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CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

ANNOUNCEMENT OF INTERIM RESULTS 2019

The Board of Directors (the “Board”) of China Aerospace International Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019 together with the comparative figures of the same period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended	
		30.6.2019	30.6.2018
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
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		(3,923)	(18,031)
Finance costs		(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	5	236,985	281,568
Taxation	6	(56,073)	(57,540)
Profit for the period		180,912	224,028

		Six months ended	
		30.6.2019	30.6.2018
		(Unaudited)	(Unaudited)
<i>NOTE</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
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	7	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
		(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period			
		180,912	224,028
Other comprehensive expense:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
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

		30.6.2019 (Unaudited) HK\$'000	31.12.2018 (Audited) HK\$'000
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment		1,106,422	1,132,630
Right-of-use assets		212,584	—
Prepaid lease payments		—	86,808
Investment properties		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	9	199,349	180,132
		11,678,818	11,518,775
Current assets			
Inventories		354,550	364,556
Trade and other receivables	9	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		7,800	7,800
Bank balances and cash		1,122,117	958,628
		2,816,777	2,800,505
Current liabilities			
Trade and other payables	10	953,168	1,079,924
Leases 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

	30.6.2019 (Unaudited) <i>HK\$'000</i>	31.12.2018 (Audited) <i>HK\$'000</i>
Non-current liabilities		
Lease liabilities	95,558	—
Loan from a controlling shareholder	568,828	569,476
Loan from a related party	897,725	898,747
Deferred taxation	<u>2,463,030</u>	<u>2,422,016</u>
	<u>4,025,141</u>	<u>3,890,239</u>
	<u><u>9,306,679</u></u>	<u><u>9,180,367</u></u>
Capital and reserves		
Share capital	1,154,511	1,154,511
Reserves	<u>6,017,049</u>	<u>5,929,746</u>
Equity attributable to owners of the Company	<u>7,171,560</u>	7,084,257
Non-controlling interests	<u>2,135,119</u>	<u>2,096,110</u>
	<u><u>9,306,679</u></u>	<u><u>9,180,367</u></u>

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.

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

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

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” and the related interpretations.

As a lessee

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.

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

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.

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.

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			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total 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
	<u>1,419,146</u>	<u>34,693</u>	<u>1,453,839</u>	<u>88,256</u>
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)
	<u>218,003</u>	<u>2,918</u>	<u>220,921</u>	<u>222,666</u>
Operating and reportable segment total	<u>1,637,149</u>	<u>37,611</u>	<u>1,674,760</u>	<u>310,922</u>
Elimination	—	(37,611)	(37,611)	—
Other Business	11,671	—	11,671	12,019
	<u>1,648,820</u>	<u>—</u>	<u>1,648,820</u>	<u>322,941</u>
Unallocated corporate income				13,704
Unallocated corporate expenses				(61,046)
				<u>275,599</u>
Share of results of associates				1,185
Share of results of joint ventures				(1,970)
Finance costs				(37,829)
Profit before taxation				<u>236,985</u>

For the six months ended 30 June 2018

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

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

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2019 HK\$'000	30.6.2018 HK\$'000
The Group's other income mainly comprises:		
Bank interest income	<u>5,355</u>	<u>5,930</u>
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	<u>2,559</u>	513
Net exchange gain (loss)	<u>366</u>	<u>(5,469)</u>

5. 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	—
	<u>16,294</u>	<u>—</u>

6. 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
	<u>11,768</u>	<u>15,831</u>
Deferred tax charge	44,305	41,709
	<u>56,073</u>	<u>57,540</u>

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%.

7. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2019	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	<u>125,697</u>	<u>164,229</u>
	30.6.2019	30.6.2018
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	<u>3,085,022</u>	<u>3,085,022</u>

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

8. DIVIDEND

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.

9. 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.

The following are 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 <i>HK\$'000</i>	31.12.2018 <i>HK\$'000</i>
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 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 <i>HK\$'000</i>	31.12.2018 <i>HK\$'000</i>
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

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.

10. TRADE AND OTHER PAYABLES

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

	30.6.2019 <i>HK\$'000</i>	31.12.2018 <i>HK\$'000</i>
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

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 continuous 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 are needed 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.

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 continues 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) in the first half of 2019.

As at 30 June 2019, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,734,000,000 (30 June 2018: RMB 7,691,000,000).

In 2019, Shenzhen Property Management will continue to do better in property management, paying special attention to safety management and take effective measures 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 increase. 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 approximately value of RMB1,900,000,000 to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限公司) 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 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, 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.

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.

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 Hong Kong 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 Hong Kong Companies Ordinance.

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

APPRECIATION

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

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

Hong Kong, 23 August 2019

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

<i>Executive Directors</i>	<i>Non-Executive Directors</i>	<i>Independent Non-Executive Directors</i>
Mr Liu Meixuan (<i>Chairman</i>)	Mr Liu Xudong	Mr Luo Zhenbang
Mr Li Hongjun (<i>President</i>)	Mr Mao Yijin	Ms Leung Sau Fan, Sylvia
	Mr Xu Liangwei	Mr Wang Xiaojun

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