CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

INTERIM REPORT 2019

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-Executive Directors
Mr Luo Zhenbang *(Independent)*
Ms Leung Sau Fan, Sylvia *(Independent)*
Mr Wang Xiaojun *(Independent)*
Mr Liu Xudong
Mr Mao Yijin
Mr Xu Liangwei

AUDIT COMMITTEE

Mr Luo Zhenbang *(Chairman)*
Ms Leung Sau Fan, Sylvia
Mr Mao Yijin

REMUNERATION COMMITTEE

Ms Leung Sau Fan, Sylvia *(Chairman)*
Mr Wang Xiaojun
Mr Xu Liangwei

NOMINATION COMMITTEE

Mr Liu Meixuan *(Chairman)*
Mr Luo Zhenbang
Ms Leung Sau Fan, Sylvia
Mr Wang Xiaojun
Mr Xu Liangwei

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSEL

Reed Smith Richards Butler

PRINCIPAL BANK & FINANCIAL INSTITUTION

Bank of China (Hong Kong) Limited
Aerospace Science & Technology Finance Company Limited*
(航天科技財務有限責任公司)

REGISTERED OFFICE

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* This PRC entity does not have an English name, the English name sets out in this Interim Report is for identification purpose only.

BUSINESS REVIEW

OVERVIEW

For the six months ended 30 June 2019, the Company and its subsidiaries reported an unaudited revenue of HK$1,648,820,000, representing a decrease of 6.57% as compared with that of HK$1,764,701,000 for the same period of 2018. Profit for the period was HK$180,912,000, representing a decrease of 19.25% as compared with that of HK$224,028,000 for the same period of 2018. Profit attributable to the shareholders was HK$125,697,000, representing a decrease of 23.46% as compared with that of HK$164,229,000 for the same period of 2018. Basic earnings per share attributable to the shareholders was HK4.07 cents (first half of 2018: HK5.32 cents).

BUSINESS REVIEW

In the first half of 2019, affected by macro factors such as the Sino-US trade disputes and the slowdown of global economy, the Company's revenue remained relatively stable but profitability was under severe pressure.

Taking into consideration the Company's development and working capital, the Board decided not to distribute any interim dividend.

The hi-tech manufacturing business was exposed to an array of difficulties and challenges due to different factors such as the newly imposed requirements to enhance the standards of environmental protection, the increase in rent and production costs, the depreciation of new production facilities, the relocation of factories, and the drastic fluctuation of exchange rates. For the six months ended 30 June 2019, the hi-tech manufacturing business recorded a revenue of HK$1,419,146,000, representing a decrease of 6.47% as compared with that of HK$1,517,273,000 for the same period of 2018, and realised an operating profit of HK$88,256,000, representing a decrease of 6.58% as compared with that of HK$94,469,000 for the same period of 2018.

The plastic injection moulding business recorded a decrease in orders due to the transfer of production bases of some customers to other countries, whereas the performance of the products of office equipment, high-end audio equipment and auto parts were relatively stable, and the competitiveness of the electroplating business was enhanced by diversifying the product lines from electronic digital products to auto parts and home appliances. The operating results of the lead-acid battery business were under pressure due to the requirements of the environmental protection policies and the consumption tax policies, as well as the Sino-US trade disputes. Under the deteriorating market environment, the intelligent chargers business recorded a significant decrease in the orders from major customers, leading to an unsatisfied results performance. The printed circuit board business was affected by weak demand in the consumer markets such as automobiles and mobile phones, major decline in sales orders, especially the overseas one, contributed a major impact to the profitability. The liquid crystal display business delivered a relatively satisfactory performance due to the success in securing large orders in the thin film transistor (TFT) module market and the liquid crystal display (LCD) OEM market.

In the first half of the year, Shenzhen Aerospace Hi-Tech Investment Management Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") and its wholly-owned subsidiary, responsible for the management of Shenzhen Aerospace Science & Technology Plaza, contributed stable incomes and profit to the Company and recorded a total revenue of HK$213,987,000 (first half of 2018: HK$220,303,000) and a segment profit of HK$233,012,000 (first half of 2018: HK$246,435,000), and the operating profit would have been HK$184,591,000 (first half of 2018: HK$186,715,000) if the effect of the change in the fair value of the investment property was excluded. As at 30 June 2019, the valuation of Shenzhen Aerospace Science & Technology Plaza was approximately RMB7,734,000,000 (30 June 2018: RMB7,691,000,000).

As to the withdrawal of the project 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"), Hainan Aerospace is in discussion with the Municipal Government of Wenchang regarding the arrangements for the return of the remaining project funds as agreed. For the first half of the year, loss of Hainan Aerospace attributable to the Company was approximately HK$2,338,000, representing a reduction of 35.31% as compared with the loss of HK$3,614,000 for the same period of 2018. As at 30 June 2019, the carrying amount of Company's interest in Hainan Aerospace was approximately HK$643,713,000 (30 June 2018: HK$673,714,000).

The cross-border e-commerce logistics business of Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) ("Aerospace Digitnexus") encounters increasingly fierce market competition due to the establishment of a large number of cross-border e-commerce customs clearance centres in the Pearl River Delta region of Guangdong Province in recent years. In addition, the newly imposed tax policies together with the increase in operating costs continuously pose uncertainty to the business. As the internet-of-things application business and the Radio Frequency Identification System (RFID) electronic traceability business of Aerospace Digitnexus are in their business transformation and new development stages respectively, no economies of scale has been realized and the results performance did not meet up to the expectation. For the six months ended 30 June 2019, the revenue of Aerospace Digitnexus and its subsidiary amounted to HK$4,016,000, representing a decrease of 83.26% as compared with that of HK$23,995,000 for the same period of 2018, and operating loss was HK$10,346,000 (first half of 2018: operating loss of HK$16,280,000).

In considering a lot of capital is still required to input into Aerospace Digitnexus' businesses so as to form an effect of economies of scale, the Company, upon prudent study of every possible proposal, does not rule out the introduction of new investors, cooperation with other companies or other practical methods to help the company further develop.

PROSPECTS

Looking into the second half of the year, having been affected by factors such as the global economic slowdown and the Sino-US trade disputes, it is anticipated that aggregate demand is unlikely to recover soon. With the increasing risk of economic downturn, there are more uncertainties that need to be accounted for in terms of operating prospects.

The industrial enterprises will make every effort to explore new markets, expand the scale of automation in production, devote further efforts in the research and development of core technologies, improve technological skills, and strengthen market competitiveness.

Shenzhen Aerospace will commit itself to improve the property management standard of Shenzhen Aerospace Science & Technology Plaza and provide tenants with quality services. Hainan Aerospace will liaise closely with the Municipal Government of Wenchang to ensure it to return the remaining project funds as agreed.

APPRECIATION

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

By order of the Board,
Liu Meixuan
Executive Director & Chairman

Hong Kong, 23 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The unaudited revenue of the Company and its subsidiaries for the six months ended 30 June 2019 was HK$1,648,820,000, representing a decrease of 6.57% as compared with that of HK$1,764,701,000 for the same period of 2018. Profit for the period was HK$180,912,000, representing a decrease of 19.25% as compared with that of HK$224,028,000 for the same period of 2018.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to shareholders of the Company for the current period was HK$125,697,000, representing a decrease of 23.46% as compared with that of HK$164,229,000 for the same period of 2018.

The decrease in revenue was mainly due to the decrease in revenue of both the businesses of hi-tech manufacturing and cross-border e-commerce logistics, whereas the decrease in profits attributable to shareholders was mainly due to the decrease in the operating profits of the overall hi-tech manufacturing business.

Based on the issued share capital of 3,085,022,000 shares during the period, the basic earnings per share was HK4.07 cents, representing a decrease of 23.50% as compared with that of HK5.32 cents for the same period of 2018.

DIVIDENDS

The Board decided not to distribute an interim dividend for 2019.

The distribution of 2018 final dividend of HK1 cent per share was approved by shareholders at the Annual General Meeting in May 2019 and warrants of which were dispatched to all shareholders on 26 June 2019.

RESULTS OF CORE BUSINESSES

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

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

Hi-tech manufacturing

In the first half of 2019, the Sino-US trade disputes continued to affect global trade and production activities. The processing industry driven by the demand of the electronic products market also caused heavy negative impacts, making the export business of the hi-tech manufacturing continue to face varying degrees of difficulties. Various costs, such as labour and raw materials, and fluctuations in the RMB exchange rate further affected the hi-tech manufacturing that has been facing fierce market competition, and the overall performance was not as good as ideal.

The revenue of the hi-tech manufacturing business for the six months ended 30 June 2019 was HK$1,419,146,000, representing a decrease of 6.47% as compared with the same period of last year and operating profit was HK$88,256,000, representing a decrease of 6.58% as compared with the same period of last year. The results of the hi-tech manufacturing business are shown below:

	Revenue (HK$'000)			Operating Profit (HK$'000)		
	First half of 2019	First half of 2018	Changes (%)	**First half of 2019**	First half of 2018	Changes (%)
Plastic Products	**523,271**	529,937	(1.26)	**18,697**	19,014	(1.67)
Printed Circuit Boards	**370,628**	407,710	(9.10)	**7,617**	22,735	(66.50)
Intelligent Chargers	**185,621**	286,834	(35.29)	**4,989**	11,405	(56.26)
Liquid Crystal Display	**332,764**	284,636	16.91	**28,010**	22,673	23.54
Industrial Property Investment	**6,862**	8,156	(15.87)	**28,943**	18,642	55.26
Total	**1,419,146**	1,517,273	(6.47)	**88,256**	94,469	(6.58)

Looking forward to the second half of 2019, the global economy is still unclear while the competition in the electronic information technology industry will become more intense. The hi-tech manufacturing will continue to develop high-end products and new technology. In the meantime, it strives to reduce inventory and receivables, maintain stable business and sustainable development, whereas at the same time strive to open up the mainland and the other overseas markets to reverse the trend of decline in business.

Shenzhen Aerospace Science & Technology Plaza

In the first half of 2019, 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. 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 the management of Shenzhen Aerospace Science & Technology Plaza, recorded a total revenue of HK$213,987,000 (first half of 2018: HK$220,303,000) and a segment profit of HK$233,012,000 (first half of 2018: HK$246,435,000).

As at 30 June 2019, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,734,000,000 (30 June 2018: RMB7,691,000,000).

In the second half of 2019, Shenzhen Property Management will continue to do better in property management, paying special attention to safety management and take effective measures so as 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

In recent years, the Customs have strictly enforced the regulatory policies to cross-border e-commerce, which together with the establishment of many cross-border e-commerce customs clearance centres in the Pearl River Delta region of Guangdong Province, the competition has become increasingly intense. The operating costs of Kaiping Customs Clearance Centre of Aerospace Digitnexus Information Technology (Shenzhen) Limited ("Aerospace Digitnexus") have been continuously increasing, and that facing difficulties in operation. At the same time, other businesses are in the development stage, and still face a lot of difficulties, which are not able to form a unique competitive advantage.

In the first half of 2019, Aerospace Digitnexus and its subsidiary recorded a revenue of HK$4,016,000 (first half of 2018: HK$23,995,000) and an operating loss of HK$10,346,000 (first half of 2018: loss of HK$16,280,000).

The Company and Aerospace Digitnexus are considering to improve the business model of their businesses and do not rule out the introduction of new investors, cooperation with other companies or other methods to assist the company in further development.

The Complex Zone of the Launching Site in Hainan

As to the withdrawal of the land development 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, the Municipal Government of Wenchang had 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 was repaid to Hainan Aerospace 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.

At the same time, Hainan Aerospace continues to conduct in-depth feasibility studies on other businesses, striving to expand new business areas, and achieve transformation as soon as possible.

ASSETS

(HK$'000)	30 June 2019	31 December 2018	Changes (%)
Non-Current Assets	**11,678,818**	11,518,775	1.39
Current Assets	**2,816,777**	2,800,505	0.58
Total Assets	**14,495,595**	14,319,280	1.23

The increase in non-current assets was mainly due to the increase in the valuation of investment properties and the recognition of right-of-use asset when the application of Hong Kong Financial Reporting Standards 16 "Leases" in this period, while the current assets were slightly increased. The equity attributable to shareholders of the Company was HK$7,171,560,000, representing an increase of 1.23% as compared with that of HK$7,084,257,000 as at 31 December 2018. Based on the issued share capital of 3,085,022,000 shares during the period, the net assets per share attributable to shareholders of the Company was HK$2.32.

As at 30 June 2019, a cash deposit of HK$41,911,000 and bills receivable of HK$63,552,000 of the Company and its subsidiaries had been pledged to banks to obtain credit facilities, as well as Shenzhen Aerospace, in pursuant to the related loan agreement, pledged property rights in the approximate value of RMB1,900,000,000 to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) in July 2019 so as to warrant its repayment obligations.

LIABILITIES

(HK$'000)	30 June 2019	31 December 2018	Changes (%)
Non-Current Liabilities	**4,025,141**	3,890,239	3.47
Current Liabilities	**1,163,775**	1,248,674	(6.80)
Total Liabilities	**5,188,916**	5,138,913	0.97

The increase in non-current liabilities was mainly due to the increase in deferred taxes in corresponding to the increase in the fair value gain of investment properties, as well as the recognition of lease liability in non-current portion under the application of Hong Kong Financial Reporting Standards 16 "Leases" in this period, whereas the decrease in current liabilities were mainly due to the decrease in the trade payables, accrued charges, and payables of the construction costs of Shenzhen Science & Technology Plaza as compared with the end of 2018, which set off the recognition of lease liability in current portion under the application of Hong Kong Financial Reporting Standards 16 "Leases" in this period. As at 30 June 2019, the Company and its subsidiaries had other borrowings of HK$1,466,553,000.

OPERATING EXPENSES

The administrative expenses of the Company and its subsidiaries in the first half of 2019 were HK$161,157,000, representing an increase of 9.04% as compared with the same period of last year. The finance costs amounted to HK$37,829,000.

CONTINGENT LIABILITIES

As at 30 June 2019, the Company and its subsidiaries did not have any material contingent liabilities.

FINANCIAL RATIOS

	First half of 2019	First half of 2018
Gross Profit Margin	**26.69%**	25.92%
Return on Net Assets	**1.94%**	2.43%

	30 June 2019	31 December 2018
Assets-Liabilities Ratio	**35.80%**	35.89%
Current Ratio	**2.42**	2.24
Quick Ratio	**2.12**	1.95

LIQUIDITY

The source of funds of the Company and its subsidiaries mainly relies on internal resources and banking facilities. As at 30 June 2019, the free cash and bank balance amounted to HK$1,129,917,000, the majority of which were in Hong Kong Dollars and Renminbi.

CAPITAL EXPENDITURE

As at 30 June 2019, the capital commitments of the Company and its subsidiaries contracted for but not provided in the condensed consolidated financial statements was HK$42,128,000, mainly for the acquisition of fixed assets.

FINANCIAL RISKS

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

HUMAN RESOURCES AND REMUNERATION POLICIES

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

As at 30 June 2019, the Company and its subsidiaries had a total of approximately 7,280 employees based in the mainland and Hong Kong respectively.

CONTINUING CONNECTED TRANSACTION

On 10 June 2019, the Company entered into the Financial Services Agreement with Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance"), a connected person of the Company, in respect of the provision of certain financial services to the Company's subsidiaries incorporated in the People's Republic of China (the "PRC Subsidiaries"). China Aerospace Science & Technology Corporation* (中國航天科技集團有限公司), as guarantor, issued an irrevocable and unconditional guarantee to the Company and the PRC Subsidiaries, as beneficiaries, so as to secure all payment obligations of Aerospace Finance on a joint liabilities basis.

The Extraordinary General Meeting for the purpose of approving the provision of deposit services under the Financial Services Agreement was convened on 23 July 2019, the resolution was not approved by the independent shareholders, and the financial services provided by Aerospace Finance under the Financial Services Agreement will not be implemented.

Details of which please refer to the Company's announcements published on 10 June 2019, 25 June 2019, 28 June 2019 and 23 July 2019, as well as the circular dated 28 June 2019.

APPRECIATION

The Company hereby expresses its sincere gratitude to its shareholders, banks, business partners, people from various social communities, as well as all staff for their long-time support.

By order of the Board,
Li Hongjun
Executive Director & President

Hong Kong, 23 August 2019

OTHER DISCLOSURES

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the register of substantial shareholders maintained pursuant to Part XV of the Securities & Futures Ordinance recorded that the following shareholders had declared their interests as having 5% or more of the issued share capital of the Company:

Name	Capacity	Direct interest (Yes/No)	Number of shares interested (Long Position)	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interests in controlled corporation	No	1,183,598,636	38.37%
Burhill Company Limited	Beneficial owner	Yes	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 above, the Company had not been notified of any other relevant interests or short positions in the issued share capital or underlying shares of the Company as at 30 June 2019.

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

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the first half of 2019.

CORPORATE GOVERNANCE

For the six months ended 30 June 2019, the Company complied throughout the period with the provisions of the *Corporate Governance Code* and *Corporate Governance Report* as set out in Appendix 14 of the Listing Rules.

LITIGATION

As at 30 June 2019, 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 of, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Company.

DIRECTORS' AND EXECUTIVE'S INTERESTS IN SHARES

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules as the required standard for the Directors of the Company to trade the securities of the Company. Having made specific enquiry to all the Directors of the Company and in accordance with information provided, all the Directors have complied with the provisions under the Model Code in the first half of 2019.

As at 30 June 2019, save for Mr Liu Xudong, Mr Mao Yijin and Mr Xu Liangwei, the Directors of the Company, are the officers of the substantial shareholder China Aerospace Science & Technology Corporation and its subsidiaries, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests or short positions in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers*.

AUDIT COMMITTEE

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

The Audit Committee of the Company reviewed, discussed and approved the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 that had been reviewed by the auditor, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STATEMENT OF COMPLIANCE

The financial information relating to the year ended 31 December 2018 that is included in the Interim Report 2019 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 66, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	NOTES	Six months ended 30.6.2019 HK$'000 (Unaudited)	30.6.2018 HK$'000 (Unaudited)
Revenue	3	**1,648,820**	1,764,701
Cost of sales		**(1,208,788)**	(1,307,228)
Gross profit		**440,032**	457,473
Other income	4	**20,640**	15,875
Other gains and losses	4	**(26,749)**	(4,147)
Selling and distribution expenses		**(24,233)**	(26,198)
Administrative expenses		**(161,157)**	(147,800)
Research and development expenses		**(43,226)**	(41,907)
Fair value changes of investment properties		**74,215**	75,195
Impairment losses under expected credit loss model, net of reversal	12	**(3,923)**	(18,031)
Finance costs	5	**(37,829)**	(32,826)
Share of results of associates		**1,185**	7,176
Share of results of joint ventures		**(1,970)**	(3,242)
Profit before taxation	6	**236,985**	281,568
Taxation	7	**(56,073)**	(57,540)
Profit for the period		**180,912**	224,028
Profit for the period attributable to:			
Owners of the Company		**125,697**	164,229
Non-controlling interests		**55,215**	59,799
		180,912	224,028
Basic earnings per share	8	**HK4.07 cents**	HK5.32 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**180,912**	224,028
Other comprehensive expense:		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations		
— subsidiaries	**(10,396)**	(100,725)
— associates	**(235)**	(2,066)
— joint ventures	**(772)**	(8,398)
Other comprehensive expense for the period	**(11,403)**	(111,189)
Total comprehensive income for the period	**169,509**	112,839
Total comprehensive income for the period attributable to:		
Owners of the Company	**117,152**	81,728
Non-controlling interests	**52,357**	31,111
	169,509	112,839

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	30.6.2019 HK$'000 (Unaudited)	31.12.2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	1,106,422	1,132,630
Right-of-use assets	10	212,584	—
Prepaid lease payments		—	86,808
Investment properties	10	9,243,042	9,179,973
Interests in associates		193,630	192,680
Interests in joint ventures		711,881	714,623
Deposits paid for property, plant and equipment		11,910	31,929
Long-term assets	11	199,349	180,132
		11,678,818	11,518,775
Current assets			
Inventories		354,550	364,556
Trade and other receivables	11	1,280,374	1,437,610
Prepaid lease payments		—	4,138
Amount due from a related party		10	5,745
Financial assets at fair value through profit or loss		10,015	7,456
Pledged bank deposits		41,911	14,572
Short-term bank deposits	13	7,800	7,800
Bank balances and cash		1,122,117	958,628
		2,816,777	2,800,505

Condensed Consolidated Statement of Financial Position
At 30 June 2019

	NOTES	30.6.2019 HK$'000 (Unaudited)	31.12.2018 HK$'000 (Audited)
Current liabilities			
Trade and other payables	14	**953,168**	1,079,924
Lease liabilities		**27,934**	—
Contract liabilities		**133,644**	115,011
Taxation payable		**40,875**	45,576
Other loan		**8,154**	8,163
		1,163,775	1,248,674
Net current assets		**1,653,002**	1,551,831
Total assets less current liabilities		**13,331,820**	13,070,606
Non-current liabilities			
Lease liabilities		**95,558**	—
Loan from a controlling shareholder	18(a)(i)	**568,828**	569,476
Loan from a related party	18(a)(ii)	**897,725**	898,747
Deferred taxation		**2,463,030**	2,422,016
		4,025,141	3,890,239
		9,306,679	9,180,367
Capital and reserves			
Share capital	15	**1,154,511**	1,154,511
Reserves		**6,017,049**	5,929,746
Equity attributable to owners of the Company		**7,171,560**	7,084,257
Non-controlling interests		**2,135,119**	2,096,110
		9,306,679	9,180,367

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2019 (audited)	**1,154,511**	**14,044**	**57,235**	**(152,970)**	**30,523**	**43,925**	**5,936,989**	**7,084,257**	**2,096,110**	**9,180,367**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**125,697**	**125,697**	**55,215**	**180,912**
Exchange difference arising on translating foreign operations										
– subsidiaries	**–**	**–**	**–**	**(7,538)**	**–**	**–**	**–**	**(7,538)**	**(2,858)**	**(10,396)**
– associates	**–**	**–**	**–**	**(235)**	**–**	**–**	**–**	**(235)**	**–**	**(235)**
– joint ventures	**–**	**–**	**–**	**(772)**	**–**	**–**	**–**	**(772)**	**–**	**(772)**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**(8,545)**	**–**	**–**	**125,697**	**117,152**	**52,357**	**169,509**
Partial disposal of an existing subsidiary	**–**	**–**	**–**	**–**	**–**	**1,001**	**–**	**1,001**	**5,098**	**6,099**
Dividend recognised as distribution (note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**(30,850)**	**(30,850)**	**–**	**(30,850)**
Dividend paid to non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,446)**	**(18,446)**
At 30 June 2019 (unaudited)	**1,154,511**	**14,044**	**57,235**	**(161,515)**	**30,523**	**44,926**	**6,031,836**	**7,171,560**	**2,135,119**	**9,306,679**
At 1 January 2018 (audited)	1,154,511	14,044	38,794	164,962	30,523	43,925	5,643,866	7,090,625	2,115,587	9,206,212
Profit for the period	–	–	–	–	–	–	164,229	164,229	59,799	224,028
Exchange difference arising on translating foreign operations										
– subsidiaries	–	–	–	(72,037)	–	–	–	(72,037)	(28,688)	(100,725)
– associates	–	–	–	(2,066)	–	–	–	(2,066)	–	(2,066)
– joint ventures	–	–	–	(8,398)	–	–	–	(8,398)	–	(8,398)
Total comprehensive (expense) income for the period	–	–	–	(82,501)	–	–	164,229	81,728	31,111	112,839
Dividend recognised as distribution (note 9)	–	–	–	–	–	–	(92,551)	(92,551)	–	(92,551)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	(19,500)	(19,500)
At 30 June 2018 (unaudited)	1,154,511	14,044	38,794	82,461	30,523	43,925	5,715,544	7,079,802	2,127,198	9,207,000

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**394,956**	20,519
Net cash used in investing activities		
Purchase of property, plant and equipment	**(89,088)**	(100,999)
Placement of pledged bank deposits	**(33,854)**	(13,905)
Payment for development costs incurred in respect of investment properties	**(13,208)**	(135,507)
Deposits paid for acquisition of property, plant and equipment	**(143)**	(39,141)
Withdrawal of pledged bank deposits	**6,133**	20,429
Proceeds from disposal of property, plant and equipment	**37**	531
Placement of short-term bank deposits	**—**	(7,800)
Other investing cash flows	**10,822**	7,946
	(119,301)	(268,446)

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2019

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash used in financing activities		
Dividend paid	**(30,762)**	(92,375)
Dividend paid to non-controlling interests of a subsidiary	**(18,446)**	(19,500)
Repayments of lease liabilities	**(12,751)**	—
Loan from a related party	**—**	146,252
Other financing cash flows	**(52,671)**	(48,307)
	(114,630)	(13,930)
Net increase (decrease) in cash and cash equivalents	**161,025**	(261,857)
Cash and cash equivalents at 1 January	**958,628**	1,063,168
Effect of foreign exchange rate changes	**2,464**	(3,607)
Cash and cash equivalents at 30 June, represented by bank balances and cash	**1,122,117**	797,704

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

<u>Allocation of consideration to components of a contract</u>

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 *(continued)*

As a lessee (continued)

Allocation of consideration to components of a contract *(continued)*

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets *(continued)*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separable line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities *(continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities *(continued)*

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessor (continued)

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease. The application of new definition of a lease does not have material impact on condensed consolidated financial statements.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People's Republic of China other than Hong Kong (the "PRC") and properties in Hong Kong was determined on a portfolio basis.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 *(continued)*

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.68%.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 *(continued)*

As a lessee (continued)

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	175,668
Less: Practical expedient — short-term lease	(4,235)
Less: Recognition exemption — low value assets	(19)
	171,414
Lease liabilities discounted at relevant incremental borrowing rate as at 1 January 2019	135,511
Analysed as:	
Current	25,317
Non-current	110,194
	135,511

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	135,511
Reclassified from prepaid lease payments (Note a)	90,946
Adjustments on rental deposits at 1 January 2019 (Note b)	1,879
	228,336
By class:	
Leasehold lands	90,946
Leasehold land and buildings in the PRC	137,390
	228,336

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000
Non-current Assets			
Prepaid lease payments (Note a)	86,808	(86,808)	–
Right-of-use assets	–	228,336	228,336
Current Assets			
Prepaid lease payments (Note a)	4,138	(4,138)	–
Other receivables, deposits and prepayments (Note b)	420,210	(1,879)	418,331
Current Liabilities			
Lease liabilities	–	25,317	25,317
Non-current Liabilities			
Lease liabilities	–	110,194	110,194

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$4,138,000 and HK$86,808,000 respectively were reclassified to right-of-use assets.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

Notes: (continued)

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$1,879,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provision in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application.

The directors of the Company considered the application of HKFRS 16 in the current period has had no material impact on the Group's financial position and performance for the current period.

2.1.3 Critical judgement in applying accounting policies

Incremental borrowing rate

In determination on incremental borrowing rate, the Group applies judgement to determine the applicable rate of the relevant group entities to calculate the present value of lease payments, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

3. REVENUE AND SEGMENT INFORMATION

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

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(a)(i) An analysis of the Group's revenue and results by operating and reportable segments is as follows:

For the six months ended 30 June 2019

	Revenue			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	523,271	23,222	546,493	18,697
Liquid crystal display	332,764	—	332,764	28,010
Printed circuit boards	370,628	—	370,628	7,617
Intelligent chargers	185,621	838	186,459	4,989
Industrial property investment	6,862	10,633	17,495	28,943
	1,419,146	34,693	1,453,839	88,256
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	213,987	2,918	216,905	233,012
Internet of Things	2	—	2	(4,293)
Cross-border e-commerce	4,014	—	4,014	(6,053)
	218,003	2,918	220,921	222,666
Operating and reportable segment total	1,637,149	37,611	1,674,760	310,922
Elimination	—	(37,611)	(37,611)	—
Other Business	11,671	—	11,671	12,019
	1,648,820	—	1,648,820	322,941
Unallocated corporate income				13,704
Unallocated corporate expenses				(61,046)
				275,599
Share of results of associates				1,185
Share of results of joint ventures				(1,970)
Finance costs				(37,829)
Profit before taxation				236,985

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(a)(i) An analysis of the Group's revenue and results by operating and reportable segments is as follows: *(continued)*

For the six months ended 30 June 2018

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

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(a)(i) An analysis of the Group's revenue and results by operating and reportable segments is as follows: *(continued)*

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

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

(a)(ii) Disaggregation of revenue

For the six months ended 30 June 2019

	Timing of revenue recognition		
	A point in time HK$'000	Over time HK$'000	Total HK$'000
Manufacturing of goods (Note)	1,412,284	—	1,412,284
Property management fee	—	43,913	43,913
Logistic services	—	4,014	4,014
Others	10,018	—	10,018
Revenue from contracts with customers	1,422,302	47,927	1,470,229

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(a)(ii) Disaggregation of revenue *(continued)*

For the six months ended 30 June 2018

	Timing of revenue recognition		
	A point in time HK$'000	Over time HK$'000	Total HK$'000
Manufacturing of goods (Note)	1,509,117	—	1,509,117
Property management fee	—	38,552	38,552
Logistic services	—	23,967	23,967
Others	699	—	699
Revenue from contracts with customers	1,509,816	62,519	1,572,335

Note: Manufacturing of goods represents external sales of plastics products, liquid crystal display, printed circuit boards and intelligent chargers as detailed in above segment information.

	Revenue from contracts with customers by geographic locations for the six months ended	
	30.6.2019 HK$'000	30.6.2018 HK$'000
Hong Kong	**852,352**	949,388
The PRC	**617,877**	622,947
Revenue from contracts with customers	**1,470,229**	1,572,335
Rental income	**178,591**	192,366
Total revenue	**1,648,820**	1,764,701

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

	30.6.2019 HK$'000	31.12.2018 HK$'000
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	911,984	869,851
Liquid crystal display	458,629	447,618
Printed circuit boards	914,770	933,442
Intelligent chargers	214,153	249,310
Industrial property investment	347,952	321,134
	2,847,488	2,821,355
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	9,361,379	9,407,249
Internet of Things	5,628	4,082
Cross-border e-commerce	15,059	20,162
	9,382,066	9,431,493
Total assets for operating and reportable segments	12,229,554	12,252,848
Other Business	100,227	99,886
Interests in associates	193,630	192,680
Interests in joint ventures	711,881	714,623
Unallocated assets	1,260,303	1,059,243
Consolidated assets	14,495,595	14,319,280

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) The following is an analysis of the Group's assets and liabilities by operating and reportable segments: *(continued)*

	30.6.2019 HK$'000	31.12.2018 HK$'000
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	**303,756**	225,457
Liquid crystal display	**115,768**	130,452
Printed circuit boards	**238,928**	258,889
Intelligent chargers	**75,377**	92,251
Industrial property investment	**7,547**	6,439
	741,376	713,488
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	**144,865**	183,345
Internet of Things	**947**	744
Cross-border e-commerce	**15,439**	18,502
	161,251	202,591
Total liabilities for operating and reportable segments	**902,627**	916,079
Unallocated liabilities	**4,286,289**	4,222,834
Consolidated liabilities	**5,188,916**	5,138,913

3. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) The following is an analysis of the Group's assets and liabilities by operating and reportable segments: *(continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than bank balances and cash, pledged bank deposits, short-term bank deposits, amount due from a related party, financial assets at fair value through profit or loss, interests in joint ventures, interests in associates and the other unallocated assets; and

- all liabilities are allocated to operating and reportable segments other than taxation payable, deferred taxation, other loan, unsecured bank borrowings, loan from a controlling shareholder, loan from a related party and the other unallocated liabilities.

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
The Group's other income mainly comprises:		
Bank interest income	**5,355**	5,930
The Group's other gains and losses mainly comprise:		
Net gain from change in fair value of financial assets at fair value through profit or loss	**2,559**	513
Net exchange gain (loss)	**366**	(5,469)

5. FINANCE COSTS

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
Interest on:		
Bank and other borrowings	**34,775**	32,826
Lease liabilities	**3,054**	—
	37,829	32,826

6. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	**–**	1,584
Depreciation of property, plant and equipment	**84,094**	73,880
Depreciation of right-of-use assets	**16,294**	–

7. TAXATION

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
Current tax		
Hong Kong Profits Tax	**5,248**	6,710
PRC Enterprise Income Tax	**6,520**	9,121
	11,768	15,831
Deferred tax charge	**44,305**	41,709
	56,073	57,540

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

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
Earnings		
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	**125,697**	164,229

	30.6.2019	30.6.2018
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**3,085,022**	3,085,022

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

9. DIVIDEND

2018 final dividend of HK1 cent (1.1.2018 to 30.6.2018: 2017 final dividend of HK3 cents) per share amounting to HK$30,850,000 (1.1.2018 to 30.6.2018: HK$92,551,000) was declared by the Company during the period. The directors of the Company do not recommend payment of an interim dividend for the interim period.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the period, the Group spent approximately HK$58,908,000 (1.1.2018 to 30.6.2018: HK$103,976,000) on acquisition of property, plant and equipment.

The fair values of the Group's investment properties at 30 June 2019 and 31 December 2018 have been arrived on the basis of valuations carried out on that date by Jones Lang LaSalle Corporate Appraisal & Advisory Limited ("Jones Lang") for properties situated in Hong Kong and Knight Frank Petty Limited ("Knight Frank") for properties situated in the PRC. Jones Lang and Knight Frank are independent qualified professional valuers not connected with the Group and are members of the Institute of Valuers. The valuation of investment properties of HK$9,243,042,000 (31.12.2018: HK$9,179,973,000) was arrived at by reference to market evidence of transaction prices for similar properties and/or by capitalisation of income potential of similar properties. The resulting increase in fair value of investment properties of HK$74,215,000 (1.1.2018 to 30.6.2018: HK$75,195,000) has been recognised directly in the condensed consolidated statement of profit or loss.

In addition, lease liabilities of HK$123,492,000 are recognised in respect of right-of-use assets amounting to HK$120,699,000 as at 30 June 2019.

11. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS

The Group allows an average credit period of 90 days to its trade customers arising from contracts with customers.

11. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS *(continued)*

The following is the aged analysis of trade receivables arising from contracts with customers, net of allowance for doubtful debts presented based on invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30.6.2019 HK$'000	31.12.2018 HK$'000
Within 90 days	**734,136**	802,514
Between 91–180 days	**68,328**	67,284
Between 181–365 days	**1,954**	5,734
	804,418	875,532

The Group's rental income is based on effective accrued rentals after taking into account of rent free period and progressive rentals. Rental receivables are invoiced to tenants on a monthly basis after the rent free period and are due for settlement upon the issuance of invoices.

Rental receivables of the Group amounted to HK$521,146,000 (31.12.2018: HK$608,323,000) included billed rental receivables of HK$16,488,000 (31.12.2018: HK$141,868,000) and unbilled rental receivables of HK$504,658,000 (31.12.2018: HK$466,455,000). The following are the aged analysis of billed rental receivables presented based on invoice date at the end of the reporting period:

	30.6.2019 HK$'000	31.12.2018 HK$'000
Within 90 days	**12,366**	68,477
Between 91–180 days	**4,122**	67,201
Between 181–365 days	**—**	6,190
	16,488	141,868

11. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS *(continued)*

Included in the Group's rental receivables as at 30 June 2019 are accrued rental income of HK$199,349,000 (31.12.2018: HK$180,132,000) that are expected to be realised after twelve months after the reporting period and are presented as non-current assets under long term assets while the remaining balances of HK$321,797,000 (31.12.2018: HK$428,191,000) are presented as current assets under trade and other receivables.

Included in the Group's trade receivables is bills receivables of HK$82,190,000 (31.12.2018: HK$109,736,000). Included in the Group's other receivables is value-added tax recoverable of HK$30,597,000 (31.12.2018: HK$51,516,000).

12. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

For the trade receivables' impairment allowance of HK$3,923,000 (six months ended 30 June 2018: HK$18,031,000), net of reversal, are made on credit-impaired debtors during the six months ended 30 June 2019.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

13. SHORT-TERM BANK DEPOSITS

At 30 June 2019, short-term bank deposits with original maturity more than three months carry a fixed interest of 2.60% per annum (31.12.2018: 2.50%).

14. TRADE AND OTHER PAYABLES

	30.6.2019 HK$'000	31.12.2018 HK$'000
Trade payables	412,261	430,461
Accrued charges	136,314	169,875
Security deposits from tenants	45,065	30,325
Other payables	359,528	449,263
	953,168	1,079,924

Other payables included an amount of HK$54,000,000 (31.12.2018: HK$54,000,000) received from a third party on behalf of China Aerospace Science & Technology Corporation ("CASC"), a controlling shareholder of the Company and payables with respect to development costs for investment properties of HK$79,013,000 (31.12.2018: HK$92,152,000).

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

	30.6.2019 HK$'000	31.12.2018 HK$'000
Within 90 days	386,152	389,714
Between 91–180 days	5,298	940
Between 181–365 days	13,161	30,964
Over 1 year	7,650	8,843
	412,261	430,461

15. SHARE CAPITAL

	30.6.2019 & 31.12.2018 HK$'000
Issued and fully paid: — 3,085,022,000 ordinary shares with no par value	1,154,511

16. COMMITMENTS

	30.6.2019 HK$'000	31.12.2018 HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of: — acquisition of property, plant and equipment	42,128	46,943

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The fair value of the financial assets with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices.

At 30 June 2019, the Group's financial assets at fair value through profit or loss which are stated at fair value represent equity securities listed on The Stock Exchange of Hong Kong Limited amounting to HK$10,015,000 (31.12.2018: HK$7,456,000).

The classification of the Group's financial assets (i.e. financial assets at fair value through profit or loss) at 30 June 2019 using the fair value hierarchy is Level 1. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

18. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in note 14 and in the condensed consolidated statement of financial position, the Group entered into the following significant related party transactions:

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significantly influenced by the PRC government (hereinafter collectively referred to as "government-related entities"). The Company's substantial shareholder with significant influence over the Group, CASC, is a state-owned enterprise under the direct supervision of the State Council of the PRC. During the period, except as disclosed below, the Group did not have any individually significant transactions with government-related entities in its ordinary and usual course of business.

(a) Transactions with the CASC and its subsidiaries

(i) During the year ended 31 December 2013, the Group entered into a long-term loan agreement with CASC for an amount of RMB500,000,000 for a period of five years from the first drawdown date. The loan has been renewed during the period ended 30 June 2018 and is unsecured, bears a fixed interest at 5% per annum and is repayable in March 2023. As at 30 June 2019, the Group has drawn down RMB500,000,000 (equivalent to approximately HK$568,828,000) (31.12.2018: RMB500,000,000 (equivalent to approximately HK$569,476,000)). The interest incurred to CASC during the period ended 30 June 2019 amounted to RMB12,569,000 (equivalent to approximately HK$14,490,000) (1.1.2018 to 30.6.2018: RMB12,569,000 (equivalent to approximately HK$15,319,000)).

18. RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with the CASC and its subsidiaries *(continued)*

(ii) During the year ended 31 December 2016, the Group entered into a facility ("Facility") with Aerospace Finance, for advances up to RMB1,300,000,000 for a period of 12 years from the first drawdown date. The property ownership certificates of a portion of Shenzhen Aerospace Science & Technology Plaza with a valuation amount of approximately RMB1,900,000,000 are subsequently mortgaged in favour of Aerospace Finance after Shenzhen Aerospace Technology Investment Company Limited has obtained the relevant certificates in July 2019. As at 30 June 2019, the Group has drawn down RMB789,100,000 (equivalent to approximately HK$897,725,000) (31.12.2018: RMB789,100,000 (equivalent to approximately HK$898,747,000)). The interest paid to loans drawn from the Facility in the current period amounted to RMB17,496,000 (equivalent to approximately HK$20,171,000) (1.1.2018 to 30.6.2018: RMB13,933,000 (equivalent to approximately HK$16,982,000)).

(b) Transactions/balances with other government-related entities in the PRC

Apart from the transactions with CASC Group which have been disclosed above, the Group also conducts business with other government-related entities.

The Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are government-related entities in its ordinary course of business. Other than the substantial amount of bank balances, unsecured bank borrowings and certain sales transactions, remaining transactions with other government-related entities are individually insignificant.

(c) During the period, the emoluments of key management personnel were HK$1,479,000 (1.1.2018 to 30.6.2018: HK$1,479,000).

19. PLEDGE OF ASSETS

At 30 June 2019, bank deposits of HK$41,911,000 (31.12.2018: HK$14,572,000) and bills receivables of HK$63,552,000 (31.12.2018: HK$80,008,000) were pledged to banks to secure general banking facilities granted to the Group.