and its subsidiaries are principally engaged in hi-tech manufacturing, the operations of Shenzhen Aerospace Science & Technology Plaza, internet of things applications and cross-border e-commerce logistics.

CASC is a state-owned enterprise established in the PRC. CASC and its subsidiaries are principally engaged in the investment and operation of state-owned assets; the research, manufacturing and sale of various kinds of launch vehicles, satellites, satellite related system products, satellite ground systems and equipments, radars, numerical control equipments; the development and technical consultation of aerospace technology; and franchised international satellite launching services etc..

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) interbank 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.

INTERESTS OF DIRECTORS

At the meeting of the Board approving the Financial Services Agreement, Mr Liu Xudong, Mr Mao Yijin and Mr Xu Liangwei, who were officers of CASC and its subsidiaries, and Mr Liu Xudong is also a director of Aerospace Finance, had abstained from voting. As at the Latest Practicable Date, none of them held any interests in the Shares.

LISTING RULES IMPLICATIONS

As the applicable consideration ratio as defined under Rule 14.07 of the Listing Rules in respect of the daily maximum balance of all deposits exceeds 25% but is less than 75%, the deposits contemplated under the Financial Services Agreement constitute a major transaction under Chapter 14 of the Listing Rules.

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 financial services contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company.

As the maximum daily balance of each of the credit facility and the deposits is RMB700 million respectively, the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules exceed 5%. The deposits are subject to Independent Shareholders' approval and CASC and its associates shall abstain from voting on the relevant resolution at the Extraordinary General Meeting. However, since no collateral will be given to Aerospace Finance, the transaction contemplated under the credit facility is exempt from reporting, announcement, and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

In respect of the other financial services under the Financial Services Agreement, based on the highest annual capped service fees of RMB500,000, no percentage ratios exceed 0.1% and is exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

If the resolution in respect of the provision of deposit services under the Financial Services Agreement is not approved by the Independent Shareholders, the financial services under which including the credit facility, the deposits services and other financial services to be provided by Aerospace Finance would not proceed.

EXTRAORDINARY GENERAL MEETING

The notice of the Extraordinary General Meeting is set out on pages 52 to 53 of this Circular.

A form of proxy is enclosed with this document for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting, you are requested to complete and return the enclosed form of proxy to the share registrar of the Company, Tricor Standard Limited, of Level 22 (will change to Level 54 with effect from 11 July 2019), Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in accordance with the instructions printed thereon not later than 10:30 a.m., 20 July 2019. Completion and return of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

With effect from 11 July 2019, the address of Tricor Standard Limited will be changed to Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Details of which please refer to the Company's announcement dated 25 June 2019.

VOTING PROCEDURE

Pursuant to Rules 13.39(4) and 13.39(5) of the Listing Rules, the vote of Independent Shareholders at the Extraordinary General Meeting will be taken by poll and a scrutineer will be appointed by the Company for vote taking at the Extraordinary General Meeting. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5).

As of the Latest Practicable Date, CASC, through its wholly-owned subsidiary, held a total of 38.37% shareholding in the Company and is a controlling shareholder of the Company. As such, CASC and its associate shall abstain from voting on the ordinary resolution numbered 1 as set out in the notice of meeting at the Extraordinary General Meeting.

RECOMMENDATION

The Independent Board Committee, comprising the Independent Non-Executive Directors (namely, Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun) has been appointed to consider the terms of the deposit services (including the maximum daily balance) under the Financial Services Agreement. Somerley Capital Limited has been appointed as the independent financial adviser to advise Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the terms of the deposit services (including the maximum daily balance) under the Financial Services Agreement. The Independent Board Committee, having reviewed the advice given by

Somerley Capital Limited, recommended Independent Shareholders to vote in favour of the ordinary resolution regarding the provision of deposit services under the Financial Services Agreement to be proposed at the forthcoming Extraordinary General Meeting.

The Directors, including the Independent Non-Executive Directors (having considered the advice of the Independent Financial Adviser) are of the opinion that the entering into the Financial Services Agreement is conducted in the ordinary and usual course of business of the Company and its subsidiaries on normal commercial terms which are fair and reasonable, and is in the best interest of the Company and its shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders to vote in favour of the ordinary resolution regarding the provision of deposit services under the Financial Services Agreement at the Extraordinary General Meeting.

Your attention is also drawn to (i) the letter of advice from the Independent Board Committee to the Independent Shareholders on page 16 of this Circular; (ii) the letter from the Independent Financial Adviser on pages 17 to 35 of this Circular; and (iii) other additional information set out in other parts of this Circular.

By order of the Board
Liu Meixuan
Chairman

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)

28 June 2019

To the Independent Shareholders,

MAJOR AND CONTINUING CONNECTED TRANSACTION PROVISION OF CERTAIN FINANCIAL SERVICES BY AEROSPACE FINANCE PURSUANT TO THE FINANCIAL SERVICES AGREEMENT

We refer to the circular of the Company dated 28 June 2019 (the "Circular") of which this letter forms a part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular.

The Independent Board Committee has been established to consider the terms of the deposit services (including the maximum daily balance) under the Financial Services Agreement, and to advise and recommend the Independent Shareholders as to vote at the Extraordinary General Meeting to be convened.

We have considered the various details of the Financial Services Agreement, in particular, the reasons and benefits of transaction and the effect thereof. We have also reviewed the advice given by Somerley Capital Limited, the Independent Financial Adviser, on the terms of deposit services (including the maximum daily balance) under the Financial Services Agreement as set out in their letter reproduced on pages 17 to 35 of the Circular.

Having considered the information set out in the Letter from the Board as set out on pages 3 to 15 of the Circular and taking into account the advice from Somerley Capital Limited, we consider that the provision of deposit services (including the maximum daily balance) under the Financial Services Agreement is on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Company, and in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution regarding the provision of deposit services under the Financial Services Agreement as set out in the notice of the Extraordinary General Meeting.

Yours faithfully,

Luo Zhenbang **Leung Sau Fan, Sylvia** **Wang Xiaojun**

Independent Board Committee

The following is the text of the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

28 June 2019

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

MAJOR AND CONTINUING CONNECTED TRANSACTION PROVISION OF CERTAIN FINANCIAL SERVICES BY AEROSPACE FINANCE PURSUANT TO THE FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the provision of deposit services (the "**Deposit Services**") by Aerospace Finance to the PRC Subsidiaries, pursuant to the terms of the Financial Services Agreement, for which Independent Shareholders' approval is being sought, including the maximum daily deposit balance of the Deposit Services (the "**Maximum Daily Balance**"). Details of the Financial Services Agreement and the Deposit Services (including the Maximum Daily Balance) are contained in the circular of the Company to its shareholders dated 28 June 2019 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, Aerospace Finance is a subsidiary of CASC, which in turn is the controlling shareholder of the Company. As such, Aerospace Finance is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the financial services contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under the Listing Rules. As the applicable percentage ratios for the Maximum Daily Balance of RMB700 million as defined under Rule 14.07 of the Listing Rules exceed 5%, the provision of the Deposit Services is subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The provision of the Deposit Services also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Except for the Deposit Services, all other financial services to be provided by Aerospace Finance under the Financial Services Agreement are exempt from the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company intends to seek the Independent Shareholders' approval of the Deposit Services by way of an ordinary resolution at the Extraordinary General Meeting. Independent Shareholders should note that if such ordinary resolution is not approved, all the financial services under the Financial Services Agreement, including the Deposit Services, the credit facility and other financial services to be provided by Aerospace Finance to the PRC Subsidiaries would not proceed.

In view of CASC's indirect interests in the Deposit Services, CASC and its associates shall abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Luo Zhenbang, Ms. Leung Sau Fan, Sylvia and Mr. Wang Xiaojun, has been established to consider the terms of the Deposit Services (including the Maximum Daily Balance), and to advise and recommend the Independent Shareholders as to voting. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there was no engagement between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited; and (b) the Company, CASC, Aerospace Finance, and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed by the Directors and management of the Company, and have assumed that they are true, accurate and complete in all material aspects as at the date of the Circular or the Latest Practicable Date (as the case may be) and will remain so up to the time of the Extraordinary General Meeting. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth, accuracy or completeness of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. However, we have not conducted any independent investigation into the business and affairs of the Company, CASC, Aerospace Finance, and their respective subsidiaries and associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Deposit Services (including the Maximum Daily Balance), we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Financial Services Agreement

(i) The Company

The Company and its subsidiaries are principally engaged in, among others, production and sales of plastic products, liquid crystal display, printed circuit boards, and intelligent chargers, and the operations of Shenzhen Aerospace Science & Technology Plaza (the "**Shenzhen Plaza**"), which is one of the Company's major property investments. The Shares are listed on the Stock Exchange, and the Company had a market capitalisation of approximately HK$1,465.4 million as at the Latest Practicable Date. As set out in the Company's 2018 annual report, the Company and its subsidiaries reported a total turnover of approximately HK$3,661.3 million and HK$3,690.8 million for the year 2017 and 2018 respectively.

While the manufacturing business remains the main source of the Company's turnover, the Shenzhen Plaza started to contribute a stable and recurring revenue steam to the Company following its commencement of operation in 2016. For the year 2017 and 2018, the Shenzhen Plaza recorded a total turnover of approximately HK$394.1 million and HK$419.1 million respectively. The steady growth in turnover and additional cash inflow from the property investment business support the business development and expansion of the Company and its subsidiaries, which in turn may, from time to time, requires financing and deposit services from other financial institutions, including Aerospace Finance.

(ii) CASC and Aerospace Finance

CASC, established in the PRC, is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and the controlling shareholder of the Company. As at the Latest Practicable Date, CASC held approximately 38.4% of the issued Shares. CASC and its subsidiaries are principally engaged in, among others, the investment and operation of state-owned assets, the research, manufacturing and sale of various kinds of satellite related products, systems and equipment.

Aerospace Finance, established in the PRC as a limited liability company, is a subsidiary of CASC and its subsidiaries. Aerospace Finance is primarily engaged in the provision of financial services, including settlement services, deposit services as well as loan and financing lease services, to members of the CASC group, and those business activities are subject to the supervision of the China Banking and Insurance Regulatory Commission (the "**CBIRC**", formerly known as the China Banking Regulatory Commission before its merger with the China Insurance Regulatory Commission in April 2018).

(iii) Background to and reasons for the Financial Services Agreement

The Company informed us that Aerospace Finance has been providing certain financial services to the Company and its subsidiaries in the past. For example, in 2013, certain subsidiaries of the Company and Aerospace Finance entered into an agreement for the provision of deposit and settlement services to those subsidiaries of the Company. In addition, Aerospace Finance has since 2016 provided the Existing Facilities in the amount of RMB1,300 million for a Company's subsidiary to re-finance its borrowings, for a period of 12 years.

As at 31 December 2018, the Company and its subsidiaries had bank balances and cash of approximately HK$981.0 million and borrowings of approximately HK$1,476.4 million, which mainly comprised the outstanding principal amounts under the Existing Facilities of RMB789.1 million and a 5-year unsecured loan extended by CASC of RMB500 million. In terms of bank deposits, we understand from the management of the Company, cash balances are generally placed with financial institutions in form of short-term and demand deposits, and the Company's subsidiaries maintained trivial deposits with Aerospace Finance.

Pursuant to the Financial Services Agreement, Aerospace Finance offers the relevant financial services to the PRC Subsidiaries with terms and conditions (including interest) that are equal to or more favourable than other commercial banks in the PRC. As stated in the letter from the Board, a deposit account is required for each of the PRC Subsidiaries to operate under the Financial Services Agreement such as the placing of deposits, the transfer of funds under the entrusted loans arrangement and/or the drawdown of credit facility, if any. In addition, it is anticipated that the PRC Subsidiaries will benefit from (i) earning more deposit interest from the Deposit Services, and (ii) using of the PRC Subsidiaries' idle funds more effectively through the entrusted loans between the PRC Subsidiaries arranged by Aerospace Finance at a comparatively lower fee so as to reduce finance expenses. Acting as an intra-group financial service provider to members of the CASC group, Aerospace Finance has a better understanding of the operations of the Company and its subsidiaries, therefore the PRC Subsidiaries are expected to benefit from more convenient and efficient services provided by Aerospace Finance.

Further, Aerospace Finance will provide an unsecured revolving credit facility of an amount up to RMB700 million for the funding of the PRC Subsidiaries' business operations. Considering the unutilised facilities of the Company and its subsidiaries of approximately RMB576 million as at 31 December 2018, the entering into of the Financial Services Agreement with Aerospace Finance would provide the PRC Subsidiaries an additional channel to seek financing when it is required, which could potentially be valuable especially at the time of a possible economic slowdown and tightened credit environment in the PRC.

We are given to understand that pursuant to the relevant PRC rules and regulations, intra-group lending has to be conducted through a licensed financial institution, such as licensed commercial bank or finance company in the PRC. As an example, the Company has announced in March 2013 that CASC provided an entrusted loan in the sum of RMB500 million to a subsidiary of the Company through Bank of Beijing, and has announced a subsequent extension in April 2018 under a similar arrangement. Management of the Company considers that Aerospace Finance provides a centralised platform for the PRC subsidiaries to conduct their treasury operations through the use of entrusted loan services, which will be charged by Aerospace Finance at a comparatively lower fee as compared to other commercial banks in the PRC. Under such entrusted loan services, surplus funds would be deposited by the Company's cash-rich subsidiary to Aerospace Finance, utilising the annual cap relating to the Deposit Services, and would be remitted to the relatively indebted subsidiary, thereby reducing the level of the Company and its subsidiaries' external borrowings and finance costs.

As a licensed financial institution, Aerospace Finance is required to fulfil various requirements under Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups. The Board has separately adopted a number of internal control procedures to protect the interests of the Company and its shareholders regarding deposits with Aerospace Finance, as further discussed in the section headed "6. Internal control procedures". In addition, CASC, as a guarantor, has provided an irrevocable and unconditional letter of guarantee in favour of the PRC Subsidiaries, in respect of all payment obligations of Aerospace Finance under the Financial Services Agreement on a joint liability basis. The above provide assurance that the risk of the PRC Subsidiaries' deposits placed with Aerospace Finance is limited.

2. Principal terms of the Financial Services Agreement and guarantee from CASC

The Financial Services Agreement

On 10 June 2019, the Company entered into the Financial Services Agreement with Aerospace Finance in respect of provision of various financial services to the PRC Subsidiaries, for a period of three years. Pursuant to the Financial Services Agreement, the PRC Subsidiaries will use the financial services from Aerospace Finance, on a non-exclusive basis, including (a) the Deposit Services; (b) a credit facility; (c) settlement services; and (d) other financial services as approved by the CBIRC, including intra-group entrusted loan services between the PRC Subsidiaries, foreign exchange services, financial leasing, bills discounting and bills acceptance. Management of the Company has confirmed to us that the Company itself will not engage the above financial services, and only the PRC Subsidiaries will utilise the services to be provided by Aerospace Finance. The PRC Subsidiaries may discontinue the above services provided by Aerospace Finance without incurring any extra costs, if any other independent financial institutions can offer such service on more favourable terms.

Set out below are the principal terms of the financial services to be provided by Aerospace Finance:

Provision of the Deposit Services

The Company confirmed to us that the Deposit Services offered by Aerospace Finance will be similar to the deposit services offered by other Commercial Banks, including demand deposits and time deposits. The PRC Subsidiaries have the sole discretion to agree the amount of funds to be deposited with Aerospace Finance, when to deposit, when to withdraw, and the amount of funds to be withdrawn, depending on the PRC Subsidiaries' own working capital position and requirements at the time.

In respect of the interest rates on the provision of such Deposit Services, Aerospace Finance has undertaken that it would make reference to the market deposit rates and apply certain concessional terms, which shall be equal to or more favourable to the PRC Subsidiaries than that of the same type of deposit offered by the Commercial Banks when taking deposits from the PRC Subsidiaries. In general, the deposit rate will be more favourable to the PRC Subsidiaries than that of the same type of deposit offered by the Commercial Banks. As further explained in the section below headed "6. Internal Control Procedures", the PRC Subsidiaries will obtain quotes from independent financial institutions, to the extent commercially practicable, before deciding to utilise the Deposit Services to ensure that the terms of the Deposit Services are no less favourable to the PRC Subsidiaries than those available from independent third parties.

As set out in the letter from the Board, (i) the PRC Subsidiaries may make term deposits with Aerospace Finance with different maturity periods according to their needs, (ii) withdrawal of demand deposits placed with Aerospace Finance can be withdrawn immediately under normal circumstances and does not require any notice period. Nevertheless, the PRC Subsidiaries may demand returning of term deposits, by serving a three business days advance notice to Aerospace Finance, on occurrence of certain events (the "**Relevant Events**"), of which Aerospace Finance should notify the Company and the PRC Subsidiaries on the date of occurrence, including (i) Aerospace Finance being unable to pay any debts due; (ii) any significant event that may affect the normal operations of Aerospace Finance, such as significant organizational changes or operational risks; (iii) Aerospace Finance being unable to fulfil the requirements as set out under Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups; (iv) Aerospace Finance being subject to any material administrative penalty and/or ordered to make rectifications by the regulatory authorities, such as the CBIRC; and (v) the occurrence of any other event(s) that may pose material security risks to the funds deposited with Aerospace Finance. As set out in the letter from the Board, the Directors and senior management of the Company (other than those who also has a position in either CASC or Aerospace Finance) will make the decision as to whether to serve the advance notice.

Aerospace Finance has undertaken that it will compensate the PRC Subsidiaries in full for their direct losses, damages, third parties' claims or other liabilities incurred or suffered if it violates any terms under the Financial Services Agreement.

Provision of the credit facility

Pursuant to the Financial Services Agreement, Aerospace Finance agreed to grant an unsecured revolving credit facility of an amount up to RMB700 million where no collateral will be given to Aerospace Finance, according to the letter from the Board. The credit facility shall be used for the funding of the PRC Subsidiaries' major business operations.

In determining the interest rates to be charged on such credit facility, Aerospace Finance has undertaken that it would make reference to the market interest rates and provide certain discounts, which shall be equal to or more favourable to the PRC Subsidiaries than that of the same type of loan offered by the Commercial Banks. In general, the lending rate will be more favourable to the PRC Subsidiaries than that of the same type of loan offered by the Commercial Banks.

Provision of settlement services and other financial services

The settlement services will be provided by Aerospace Finance to the PRC Subsidiaries on a free-of-charge basis. In respect of other financial services, Aerospace Finance would make reference to the market rates and apply certain concessional terms when providing such financial services to the PRC Subsidiaries, and such fees to be charged by Aerospace Finance shall not be higher than the fees prescribed by the relevant government authorities for the same type of service (if applicable).

Term

The Financial Services Agreement has a term of three years, from the date of passing the resolution at the Extraordinary General Meeting. Subject to compliance with the relevant requirements under the Listing Rules, including, where necessary, announcement or obtaining the Independent Shareholders' approval at the relevant time, the Financial Services Agreement may be extended for a term of no more than three years upon mutual agreement by the parties.

Guarantee from CASC

CASC, as a guarantor, has provided an irrevocable and unconditional letter of guarantee (the "**Joint Liability Guarantee**") in favour of the PRC Subsidiaries, as regards all payment obligations of Aerospace Finance under the Financial Services Agreement on a joint liability basis. According to the Joint Liability Guarantee, the PRC Subsidiaries are not required to go through the relevant legal procedures before demanding CASC to repay the PRC Subsidiaries the amounts owed by Aerospace Finance, and CASC will have the obligation to immediately repay the PRC Subsidiaries all payment obligations of Aerospace Finance when Aerospace Finance fails to repay the deposit balance, accrued interest, other balances receivable from

Aerospace Finance, and losses and damages arising therefrom. The Joint Liability Guarantee will be in force throughout the term of the Financial Services Agreement and will remain so until two years following the expiration of the primary liability under the Financial Services Agreement.

Our comments

The financial services to be provided by Aerospace Finance to the PRC Subsidiaries under the Financial Services Agreement are on a non-exclusive basis, and the PRC Subsidiaries are free to choose and engage other banks or financial institutions to meet their needs for financial services. The entering into of the Financial Services Agreement will provide the PRC Subsidiaries a flexible choice of one more financial services provider and encourage the other financial institutions to provide more competitive terms relating to the financial services provided to the PRC Subsidiaries, according to the letter from the Board.

We note that the terms of the financial services, including the Deposit Services, under the Financial Services Agreement shall be determined with reference to the then market rates, which (a) shall be equal to or more favourable than that of the same type of services offered by the Commercial Banks, or (b) shall not be higher than the fees prescribed by the relevant government authorities for the same type of service (if applicable). For the Deposit Services, the PRC Subsidiaries shall also make comparisons between the terms from Aerospace Finance and other independent financial institutions, to the extent commercially practicable.

In terms of the credit risk associated with the Deposit Services, CASC has provided the Joint Liability Guarantee in favour of the PRC Subsidiaries for all payment obligations of Aerospace Finance under the Financial Services Agreement. We have discussed the Joint Liability Guarantee with the Company's PRC legal adviser, Zhong Lun Law Firm ("**ZLL**"), and understand that the Joint Liability Guarantee, compared to an ordinary guarantee, provides a higher level of protection to the lender under the relevant PRC laws and regulations. According to the legal opinion as issued by ZLL on the Financial Services Agreement and the Joint Liability Guarantee, ZLL is of the view that:

(i) the content of the Financial Services Agreement does not violate the mandatory provisions of PRC laws and administrative regulations, and will become effective upon the fulfillment of the conditions set out in the Financial Services Agreement;

(ii) the Joint Liability Guarantee provided by CASC is in compliance with the relevant requirements under the relevant PRC laws and regulations, and it is legally binding on CASC; and

(iii) in the event that Aerospace Finance fails to perform its payment obligations under the Financial Services Agreement, the PRC Subsidiaries have the right to require CASC, and CASC will have the duty, to assume all the contractual liabilities under the Joint Liability Guarantee.

In addition to the Joint Liability Guarantee, we note that it is stated in the articles of association of Aerospace Finance that CASC, being the holding company of Aerospace Finance, has undertaken that if Aerospace Finance encounters emergent financial difficulties, CASC will increase the capital of Aerospace Finance, in order to meet its actual needs to overcome such financial difficulties.

Separately, according to the advice from ZLL as set out in the letter from the Board, despite there is the statutory offsetting mechanism under the PRC Contract Law for overdue payment obligations, the statutory offsetting system for specialized financial institutions has not yet been established in China, the current effective regulations such as the "Measures for the Administration of Finance Companies of Enterprise Groups" and "Lending General Provisions" have not given the financial companies or the depositors legal right of set-off. In any event, all deposits of the PRC Subsidiaries placed with Aerospace Finance under the Financial Services Agreement are backed by the Joint Liability Guarantee provided by CASC, we do not consider such statutory offsetting mechanism to be a material factor to the Company.

Having considered the above, we are of the view that the Joint Liability Guarantee and CASC's obligation to financially support Aerospace Finance are favorable factors to the PRC Subsidiaries in respect of the Deposit Services. It means that the Company and its shareholders are given a better protection, lowering the potential risks associated with the deposits placed with Aerospace Finance. CASC is a large state-owned enterprise established in the PRC, with operation and asset scale much larger than that of Aerospace Finance, and has a stable and healthy financial status to fulfil its obligations under the Joint Liability Guarantee, as further analysed in the section headed "4. Information on CASC". A number of safeguards, including the internal control procedures as summarised in the section headed "6. Internal control procedures", are in place in respect of the deposits to be made with Aerospace Finance. On the basis of the above, we are of the view that suitable means are in place to ensure that the Deposit Services are on normal commercial terms, and the deposits rates are no less favourable to the Company and its subsidiaries than those available from independent third parties.

3. Information on Aerospace Finance

(i) Scope of business

According to its business licence, Aerospace Finance is authorised to provide all services, including accepting deposits, as set out in the Financial Services Agreement to members of CASC group, but not other parties. Further details of approved business scope of Aerospace Finance are disclosed in the letter from the Board. We understand that Aerospace Finance is not allowed to engage in non-financial services business, including industrial investment or trading.

Aerospace Finance has a capital adequacy ratio of approximately 13.9% as at 31 December 2018, which is higher than the requirement promulgated by the CBIRC of 10% for PRC licensed finance companies.

(ii) Board and senior management

As at the Latest Practicable Date, the board of directors of Aerospace Finance has a total of twelve members. Management of Aerospace Finance confirmed to us that all the members of the board and the senior management of Aerospace Finance, who have more than 20 years of experience, on average, in finance, economics and accounting fields and are knowledgeable about the capital market in the PRC, would be able to understand and monitor the operation and development of Aerospace Finance.

(iii) Financial information

Set out below is a summary of the financial information of Aerospace Finance, as extracted and summarised from its audited financial statements for the three years ended 31 December 2018, prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	For the year ended 31 December		
	2018	**2017**	**2016**
	RMB million	*RMB million*	*RMB million*
	(audited)	*(audited)*	*(audited)*
Net interest income	1,649	1,464	1,237
Investment income	788	516	773
Impairment loss	453	197	394
Profit after taxation	**1,481**	**1,333**	**1,274**

Interest income from provision of loans is main source of revenue for Aerospace Finance. Net interest income of Aerospace Finance, representing interest income generated less interest expense incurred (mainly on deposit received), exhibited an increasing trend in the past three years, mainly resulted from the increase in bank and loan interest income due to a gradual increase in Aerospace Finance's loan portfolio.

Investment income of Aerospace Finance mainly derived from equity and debt instruments. Investment income fluctuated in recent years. Based on our discussion with the management of Aerospace Finance, it was mainly attributable to the gradual expansion of Aerospace Finance's investment portfolio and certain one-off gains.

We are advised by the management of Aerospace Finance that the provision for impairment loss was recognised in accordance with Aerospace Finance's provision policy, which follows the five-category loan classification system pursuant to the guidelines promulgated by the CBIRC. Such five-category loan classification system refers to "normal", "special mention", "substandard", "doubtful" and "loss", based on the repayment ability of a debtor. Aerospace Finance made a provision of impairment loss of approximately RMB453 million in 2018, representing a significant increase compared to the amount recorded in 2017. As advised by the management of Aerospace Finance, this was largely a result of an increase in Aerospace Finance's loan portfolio and the increasing proportion of "special mention" loans. Despite the above provision for impairment loss, Aerospace Finance has confirmed that it has never had any bad debts where relevant loan cannot be recovered since its incorporation.

The profit after taxation of Aerospace Finance, grew in line with its net interest income, showing a healthy and increasing trend from approximately RMB1,274 million in 2016 to approximately RMB1,481 million in 2018.

	As at 31 December		
	2018	**2017**	**2016**
	RMB million	*RMB million*	*RMB million*
	(audited)	*(audited)*	*(audited)*
Assets			
Bank balances and cash	39,642	39,045	45,762
Loan receivables	40,634	32,725	28,629
Available-for-sale financial assets	21,611	11,857	3,841
Entrusted loans	26,125	29,230	32,530
Long term equity investments	1,465	1,393	1,281
Other assets	1,402	4,466	3,948
	130,879	118,716	115,991
Liabilities			
Deposits from companies within CASC group	90,980	73,760	71,182
Entrusted loans	26,125	29,230	32,530
Other liabilities	3,396	6,037	5,805
	120,501	109,027	109,517
Equity			
Share capital	6,500	6,500	3,500
Reserves	3,878	3,189	2,974
	10,378	9,689	6,474

As at 31 December 2018, total assets of Aerospace Finance mainly included (i) loan receivables, net of impairment loss, of approximately RMB40.6 billion. As confirmed by the management of Aerospace Finance, all the loans receivables as at 31 December 2018 have been classified as "normal" or "special mention" categories; (ii) bank balances and cash of approximately RMB39.6 billion; (iii) entrusted loans of approximately RMB26.1 billion, in which Aerospace Finance acted as the financing agent; and (iv) available-for-sale financial assets, comprising listed and unlisted equity and debt instruments, of approximately RMB21.6 billion.

As at 31 December 2018, total liabilities of Aerospace Finance mainly included (i) deposits from companies within CASC group of approximately RMB91.0 billion, of which deposits from the top 10 companies accounted for less than 40%; and (ii) entrusted loans of approximately RMB26.1 billion.

In 2017, CASC made a capital injection of RMB3 billion to Aerospace Finance, strengthening the financial position and capital base of Aerospace Finance for the provision of financial services to members of CASC group. This resulted in the registered capital of Aerospace Finance increased to RMB6.5 billion. As at 31 December 2018, total equity of Aerospace Finance stood at approximately RMB10.4 billion. As confirmed by the management of Aerospace Finance, Aerospace Finance has not defaulted on any of its credit obligations since incorporation.

Our comments

Aerospace Finance's profitability is largely driven by its net interest income generated from the loans extended, which have been gradually increasing in the past three years. As at 31 December 2018, bank balances and cash of Aerospace Finance accounted for around 30% of its total assets, demonstrating a reasonable level of liquidity to fulfil its financial obligations and business needs. Given (i) Aerospace Finance has consistently recorded profits in recent years, (ii) the substantial cash balances of Aerospace Finance amounted to approximately RMB39.6 billion as at 31 December 2018, we consider that Aerospace Finance has a reasonably healthy financial position to honour its obligations under the Deposit Services.

(iv) Regulatory environment

The banking industry in the PRC is highly regulated, and the current principal regulatory authorities include the CBIRC, responsible for supervising and regulating banking institutions, and the People's Bank of China, responsible for formulating and implementing monetary policies and preparing drafts of important laws and regulations in the banking industry and prudently regulating basic systems. Licensed finance companies of enterprise groups, including Aerospace Finance, are required to meet certain ratio requirements. The major regulatory ratio requirements and the relevant ratios of Aerospace Finance as at 31 December 2016, 2017 and 2018 are set out in the table below:

	Requirements for PRC licensed finance companies	**As at 31 December**		
		2018	**2017**	**2016**
Capital adequacy ratio	Not lower than 10%	13.9%	15.6%	12.0%
Inter-bank borrowing balances shall not exceed total capital	Not higher than 100%	26.7%	33.9%	49.7%
Outstanding guarantee amounts shall not exceed total capital	Not higher than 100%	94.2%	76.2%	86.3%
Non-performing asset ratio	Not higher than 4%	0.0%	0.0%	0.0%
Impaired loan ratio	Not higher than 5%	0.0%	0.0%	0.0%
Current ratio	Not lower than 25%	43.4%	54.8%	61.9%
Asset impairment adequacy ratio	Not lower than 100%	> 500%	> 500%	> 500%
Loan impairment adequacy ratio	Not lower than 100%	> 500%	> 500%	> 500%
Investment to total capital ratio	Not higher than 70%	68.7%	67.6%	66.7%
Self-owned fixed assets to total capital ratio	Not higher than 20%	2.4%	2.7%	4.2%

From the above table, Aerospace Finance's capital adequacy ratios in the past few financial year ends were higher than the 10% for PRC licensed finance companies, especially following a capital injection of RMB3 billion to Aerospace Finance from CASC in 2017. Such ratio stood at approximately 13.9% as at 31 December 2018. Further, Aerospace Finance has complied with other applicable ratio requirements, as set out above, for PRC licensed finance companies as promulgated by the CBIRC. The compliance of relevant laws and regulations are monitored by the CBIRC which may issue opinions on corrective measures to Aerospace Finance if necessary. As confirmed by the management of Aerospace Finance, the CBIRC has not issued any opinion on any corrective measures, disciplinary actions, or imposed penalties or fines on Aerospace Finance since its incorporation. We have obtained the reports regarding the business operation of Aerospace Finance for 2016, 2017 and 2018, submitted to the CBIRC on an annual basis, and did not note any disciplinary actions, penalties or fines imposed.

4. Information on CASC

CASC, the controlling shareholder of the Company, is a state-owned enterprise established in the PRC. According to the website of Fortune Magazine, CASC ranked 343th on the 2018 Fortune Global 500 list.

We note from CASC's audited financial statements that CASC has a substantial scale of operation, with recorded revenue gradually increasing from approximately RMB213.2 billion in 2016 to approximately RMB249.6 billion in 2018. CASC's profit after taxation in general followed the trend of revenue growth, amounted to approximately RMB15.8 billion, RMB17.4 billion and RMB18.5 billion for the years 2016, 2017 and 2018 respectively.

Based on the audited financial statements of CASC, total assets of CASC amounted to approximately RMB436.0 billion as at 31 December 2018, mainly comprised (i) property, plant and equipment and construction in progress of approximately RMB141.0 billion, (ii) inventory of approximately RMB84.0 billion, (iii) bank balances and cash of approximately RMB51.6 billion, and (iv) account receivables of approximately RMB31.4 billion. As at 31 December 2018, total liabilities of CASC amounted to approximately RMB199.8 billion, mainly comprised (i) receipts in advance of approximately RMB80.8 billion, (ii) account payables of approximately RMB34.9 billion, and (iii) borrowings (comprising notes payable, short-term and long-term borrowings, placements from banks and other financial institutions, borrowings from central bank, bonds payable and other borrowings) of approximately RMB32.0 billion. CASC has a large equity base, amounted to approximately RMB236.2 billion as at 31 December 2018.

CASC maintains a healthy liquidity position, with bank balances and cash of approximately RMB51.6 billion and borrowings of approximately RMB32.0 billion as at 31 December 2018, indicating a net cash position (being bank balances and cash less borrowings) of approximately RMB19.6 billion. According to the credit rating report issued by Dagong Global Credit Rating Co., Ltd and China Lianhe Credit Rating Co., Ltd (both of which are credit rating agencies recognised by National Development and Reform

Commission and the People's Bank of China) dated 21 June 2018 and 26 June 2018 respectively, the corporate credit rating of CASC was "AAA", representing the highest rating under corresponding credit rating scale and defined as having strong debt repayment capacity, substantial ability to withstand adverse economic environment and the smallest risk of default.

On the basis of the above, we are of the view that CASC has a stable and healthy financial position, allowing it to fulfil its obligations resulting from the Joint Liability Guarantee provided for the Deposit Services under the Financial Services Agreement.

5. The annual caps

(i) Review of historical figures

We are informed by the Company that, for the two years ended 31 December 2018, the Company's subsidiaries maintained a relatively low level of deposits with Aerospace Finance with less than HK$3 million. Such transactions were fully exempt connected transactions under Chapter 14A of the Listing Rules on the basis that they were conducted on normal commercial terms and in the Company and its subsidiaries' ordinary and usual course of business.

(ii) Assessment of the Maximum Daily Balance

The Maximum Daily Balance under the Financial Services Agreement for the three-year period, commencing from the date of passing the resolution at the Extraordinary General Meeting, is RMB700 million. We are given to understand that the Maximum Daily Balance comprises deposits and accrued interests. As set out in the letter from the Board, when determining the Maximum Daily Balance, the Directors have taken into account, among others, the cashflows of the Company and its subsidiaries during the abovementioned three-year period, and the potential benefits to be brought to the PRC Subsidiaries, as described in the section above headed "1. Background to and reasons for the Financial Services Agreement".

We have been provided with the cash flow forecast of the Company and its subsidiaries, including that of the PRC Subsidiaries, for the four years ending 31 December 2022 (the "**Cash Flow Forecast**"), giving details on the future cash requirements and usages for business operation and development. It is expected that, barring any unforeseen circumstances, the PRC Subsidiaries would record positive net cash inflows in the coming years. This is a trend that follows the Company's historical consolidated net cash from operating activities of approximately HK$254.8 million, HK$204.1 million and HK$225.0 million, for the years 2016, 2017 and 2018 respectively. Based on our discussions with the management of the Company, the anticipated cash inflows in coming years are mainly a result of the gradual increase in business scale of the PRC Subsidiaries' manufacturing business, and also the relatively stable rental and management fee income expected to be generated from the Shenzhen Plaza.

We note the Company's consolidated bank balances and cash (including short-term and pledged bank deposits) gradually decreased in the past few years, from approximately HK$1,156.4 million as at 31 December 2016 to approximately HK$981.0 million as at 31 December 2018, principally due to (i) repayment of bank and other borrowings and (ii) capital expenditures partly related to the construction of the Shenzhen Plaza. As at 31 December 2018, most borrowings of the Company and its subsidiaries are long-term loans, maturing in years beyond 2022. In addition, according to the Cash Flow Forecast, following completion of the Shenzhen Plaza in 2016, it is expected that the Company and its subsidiaries will not have material capital expenditures except for certain acquisitions of fixed assets during the usual course of the manufacturing business. Based on the above, and the business growth of the Company and its subsidiaries as described in the section headed "1. Background to and reasons for the Financial Services Agreement," and the expected cash inflow from the Shenzhen Plaza (currently operating in full scale), it is expected that the cash level of the Company and its subsidiaries will gradually increase in the coming years.

In the context of the above, the Company expects that the PRC Subsidiaries will have more business transactions with Aerospace Finance (including, among others, the use of Deposit Services and the credit facility provided by Aerospace Finance), which means a demand for a higher Maximum Daily Balance. As advised by the management of the Company, along with the continuous expansion of the business scale of the PRC Subsidiaries, they may require further and various financial services from other financial institutions, including the credit facility and other financial services provided by Aerospace Finance under the Financial Services Agreement. As mentioned in the section headed "1. Background to and reasons for the Financial Services Agreement", the use of Aerospace Finance's entrusted loan services would also utilise the Deposit Services, as the Company's cash-rich subsidiary would deposit surplus funds to Aerospace Finance for its remittance to the relatively indebted subsidiary.

Having considered the above, in particular the future cash flows of the Company and its subsidiaries and the possible demand for additional financial services from Aerospace Finance, we consider the Maximum Daily Balance for the three-year period to be fair and reasonable, allowing the PRC Subsidiaries a flexibility, and not obligation, to make uses of financial services from Aerospace Finance on terms that are no less favourable than those offered by other independent commercial banks in the PRC.

6. Internal control procedures

In order to protect the interest of the Independent Shareholders, the Board has adopted a set of internal control procedures to monitor the Deposit Services and other financial services provided by Aerospace Finance. Any staff of the Company who also has a position in either CACS or Aerospace Finance will not be involved in the internal control procedures, according to the letter from the Board. The key internal controls are summarized below:

(a) The Company shall assign deposit limits to each of the PRC Subsidiaries, and their deposit balances with Aerospace Finance shall not exceed their respective limited assigned. If a PRC Subsidiary intends to place deposits in excess of the assigned limit, it should seek the approval of the Finance Department. In such circumstances, the deposit limits of other PRC Subsidiaries may need to be reduced or existing deposits may need to be withdrawn so that the overall deposits limit is maintained;

(b) Prior to placing deposits by the PRC Subsidiaries with Aerospace Finance, the respective company shall obtain at least three quotations from independent financial institutions for similar deposit or other service in similar nature, to the extent commercially practicable, and compare such quotations to the terms available from Aerospace Finance. The financial controller of the Company and the general manager of the Finance Department will be responsible for deciding whether to accept deposit conditions offered by Aerospace Finance, based on the above information, and seek approval from an executive Director;

(c) To ensure the security and liquidity of the deposits, the PRC Subsidiaries shall withdraw the deposits from Aerospace Finance on an irregular basis. We understand from the management of the Company that the above serves as an additional "safety check" of the credit risk relating to the Deposit Services;

(d) In case if the relevant cap for the prevailing year for services provided by Aerospace Finance may be exceeded, the PRC Subsidiaries shall suspend those services with Aerospace Finance for the remaining time of that year;

(e) The respective companies shall not offer unauthorized commitments (such as securities, guarantees and promises) to Aerospace Finance to obtain loans, without the approval from the Board (and the Independent Shareholders, if necessary);

(f) Aerospace Finance agreed to make available to the Company during the term of the Financial Services Agreement (i) those publicly available information including Aerospace Finance's complete set of audited annual financial report, (ii) quarterly management accounts of Aerospace Finance, (iii) monthly financial information and risk monitoring indicators of Aerospace Finance to be submitted to the CBIRC, (iv) the annual business reports of Aerospace Finance to be submitted to the CBIRC, (v) information regarding any change the senior management of Aerospace Finance, and (vi) the annual rating of Aerospace

Finance and information relating to its business approval from the regulators of Aerospace Finance. Aerospace Finance also agreed to cooperate with the auditor of the Company to review the accounting records of Aerospace Finance in connection with those stipulated under the Financial Services Agreement. The Finance Department is responsible for contacting the PRC Subsidiaries and Aerospace Finance reviewing the above information to be provided by Aerospace Finance, and closely monitoring the transactions contemplated under the Financial Services Agreement, including reviewing and keeping transaction evidences and monthly statements from Aerospace Finance, drafting relevant reports and reporting at appropriate times. Any problems identified shall be immediately reported to the management of the Company and the Board;

(g) The Finance Department shall report on the transactions under the Financial Services Agreement to the Board on a quarterly basis; and

(h) The Finance Department shall meet with the finance department of each of the PRC Subsidiaries so as to review the transactions, learn from experiences and rectify weaknesses on an annual basis.

In addition to the above, Aerospace Finance is required to notify the Company and the PRC Subsidiaries upon occurrence of the Relevant Events, as set out in the section above headed "2. Principal terms of the Financial Services Agreement and guarantee from CASC", which may pose material risks in relation to the deposits made by the PRC Subsidiaries to Aerospace Finance. This notification requirement imposed on Aerospace Finance will assist the Company and the PRC Subsidiaries to make timely decision and take any required actions, if considered necessary, to recover the deposits made under the Deposit Services.

The Directors consider that the above internal control procedures adopted by the Company and the PRC Subsidiaries are appropriate and sufficient, and that the procedures and measures provide assurance to the Independent Shareholders that the Deposit Services will be appropriately monitored. As stated in the letter from the Board, the Company will implement the above procedures and measures during the term of the Financial Services Agreement.

7. Reporting requirements and conditions of the Deposit Services

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Deposit Services are subject to the following annual review requirements:

(a) the independent non-executive Directors must review the Deposit Services every year and confirm in the annual report and accounts that the Deposit Services have been entered into:

   (i) in the ordinary and usual course of business of the Company;

   (ii) on normal commercial terms or better; and

   (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;

(b) the Company must engage its auditors to report on the Deposit Services every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Deposit Services:

   (i) have not been approved by the Board;

   (ii) were not, in all material respects, in accordance with the pricing policies of the Company if the Deposit Services involve the provision of goods or services by the Company;

   (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Deposit Services; and

   (iv) have exceeded the Maximum Daily Balance;

(c) the Company must allow, and ensure that the counterparties to the Deposit Services allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Deposit Services as set out in paragraph (b);

(d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Deposit Services, in particular, (i) the restriction of the value of the Deposit Services by way of the Maximum Daily Balance; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Financial Services Agreement and the Maximum Daily Balance not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Deposit Services are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and its shareholders as a whole. We also consider that the Deposit Services (including the Maximum Daily Balance) are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Deposit Services (including the Maximum Daily Balance).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DISCLOSURE OF INTERESTS

A. Directors' or chief executive's interests in the securities and debentures of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors or chief executive of the Company were, or were taken or deemed to have any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer, to be notified to the Company and the Stock Exchange.

B. Persons who have interests or short positions in Shares and underlying Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, the following parties, had, or were deemed or taken to have any interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company and its subsidiaries:

Name of shareholder	Capacity	Direct Interest (Y/N)	Number of shares held (Long Position)	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Interested in controlled corporation	N	1,183,598,636	38.37%
Burhill Company Limited	Beneficial owner	Y	1,183,598,636	38.37%

Note: Burhill Company Limited is a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, the shares held by it form the total number of shares in which China Aerospace Science & Technology Corporation was deemed interested.

Save as disclosed in this Circular, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no other person has an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company and its subsidiaries and none of the Directors are directors or employees of person having such interest or short position.

As at the Latest Practicable Date, there were no outstanding securities, options or warrants which were convertible into new Shares.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with any member of the Company and its subsidiaries excluding contracts expiring or determinable by such member of the Company and its subsidiaries within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

Save for Mr Liu Xudong, Mr Mao Yijin and Mr Xu Liangwei, Directors of the Company, who are officers of CASC and its subsidiary, as at the Latest Practicable Date, none of the Directors and the chief executive officer of the Company were considered to have interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries, other than those businesses in which (a) the Company and its subsidiaries was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Company and its subsidiaries.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Company and its subsidiaries.

6. INDEBTEDNESS

Borrowings

As at the close of the business on 30 April 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Company and its subsidiaries had unsecured and unguaranteed loan from a related party of approximately HK$920,770,000. In addition, the Company and its subsidiaries had unsecured and unguaranteed other loan from a controlling shareholder of approximately HK$583,431,000, unsecured and unguaranteed other loan from a non-controlling shareholder of a non-wholly owned subsidiary of approximately HK$8,363,000 outstanding at that date and unguaranteed lease liabilities of approximately HK$126,375,000 of which an aggregate amount of HK$123,507,000 is secured by rental deposits.

As at 30 April 2019, the Company and its subsidiaries had bank deposits with carrying value of approximately HK$54,888,000, and bills receivable of approximately HK$88,062,000 pledged to banks to secure general banking facilities granted to the Company and its subsidiaries, of which no loan balances were outstanding as at 30 April 2019.

Save as aforesaid and apart from intra-group liabilities, the Company and its subsidiaries did not have outstanding as at the close of business on 30 April 2019 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts had been translated into Hong Kong dollars at approximate rates of exchange prevailing at the close of business of 30 April 2019.

7. WORKING CAPITAL

After taking into account the Company and its subsidiaries'

(1) internal resources; and

(2) present available facilities;

the Directors are of the opinion that the Company and its subsidiaries after taking into account the effects of the transactions contemplated under the Financial Services Agreement will have sufficient working capital for its present requirements for at least the next 12 months from the Latest Practicable Date, in the absence of any unforeseen circumstances.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in financial or trading position of the Company and its subsidiaries since 31 December 2018, the date to which the latest audited consolidated financial statements of the Company and its subsidiaries were made up.

9. PROSPECTS

Overview

In 2018, the global macroeconomic environment gradually deteriorated. Factors such as the Brexit negotiations, the US-China trade disputes, uncertainties of interest rate policy and lingering geopolitical risks caused uncertainties as to the economic prospects of Europe, the US, China and emerging markets, and affecting consumers' confidence. Economic weakness of the global market and the decline in demand for consumer electronics products made a considerable impact on the Company's manufacturing business. Despite facing the challenges, the Company took effective measures to maintain steady business operations in general.

For the year ended 31 December 2018, the Company and its subsidiaries reported a turnover of HK$3,690,804,000 (2017: HK$3,661,325,000), representing a slight increase as compared with that of last year. The increase in operating costs put overall gross profit under pressure, with gross profit margin decreasing from 27.97% last year to 24.29%. If the change in fair value of investment properties and the related effects on deferred taxation and non-controlling interests were taken out, the profit attributable to shareholders of the Company would be HK$324,642,000 for 2018 (2017: HK$334,481,000), representing a decrease of 2.94% from last year.

In 2018, including the impact of change in fair value of investment properties, the Company and its subsidiaries recorded a profit of HK$520,180,000, representing a decrease of 21.99% as compared with that of HK$666,817,000 in 2017. Profit attributable to shareholders was HK$404,115,000, representing a decrease of 16.88% as compared with that of HK$486,183,000 in 2017; earnings per share attributable to shareholders was HK13.10 cents (2017: HK15.76 cents).

Considering the development needs and funding position of the Company as a whole, the Board recommended the payment of a dividend of HK1 cent per share for the year.

Business Review

In 2018, the turnover of the hi-tech manufacturing business remained stable but profitability was under pressure; Shenzhen Aerospace Science & Technology Plaza provided a stable income for the Company; and the internet of things application and cross-border e-commerce logistics business was greatly affected by policies, resulting in a decrease in turnover.

Hi-tech Manufacturing

In 2018, the hi-tech manufacturing business was affected by factors such as the US-China trade disputes, rising costs, depreciation of new fixed assets, plant relocation and exchange rate fluctuations, resulting in a stable turnover despite profitability under pressure. Turnover of the hi-tech manufacturing business for the year was HK$3,235,104,000 (2017: HK$3,166,627,000), representing an increase of 2.16% as compared with last year; operating profit was HK$214,732,000 (2017: HK$292,101,000), representing a decrease of 26.49% as compared with last year.

Orders from the plastic product business decreased as some customers relocated their production sites to other countries. The market for office equipment was relatively stable, and the newly developed high-end audio equipment and auto part products became new growth drivers. The lead-acid battery business was affected by factors such as environmental protection policies, consumption tax policies and the US-China trade disputes, leading to a decrease in sales as compared with last year. Development of the electroplating business was relatively stable, the operation of the new electroplating gantry line resulted in product diversification, with product offerings expanding from electroplating products of digital electronics to auto parts and home appliances. The intelligent charger business began to stabilise after reaching its trough in the past two years, and sales increased as compared with last year. The sales of new product of mini projectors were good in overseas markets, whereas those specifically manufactured for new domestic customers also contributed to sales growth.

The printed circuit board ("PCB") business was affected by factors such as the increase in depreciation and fixed costs of new plants and ancillary facilities and price cut requested by customers, resulting in a lower profitability. During the year, the successful introduction of customers from the markets of optoelectronic applications and fingerprint recognition became new growth drivers. The liquid crystal display ("LCD") business achieved satisfactory results given the successful acquisition of large orders in the thin-film transistor ("TFT") module market and LCD OEM market, as well as the completion of development of certain TFT module product series.

Shenzhen Aerospace Science & Technology Plaza

In 2018, 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$419,109,000, representing an increase of 6.34% as compared with that of HK$394,121,000 in 2017, and an operating profit of HK$515,821,000, representing a decrease of 29.77% as compared with that of HK$734,499,000 in 2017; if excluding the impact of change in fair value of investment properties, the operating profit would be HK$338,036,000. Property leasing made a good progress with tenants mainly being high-tech and financial enterprises. As of the end of 2018, the valuation of Shenzhen Aerospace Science & Technology Plaza was approximately RMB7,692,000,000 (2017: RMB7,642,000,000).

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

In 2018, 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"), was affected by adjustments to customs policies. The business of internet of things application was under transformation, whereas the newly introduced electronic label tracking business was still under incubation. These factors caused the overall business performance of Aerospace Digitnexus to miss expectation. As of 31 December 2018, the turnover of Aerospace Digitnexus was approximately HK$32,485,000, representing a decrease of 65.50% as compared with that of HK$94,171,000 in 2017; the operating loss was approximately HK$37,133,000 (2017: operating profit: HK$9,176,000).

The Complex Zone of the Launching Site in Hainan

Following the termination of the Land Development Agreement of the Complex Zone of the Launching Site in Hainan by Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, and the Municipal Government of Wenchang City ("Wenchang Municipal Government") on 23 June 2017 (the "Settlement Agreement"), under which Wenchang Municipal Government returned a sum of RMB290,000,000 out of the project funds of RMB1,333,808,100 to Hainan Aerospace, and undertook to return the remaining portion by assets of equivalent value or cash to

Hainan Aerospace by 31 December 2019. Hainan Aerospace is in negotiation with Wenchang Municipal Government for the arrangements of the return of the remaining project funds.

As of 31 December 2018, the carrying amount of the Company's interest in Hainan Aerospace was HK$646,754,000 (2017: HK$686,154,000). The Company's share of loss of Hainan Aerospace for the year ended 31 December 2018 was HK$5,229,000 (2017: HK$10,566,000), representing a significant decrease of 50.51% as compared with 2017.

Others

With the support of the Company's 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 entrusted loan of RMB500,000,000 for another five years during the year, allowing the Company and its subsidiaries to obtain funds for business development at a stable and low finance cost.

CASC used to hold the equity interest of the Company through its wholly-owned subsidiaries, namely Burhill Company Limited ("Burhill"), Jetcote Investments Limited ("Jetcote") and Sin King Enterprises Company Limited ("Sin King"). After CASC completed the reorganisation of the shareholding structure of the three companies during the year, Burhill directly owns 1,183,598,636 shares of the Company, representing 38.37% of the issued shares, and Jetcote and Sin King ceased to hold any shares of the Company.

Prospects

Looking into 2019, the US-China trade dispute may be alleviated, but trade protectionism will bring uncertainty to global trade. Factors such as continued trade dispute and financial market volatility are expected to affect investment and economic confidence, increasing downside risks of the economy. Nevertheless, Hong Kong and its surrounding areas will benefit as China continues to strategically focus on the implementation of policies in relation to the "Belt and Road" and "Greater Bay Area" and introduces measures to strengthen internal demand. In the face of possible continued slowdown in global and Hong Kong economies, the Company will work on risks and internal control management, and will adhere to the principles of prudent operation and stringent risk control while actively pushing forward with various tasks.

In 2019, the hi-tech manufacturing business will enhance its marketing, continue to consolidate its existing premium customer base, increase investment in automation transformation, and strengthen research and development to enhance competitiveness generally. As for the plastic product business, it will vigorously develop domestic and overseas markets, strive to expand new markets such as new types of financial equipment, AI equipment, automobiles, energy storage equipment, and integrate its advantages to develop business in the market of military-civilian integration. In connection with the intelligent charger business, it will accelerate the development of power-related core technologies and enhance its technologies in power supply to pave the way for market transformation. Regarding the PCB business, it will explore new regional markets and areas of application, and increase the share of revenue from high-precision PCBs. In relation to the LCD business, it will commence the construction of a new liquid crystal module ("LCM") plant and actively seek new development opportunities so as to achieve business upgrade and transformation.

According to the Settlement Agreement entered into between Hainan Aerospace and Wenchang Municipal Government, Wenchang Municipal Government undertook to return the remaining project funds to Hainan Aerospace by 31 December 2019. With the support of CASC, the Company will assist Hainan Aerospace in full force in negotiating with Wenchang Municipal Government and Hainan Provincial Government to arrange for the return of funds.

The Company will review the development strategy of the internet of things application and cross-border e-commerce logistics business, and take timely measures to improve business operations and control investment risks.

The Chinese economy is shifting to the high-quality development stage, and the country is in the critical period of economic structure optimisation and growth momentum transformation. At the same time, the Chinese government's efforts to formulate policies and plans for the "Belt and Road" and "Greater Bay Area" have brought rare opportunities for the Company's development. In August 2018, CASC held its seventh working meeting since its establishment in 1999, clearly setting out the blueprint for building an aerospace superpower. Going forward, CASC will gradually work to transform into a world-class aerospace enterprise group to help China become one of the world's aerospace superpowers, based on which it will further help China to completely transform into an aerospace superpower in the world. Given that China vigorously promotes military-civilian integration and actively develops the commercial aerospace industry, CASC will strive to achieve aerospace technology application and service industry transformation and upgrade, and strengthen the development in areas such as energy conservation and environmental protection, advanced materials, electronic information and production services. Meanwhile, CASC will formulate plans for core technology development for industries such as high-end equipment and smart manufacturing, new materials, cloud computing, big data and bioastronautics.

As the only overseas listed company directly held by CASC, the Company will bring its unique advantages into play in the development of CASC and serve the internationalisation strategy of CASC. In the future, the Company will follow the fields of advanced manufacturing, modern service industry and high-tech industry, insist on innovation and development, military-civilian integration and capital operation, coordinate international and domestic markets, promote high-quality development, and build into a first-class aerospace technology enterprise. It is believed that with the leadership and support of CASC, the Company will be able to contribute to the establishment of the international business flagship of CASC, so as to create greater investment value and return for shareholders!

Management Discussion and Analysis

Results Performance

The turnover of the Company and the subsidiaries for the year ended 31 December 2018 was HK$3,690,804,000, representing an increase of 0.81% as compared with that of HK$3,661,325,000 for 2017. The profit of this year was HK$520,180,000, representing a decrease of 21.99% as compared with that of HK$666,817,000 for 2017.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company was HK$404,115,000, representing a decrease of 16.88% as compared with that of HK$486,183,000 for 2017.

The decrease in profit attributable to the owners was mainly due to a decrease in both the operating profit of this year and the fair value gain of investment properties.

Based on the issued share capital of 3,085,022,000 shares during the year, the basic earnings per share was HK13.10 cents, representing a decrease of 16.88% as compared with that of HK15.76 cents for 2017.

Dividends

The Board considered that the operating profit was less than last year and a need to retain capital to explore development projects, hence, it proposed the distribution of 2018 final dividend of HK1 cent per share, and was approved by shareholders at the Annual General Meeting on 31 May 2019, warrants of which were dispatched to all shareholders on 26 June 2019.

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 the subsidiaries are hi-tech manufacturing, internet of things application and cross border e-commerce logistics, and the operation of Shenzhen Aerospace Science & Technology Plaza.

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

Hi-tech Manufacturing

In 2018, the global economy maintained a steady growth in the first half of the year. With uncertain factors affecting the global economy in the second half of the year such as the US-China trade dispute, fluctuations of exchange rate, increase in interest rate, the continued increase in labour costs, the demand of electronic consumer goods slow down rapidly and many foreign companies move to the South East Asian countries gradually to reduce costs, the already intense competition being faced by hi-tech manufacturing was further impacted. Except for the continued strengthening the research and development of new products and exploring high end product markets, the hi-tech manufacturing strived to develop the Mainland's market so as to reduce market risks.

The turnover of the hi-tech manufacturing business for the year ended 31 December 2018 was HK$3,235,104,000, representing an increase of 2.16% as compared with last year; the operating profit was HK$214,732,000, representing a decrease of 26.49% as compared with last year. The results of the hi-tech manufacturing business are shown below:

	Turnover (HK$'000)			Operating Profit (HK$'000)		
	2018	**2017**	**Changes (%)**	**2018**	**2017**	**Changes (%)**
Plastic Products	1,192,091	1,227,047	(2.85)	44,449	87,619	(49.27)
Printed Circuit Boards	862,348	780,295	10.52	63,474	86,158	(26.33)
Intelligent Chargers	542,799	519,636	4.46	20,852	38,109	(45.28)
Liquid Crystal Display	623,195	623,696	(0.08)	52,782	55,162	(4.31)
Industrial Property Investment	14,671	15,953	(8.04)	33,175	25,053	32.42
Total	3,235,104	3,166,627	2.16	214,732	292,101	(26.49)

Looking forward to 2019, 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 and marketing, 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, maintain stable business and sustainable development and ensure its continuous and stable growth.

Shenzhen Aerospace Science & Technology Plaza

In 2018, the rental income of Shenzhen Aerospace Science & Technology Plaza under Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") brought a consistent and constant revenue to the Company. In 2018, Shenzhen Aerospace and Shenzhen Aerospace Technology Property Management Company Limited* (深圳市航天高科物業管理有限公司) ("Shenzhen Property Management"), a wholly-owned subsidiary of Shenzhen Aerospace responsible for property management, recorded a total turnover of HK$419,109,000 and an operating profit of HK$515,821,000.

As at 31 December 2018, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,692,000,000.

In 2019, Shenzhen Property Management will continue to do better in property management, paying special attention to safety management, and take effective measures to improve the quality of property services and enhance the satisfaction and praise of tenants.

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

The Kaiping Customs Clearance Centre is affected by local policy in quantity restrictions, and its performance was not as good as expected. While other businesses are still in the development stage, customer needs are constantly changing and fail to respond in time, hence it does not form a unique competitive advantage yet. In 2018, Aerospace Digitnexus recorded a turnover of HK$32,485,000 and an operating loss of HK$37,133,000.

In 2019, Aerospace Digitnexus will liaise with the customs and the local government to strive for better terms, and continue to improve the operation of the Kaiping Customs Clearance Centre. At the same time, efforts are being made by Aerospace Digitnexus to improve efficiency and to develop the markets in the face of fierce competition, it will also improve the business models of the other businesses and strengthen the development of customers in order to strive for a record of profit as soon as possible.

The Complex Zone of the Launching Site in Hainan

In 2017, Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, entered into a Settlement Agreement to the Land Development Agreement of the Complex Zone of the Launching Site in Hainan with the Municipal Government of Wenchang, pursuant to which both parties agreed to release the Land Development Agreement of the Complex Zone of the Launching Site in Hainan, their rights and obligations under which will be terminated accordingly. The Municipal Government of Wenchang also agreed to repay the investment amount and related expenses of RMB1,333,808,100 to Hainan Aerospace, of which, a sum of RMB290,000,000 had been repaid to Hainan Aerospace by the Municipal Government of Wenchang and the remaining amount will be returned by assets in equivalent value or in cash by 31 December 2019. Hainan Aerospace and the Municipal Government of Wenchang will continue the discussion in relation to the procedures of return of investment and complete it as soon as possible.

Details of which please refer to the Company's announcements published on 8 March 2017 and 23 June 2017.

Assets

(HK$'000)	**31 December 2018**	**31 December 2017**	**Changes (%)**
Non-Current Assets	11,518,775	11,847,675	(2.78)
Current Assets	2,800,505	2,727,433	2.68
Total Assets	14,319,280	14,575,108	(1.76)

The decrease in non-current assets was mainly due to a reduction in amount when those assets, recorded in RMB, were converted in equivalent to Hong Kong Dollars at the financial year end. The equity attributable to shareholders of the Company was HK$7,084,257,000, representing a decrease of 0.09% 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 year, the net assets per share attributable to shareholders of the Company was HK$2.30.

As at 31 December 2018, a cash deposit of HK$14,572,000 and bills receivable of HK$80,008,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. As the application of property right certificates was completed, the mortgage of part of Shenzhen Aerospace Science & Technology Plaza at a value of approximately RMB1,900,000,000 by Shenzhen Aerospace to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) will be performed in due course.

Liabilities

(HK$'000)	31 December 2018	31 December 2017	Changes (%)
Non-Current Liabilities	3,890,239	3,110,127	25.08
Current Liabilities	1,248,674	2,258,769	(44.72)
Total Liabilities	5,138,913	5,368,896	(4.28)

The decrease in non-current liabilities and the increase in current liabilities were mainly due to the reclassification of a controlling shareholder's loan from current liabilities to non-current liabilities, as well as an reduction in accounts payable, accrual taxation, accrual payables of the construction costs of an investment properties and bank loans. As at 31 December 2018, the Company and the subsidiaries had bank and other borrowings of HK$1,468,223,000.

Operating Expenses

The administrative expenses of the Company and the subsidiaries in 2018 were HK$299,318,000, representing a decrease of 11.36% as compared with last year. The finance costs amounted to HK$66,598,000.

Contingent Liabilities

As at 31 December 2018, the Company and the subsidiaries did not have any other material contingent liabilities.

Financial Ratios

	2018	2017
Gross Profit Margin	24.29%	27.97%
Return on Net Assets	5.67%	7.24%

	31 December 2018	31 December 2017
Assets-Liabilities Ratio	35.89%	36.84%
Current Ratio	2.24	1.21
Quick Ratio	1.95	1.05

Liquidity

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities. As at 31 December 2018, the free cash and bank balance amounted to HK$966,428,000, the majority of which were in Hong Kong Dollars and Renminbi.

Capital Expenditure and Investment Commitment

As at 31 December 2018, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the consolidated financial statements was HK$46,943,000, mainly for the acquisition of fixed assets.

Financial Risks

The Company and the 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 the subsidiaries is based on the employee's qualifications, experience and performance on the job, with reference to the current market situation. The Company and the subsidiaries will continue to upgrade the human resources management skills 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 31 December 2018, the Company and the subsidiaries had a total of approximately 7,160 employees based in the mainland and Hong Kong respectively.

10. MATERIAL CONTRACT

The following contract (not being contract entered into in the ordinary course of business) has been entered into by members of the Company and its subsidiaries within the two years preceding the date of this Circular and is or may be material:

(a) the Financial Services Agreement.

11. EXPERT

Somerley Capital Limited is a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

As at the Latest Practicable Date, Somerley Capital Limited has confirmed that it does not have any shareholding in any member of the Company and its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Company and its subsidiaries.

Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this Circular with the reference to its name and its letter in the form and context in which they appear.

As at the Latest Practicable Date, Somerley Capital Limited did not have any interest, directly or indirectly, in any assets which had been, since 31 December 2018, being the date on which the latest published audited accounts of the Company and its subsidiaries were made up, acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Company and its subsidiaries.

12. DIRECTORS' INTERESTS IN THE COMPANY'S AND ITS SUBSIDIARIES' ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE COMPANY AND ITS SUBSIDIARIES

As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which had since 31 December 2018, being the date on which the latest published audited accounts of the Company and its subsidiaries were made up, been acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any of the Company and its subsidiaries.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Company and its subsidiaries which was subsisting as at the Latest Practicable Date and was significant to the business of the Company and its subsidiaries.

13. MISCELLANEOUS

(a) The company secretary of the Company is Mr Chan Ka Kin, Ken, who is a member of The Hong Kong Institute of Chartered Secretaries.

(b) The Company's share registrar and transfer office is Tricor Standard Limited, of Level 22 (will change to Level 54 with effect from 11 July 2019), Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) Pursuant to article 74 of the articles of association of the Company, the following categories of persons may demand the vote in respect of the resolutions to be put to at any general meeting be taken on a poll:

   (i) by the Chairman of the meeting; or

   (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

   (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A poll may be so demanded before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll.

(d) The English text of this Circular shall prevail over the Chinese text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents (or copies thereof) will be available for inspection during normal office hours at the registered office of the Company from the date of this Circular up to the date of the Extraordinary General Meeting (both dates inclusive):

(a) the articles of association of the Company;

(b) the letter from the Independent Board Committee, the text of which is set out on page 16 of this Circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 35 of this Circular;

(d) the written consent from Somerley Capital Limited referred to in the section headed "Expert" in this appendix;

(e) the annual reports of the Company and its subsidiaries for the years ended 31 December 2017 and 31 December 2018 of the Company and its subsidiaries (electronic version is available at www.hkexnews.hk and www.casil-group.com);

(f) this Circular; and

(g) the Financial Services Agreement.

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)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of China Aerospace International Holdings Limited (the "Company") will be held at Whampoa 01 & 02, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Tuesday, 23 July 2019 at 10:30 a.m. to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

Ordinary Resolution

1. **THAT** the entering into of the financial services agreement dated 10 June 2019 with 航天科技財務有限責任公司* (Aerospace Science & Technology Finance Company Limited) ("Aerospace Finance") by the Company (for itself and on behalf of its subsidiaries that incorporated in the People's Republic of China), a copy of which is initialled by the Chairman of the meeting for identification purpose, in respect of the provision of the deposit services by Aerospace Finance to the Company and its subsidiaries for a period of three years of an aggregate maximum daily balance of RMB700 million, as more particularly set out in the Circular, be and is hereby approved **AND THAT** the Directors of the Company be and are hereby authorized to take such action and execute such documents as they may deem appropriate and expedient in respect of the proposed transactions contemplated thereunder in respect of the deposit services.

By order of the Board,
Chan Ka Kin, Ken
Company Secretary

Hong Kong, 28 June 2019

Notes:

1. The above resolution is required to be approved by way of a poll, and CASC and its associates shall abstain from voting on the resolution numbered 1.

2. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

3. To ensure Shareholders the right to attend and vote at the Extraordinary General Meeting, the Register of Members of the Company will be closed and details of which are as follows:

Latest time for lodging transfers of shares and related documents for registration	:	4:30 p.m. on Wednesday, 17 July 2019
Closure of Register of Members	:	from Thursday, 18 July 2019 to Tuesday, 23 July 2019 (both days inclusive)
Record Date	:	Tuesday, 23 July 2019

To ensure Shareholders the right to attend and vote at the Extraordinary General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited of Level 22 (will change to Level 54 with effect from 11 July 2019), Hopewell Centre, 183 Queen's Road East, Hong Kong for registration on or before 4:30 p.m. on Wednesday, 17 July 2019.

4. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the share registrar of the Company, Tricor Standard Limited, on or before 10:30 a.m., Saturday, 20 July 2019 or not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

5. With effect from 11 July 2019, the address of Tricor Standard Limited will be changed to Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Details of which please refer to the Company's announcement dated 25 June 2019.

* *This PRC entity does not have an official English name; the English name sets out herein is for identification purpose only.*