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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 2021

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 2021 together with the comparative figures of the same period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended	
		30.6.2021	30.6.2020
		(Unaudited)	(Unaudited)
	NOTES	HK\$'000	HK\$'000
Continuing operations			
Revenue	3	2,157,342	1,506,568
Cost of sales		(1,621,842)	(1,065,748)
Gross profit		535,500	440,820
Other income	4	32,469	24,796
Other gains and losses	4	197,699	(4,995)
Gain on deemed partial disposal of an associate		5,289	-
Selling and distribution expenses		(28,543)	(20,422)
Administrative expenses		(217,935)	(160,981)
Research and development expenses		(70,062)	(48,509)
Fair value changes of investment properties		(8,439)	(68,417)
Impairment losses under expected credit loss model, net of reversal		(9,739)	(30,756)
Finance costs		(37,755)	(35,733)
Share of results of associates		10,914	6,081
Share of results of joint ventures		(895)	6,519
Profit before taxation	5	408,503	108,403

		Six months ended	
		30.6.2021	30.6.2020
		(Unaudited)	(Unaudited)
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Taxation	6	<u>(93,475)</u>	<u>(14,668)</u>
Profit for the period from continuing operations		<u>315,028</u>	<u>93,735</u>
Discontinued operations			
Profit from discontinued operations		<u>-</u>	<u>53,459</u>
Profit for the period		<u>315,028</u>	<u>147,194</u>
Profit attributable to owners of the Company			
- from continuing operations		<u>258,768</u>	<u>62,807</u>
- from discontinued operations		<u>-</u>	<u>53,665</u>
Profit for the period attributable to owners of the Company		<u>258,768</u>	<u>116,472</u>
Profit (loss) attributable to non-controlling interests			
- from continuing operations		<u>56,260</u>	<u>30,928</u>
- from discontinued operations		<u>-</u>	<u>(206)</u>
Profit for the period attributable to non-controlling interests		<u>56,260</u>	<u>30,722</u>
		<u>315,028</u>	<u>147,194</u>
Earnings per share			
From continuing and discontinued operations			
Basic	7	<u>HK8.39 cents</u>	<u>HK3.78 cents</u>
From continuing operations			
Basic	7	<u>HK8.39 cents</u>	<u>HK2.04 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended	
	30.6.2021	30.6.2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	<u>315,028</u>	<u>147,194</u>
Other comprehensive income (expense):		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translating foreign operations		
- subsidiaries	62,825	(131,506)
- associates	1,983	(3,537)
- joint ventures	802	(11,187)
Reclassification adjustments for the cumulative exchange differences upon deemed disposal of subsidiaries	<u>-</u>	<u>(6,060)</u>
Other comprehensive income (expense) for the period	<u>65,610</u>	<u>(152,290)</u>
Total comprehensive income (expense) for the period	<u>380,638</u>	<u>(5,096)</u>
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	307,039	1,721
Non-controlling interests	73,599	(6,817)
	<u>380,638</u>	<u>(5,096)</u>
Total comprehensive income (expense) attributable to owner of the Company :		
- from continuing operations	307,039	(53,069)
- from discontinued operations	<u>-</u>	<u>54,790</u>
	<u>307,039</u>	<u>1,721</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

		30.6.2021	31.12.2020
		(Unaudited)	(Audited)
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		1,366,381	1,372,365
Right-of-use assets		209,989	252,649
Investment properties		9,654,127	9,594,734
Interests in associates		271,715	253,529
Interests in joint ventures		163,830	163,923
Deposits paid for property, plant and equipment		69,246	60,081
Long-term bank deposits		336,134	119,190
Pledged bank deposits		7,923	7,867
Long-term assets	9	571,459	556,033
		12,650,804	12,380,371
Current assets			
Inventories		700,010	462,124
Trade and other receivables	9	1,337,687	1,239,422
Amount due from a related party		195	-
Financial assets at fair value through profit or loss		8,012	3,895
Pledged bank deposits		41,275	45,090
Short-term bank deposits		241,722	122,721
Bank balances and cash		1,650,749	1,863,141
		3,979,650	3,736,393
Current liabilities			
Trade and other payables	10	1,600,031	1,488,229
Contract liabilities		62,078	40,968
Lease liabilities		25,645	31,131
Taxation payable		138,885	62,028
		1,826,639	1,622,356
Net current assets		2,153,011	2,114,037
Total assets less current liabilities		14,803,815	14,494,408

	30.6.2021 (Unaudited) <i>HK\$'000</i>	31.12.2020 (Audited) <i>HK\$'000</i>
Non-current liabilities		
Lease liabilities	54,873	63,749
Loan from a controlling shareholder	600,240	595,948
Loan from a related party	947,299	940,524
Deferred taxation	2,620,480	2,608,449
	<u>4,222,892</u>	<u>4,208,670</u>
	<u>10,580,923</u>	<u>10,285,738</u>
Capital and reserves		
Share capital	1,154,511	1,154,511
Reserves	7,016,803	6,771,464
	<u>8,171,314</u>	<u>7,925,975</u>
Equity attributable to owners of the Company	2,409,609	2,359,763
Non-controlling interests	<u>10,580,923</u>	<u>10,285,738</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2020 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 2020 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, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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. The operating segments regarding the Internet of Things and Cross-border e-commerce were discontinued in the prior period upon the deemed disposal of Aerospace Digitnexus Information Technology (Shenzhen) Limited ("Aerospace Digitnexus"). The segment information reported below does not include any amounts for these discontinued operations. There are 6 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) which represent the major industries in which the Group is engaged.

In addition to the above reportable segments, other operating segments include property investments and management in properties other than those included in the above reportable segments and provision for other services. None of these segments met the quantitative thresholds for the reportable segments in both current and prior period. Accordingly, these were grouped in "Other Business".

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

For the six months ended 30 June 2021

Continuing operations

	Revenue			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	671,848	29,751	701,599	19,781
Liquid crystal display	474,988	-	474,988	24,918
Printed circuit boards	594,098	-	594,098	32,957
Intelligent chargers	185,049	1,162	186,211	271
Industrial property investment	5,871	12,495	18,366	(7,143)
	<u>1,931,854</u>	<u>43,408</u>	<u>1,975,262</u>	<u>70,784</u>
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	218,988	432	219,420	164,796
Reportable segment total	<u>2,150,842</u>	<u>43,840</u>	<u>2,194,682</u>	<u>235,580</u>
Elimination	-	(43,840)	(43,840)	-
Other Business	6,500	-	6,500	3,962
	<u>2,157,342</u>	<u>-</u>	<u>2,157,342</u>	<u>239,542</u>
Unallocated corporate income				27,805
Unallocated corporate expenses				(37,258)
				<u>230,089</u>
Share of results of associates				10,914
Share of results of joint ventures				(895)
Finance costs				(37,755)
Gain on disposal of property, plant and equipment				200,861
Gain on deemed partial disposal of an associate				5,289
Profit before taxation from continuing operations				<u>408,503</u>

For the six months ended 30 June 2020

Continuing operations

	Revenue			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	420,358	18,168	438,526	8,283
Liquid crystal display	302,949	803	303,752	22,317
Printed circuit boards	435,830	—	435,830	34,371
Intelligent chargers	131,847	977	132,824	3,128
Industrial property investment	6,523	11,095	17,618	(4,284)
	<u>1,297,507</u>	<u>31,043</u>	<u>1,328,550</u>	<u>63,815</u>
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	204,443	2,318	206,761	117,289
Reportable segment total	1,501,950	33,361	1,535,311	181,104
Elimination	—	(33,361)	(33,361)	—
Other Business	4,618	—	4,618	1,887
	<u>1,506,568</u>	<u>—</u>	<u>1,506,568</u>	<u>182,991</u>
Unallocated corporate income				11,339
Unallocated corporate expenses				<u>(62,794)</u>
				131,536
Share of results of associates				6,081
Share of results of joint ventures				6,519
Finance costs				<u>(35,733)</u>
Profit before taxation from continuing operations				<u>108,403</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, gain on disposal of certain property, plant and equipment, gain on deemed partial disposal of an associate, interest expenses, and other corporate income and corporate expenses. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
The Group's other income comprises:		
Bank interest income	15,899	9,721
Sales of scrap materials	<u>11,817</u>	<u>8,631</u>

The Group's other gains and losses comprise:

Net gain on disposal of property, plant and equipment	200,579	-
Net gain from change in fair value of financial assets at fair value through profit or loss	4,117	1,112
Net exchange loss	<u>(6,997)</u>	<u>(6,284)</u>

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	94,263	82,962
Depreciation of right-of-use assets	<u>24,507</u>	<u>16,123</u>

6. TAXATION

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	5,470	3,941
People's Republic of China ("PRC") Enterprise Income Tax	<u>94,514</u>	<u>27,642</u>
	99,984	31,583
Deferred tax credit	<u>(6,509)</u>	<u>(16,915)</u>
	<u>93,475</u>	<u>14,668</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	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
From continuing operations		
Profit for the period attributable to the owners of the Company	258,768	116,472
Less: profit from discontinued operation	<u>-</u>	<u>(53,665)</u>
Earnings for the purpose of earnings per share from continuing operations	<u>258,768</u>	<u>62,807</u>
	30.6.2021	30.6.2020
	'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>

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
From continuing and discontinued operations		
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	<u>258,768</u>	<u>116,472</u>

The denominators used are the same as those detailed above for basic earnings per share from continuing operations.

From discontinued operations

Basic earnings per share for the discontinued operations is nil (1.1.2020 to 30.6.2020: Basic earnings of HK\$1.74 cents per share), based on the profit for the period from the discontinued operations of nil (1.1.2020 to 30.6.2020: Profit of HK\$53,665,000) and the denominators detailed above for basic earnings per share from continuing operations.

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

8. DIVIDEND

2020 final dividend of HK2 cents (1.1.2020 to 30.6.2020: 2019 final dividend of HK2 cents) per share amounting to HK\$61,700,000 (1.1.2020 to 30.6.2020: HK\$61,700,000) was declared by the Company during the period. The directors of the Company do not recommend payment of an interim dividend for both interim periods.

9. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS

The Group allows an average credit period of 30 to 120 days to its trade receivables arising from contracts with customers. No credit period was granted to tenants of rental of premises. Receivables are unsecured and interest-free.

The following is an aged analysis of trade receivables arising from contracts with customers, net of allowance for credit losses, presented based on invoice date at the end of the reporting period:

	30.6.2021 <i>(Unaudited)</i> <i>HK\$'000</i>	31.12.2020 <i>(Audited)</i> <i>HK\$'000</i>
Within 90 days	1,049,191	966,468
Between 91 - 180 days	29,254	85,459
Between 181 - 365 days	5,049	3,088
	<u>1,083,494</u>	<u>1,055,015</u>

Included in the Group's trade receivables arising from contracts with customers is bills received amounting to HK\$169,049,000 (31.12.2020: HK\$163,326,000) which are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

The Group's rental income is based on effective accrued rentals after taking into account of rent free period and progressive rentals which are recorded as unbilled rental receivables. 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.

The Group's rental receivables of HK\$684,577,000, net of allowance for credit losses of HK\$6,450,000 (31.12.2020: HK\$638,244,000, net of allowance for credit losses of HK\$6,450,000) included billed rental receivables of HK\$89,029,000 (31.12.2020: HK\$53,994,000) and unbilled rental receivables of HK\$595,548,000, net of allowance for credit losses of HK\$6,450,000 (31.12.2020: HK\$584,250,000, net of allowance for credit losses of HK\$6,450,000). The following is an aged analysis of billed rental receivables presented based on invoice date at the end of the reporting period:

	30.6.2021 <i>(Unaudited)</i> <i>HK\$'000</i>	31.12.2020 <i>(Audited)</i> <i>HK\$'000</i>
Within 90 days	89,029	53,994

Included in the Group's rental receivables as at 30 June 2021 are accrued rental income of HK\$571,459,000 (31.12.2020: HK\$556,033,000) that are expected to be realised after twelve months after the reporting period and are presented as non-current assets under long term assets.

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:

	30.6.2021 <i>(Unaudited)</i> <i>HK\$'000</i>	31.12.2020 <i>(Audited)</i> <i>HK\$'000</i>
Within 90 days	748,461	507,652
Between 91 - 180 days	51,488	43,574
Between 181 - 365 days	8,787	44,070
Over 1 year	13,393	5,677
	<u>822,129</u>	<u>600,973</u>

BUSINESS REVIEW

OVERVIEW

For the six months ended 30 June 2021, the operating revenue of the Company and its subsidiaries from continuing and discontinued operations was HK\$2,157,342,000, representing an increase of 43.18% as compared with that of HK\$1,506,717,000 for the same period of 2020. Profit for the period was HK\$315,028,000, representing a substantial increase of 114.02% as compared with that of HK\$147,194,000 for the same period of 2020. Profit attributable to the shareholders was HK\$258,768,000, representing a substantial increase of 122.17% as compared with that of HK\$116,472,000 for the same period of 2020. Basic earnings per share attributable to shareholders was HK\$8.39 cents (first half of 2020: HK\$3.78 cents).

In the first half of 2021, the pandemic still spread around the world, and thus global economy still continued to face downturn risk under such influence. In response to the pandemic, various countries adopted scalable quantitative easing policies, which kept interest rate at low level in a long run. Such increased the risk of asset price bubble, and resulted in a relatively fragile global financial market which is severely disconnected with real economy, thereby imposing hazards on stable financial development and financial stability. By organizing and implementing pandemic control and economic and social development, China's macro-economy maintained its stable and upward trend. For the production side, the production had gradually resumed to pre-pandemic level, yet the growth rate was decelerating. On the other hand, the increasingly intense Sino-U.S. trade friction brought considerable uncertainties to the economic prospects of Mainland China and Hong Kong. In the first half of 2021, the Company's revenue recorded a stable growth, but factors such as shortage of components supply and raw material price surge had eroded the profitability of the hi-tech manufacturing business. The operation of Shenzhen Aerospace Science & Technology Plaza brought a stable income and profit contributions to the Company.

The Board of Directors decided not to distribute any interim dividend after taking into account the Company's development needs and capital position.

The Company has timely adopted various anti-epidemic measures in combat of the novel coronavirus pandemic, placing full efforts on protecting its employees from infection in the course of their work. For the hi-tech manufacturing business, through continuous optimization of product structure, enhanced market expansion efforts, gradual expansion of production capacity and increased automation level, the impacts on continuous raw material price surge and component supply shortage were alleviated, thereby resulting in the stable growth of sales revenue and total profit as compared with the same period last year. For the six months ended 30 June 2021, the revenue of the hi-tech manufacturing business amounted to HK\$1,931,854,000, representing an increase of 48.89% as compared with that of HK\$1,297,507,000 for the same period of 2020. Operating profit amounted to HK\$70,784,000, representing an increase of 10.92% as compared with that of HK\$63,815,000 for the same period of 2020.

The plastic injection molding business has seen initial success in exploring major domestic customers. As such, its results and performance were outstanding, with significant surge in revenue as compared with the same period last year. The production base invested and constructed in Vietnam had commenced production in the first half of the year and delivered products to customers. For the liquid crystal display ("LCD") business, the exploration into Japan market has gradually witnessed initial success, and with the commencement of service of the newly built production line, its results and performance were sound. The overall performance of the print circuit board ("PCB") business was similar to that of the same period last year. The highly precise PCB project invested and constructed by the PCB business specializes in the manufacturing of carrier board products, and will become a new growth point of PCB business with significant increase in gross profit margin. Under the influence of, among other factors, the novel coronavirus pandemic, Sino-U.S. trade friction and global economic slowdown, the smart charger business recorded a decline in operating profit. Apart from increasing its investment in technology modification, the

industrial enterprise also raised its investment in research and development of hi-tech products. Research and development of the intelligent power module packaging process was proceeded as planned, and currently, samples have already been provided to customers for testing.

In cooperation with the urban renewal work of the local government, the Company and China Aerospace (Huizhou) Industrial Garden Limited* (航天科技(惠州)工業園發展有限公司), a subsidiary of the Company, entered into various land surrender and compensation agreements with relevant government authorities on 14 December 2020 and 29 June 2021, respectively. Pursuant to those land surrender and compensation agreements dated 29 June 2021, the Company and China Aerospace (Huizhou) Industrial Garden Limited shall receive a compensation of RMB276,358,546.93 (equivalent to approximately HK\$328,217,000), which contributed a net profit before tax of approximately HK\$200,861,000, subject to audit. For details, please refer to the announcement made by the Company on 29 June 2021.

Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科技投資管理有限公司) (“Shenzhen Aerospace”) and its wholly-owned subsidiary responsible for property management brought a consistent revenue and profit to the Company. In the first half of 2021, Shenzhen Aerospace recorded a total revenue of HK\$218,988,000 (first half of 2020: HK\$204,443,000) and segment profit of HK\$164,796,000 (first half of 2020: HK\$117,289,000) from the leasing of Shenzhen Aerospace Science & Technology Plaza and related businesses. Affected by the pandemic, the rent and price of properties in Nanshan District had generally experienced downward adjustment, which affected the fair value of Shenzhen Aerospace Science & Technology Plaza as an investment property. Excluding the effect of fair value of the investment property, the operating profit of Shenzhen Aerospace would be HK\$171,803,000 (first half of 2020: HK\$ 176,005,000).

As at 30 June 2021, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,764,900,000 (31 December 2020: RMB7,770,800,000).

Shenzhen Rayitek Hi-Tech Film Company Limited* (深圳瑞華泰薄膜科技股份有限公司) (“Shenzhen Rayitek”), an associate of the Company engaging in the research and development, manufacturing and sales of polyimide films, was listed on Sci-Tech Innovation Board of Shanghai Stock Exchange on 28 April 2021. Upon the listing of Shenzhen Rayitek, the shareholding of the Company was diluted from 31.17% to 23.38%. Proceeds from the listing are to be invested in a 1,600 tonnes high-performance polyimide film plant in Jiaxing, Shanghai. Currently, the construction of plant and ancillary facilities is commenced in an orderly manner, and trial production is expected to commence in the second half of 2022.

PROSPECTS

Looking forward to the second half of the year, global economic growth is set to accelerate, but virus variant would increase the uncertainty on global pandemic control. Each industrial enterprise will enhance its marketing efforts, consolidate its existing premium customer base, increase investment in automation transformation as well as research and development, strengthen research and development effort to speed up business structure adjustment to enhance competitiveness comprehensively. On the other hand, Shenzhen Aerospace will actively improve the quality of property management for Shenzhen Aerospace Science & Technology Plaza so as to ensure that the occupancy rate of the office building and shopping mall maintaining at a high level.

2021 is the first year of the implementation of the “14th Five-Year Plan”. The Company will adhere to quality development, maintain stable operations and consolidate various works in full implementation of the “14th Five-Year Plan”. Facing various challenges with strong confidence, the Company strives to advance to a new level in terms of research and development as well as production capacity, while making breakthroughs in high-tech manufacturing business to lay a foundation for its development in a longer term.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The unaudited revenue of the Company and its subsidiaries for the six months ended 30 June 2021 was HK\$2,157,342,000, representing an increase of 43.18% as compared with that of HK\$1,506,717,000 for the same period of 2020. Profit for the period was HK\$315,028,000, representing a substantial increase of 114.02% as compared with that of HK\$147,194,000 for the same period of 2020.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to shareholders of the Company for the current period was HK\$258,768,000, representing a substantial increase of 122.17% as compared with that of HK\$116,472,000 for the same period of 2020.

The increase in revenue was mainly due to the increase in sales orders from the industrial enterprises, whereas the increase in profits attributable to shareholders was mainly due to the profits arising from the compensation of land surrender of Huizhou Industrial Garden.

Based on the issued share capital of 3,085,022,000 shares during the period, the basic earnings per share was HK8.39 cents, representing an increase of 121.96% as compared with that of HK3.78 cents for the same period of 2020.

DIVIDENDS

The Board decided not to distribute an interim dividend for 2021.

The distribution of 2020 final dividend of HK2 cents per share was approved by shareholders at the Annual General Meeting in June 2021 and warrants of which were dispatched to all shareholders on 20 July 2021.

RESULTS OF CORE BUSINESSES

The core businesses of the Company and its subsidiaries are the research and development, design, professional production, sales and services of plastic products, electronic products, power products and semiconductor products, as well as 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 whereas Shenzhen Aerospace Science & Technology Plaza brings in constant rental revenue to the Company and relatively minimizes the Company's individual business risk. The Company will continue to identify and develop new business opportunities, thereby create values to shareholders.

Hi-tech manufacturing

The revenue of the hi-tech manufacturing business for the six months ended 30 June 2021 was HK\$1,931,854,000, representing an increase of 48.89% as compared with the same period of last year and operating profit was HK\$70,784,000, representing an increase of 10.92% as compared with the same period of last year. The results of the hi-tech manufacturing business are shown below:

	Turnover (HK\$'000)			Operating Profit (HK\$'000)		
	First half of 2021	First half of 2020	Changes (%)	First half of 2021	First half of 2020	Changes (%)
Plastic Products	671,848	420,358	59.83	19,781	8,283	138.81
Printed Circuit Boards	594,098	435,830	36.31	32,957	34,371	(4.11)
Intelligent Chargers	185,049	131,847	40.35	271	3,128	(91.34)
Liquid Crystal Display	474,988	302,949	56.79	24,918	22,317	11.65
Industrial Property Investment	5,871	6,523	(10.00)	(7,143)	(4,284)	(66.74)
Total	1,931,854	1,297,507	48.89	70,784	63,815	10.92

Hi-tech manufacturing business had overcome various challenges in the first half of 2021. Albeit the continuous outbreak of pandemic, appreciation of Renminbi and surge in raw material prices, especially global chips and screens shortage, hi-tech manufacturing business managed to maintain its production capacity and products delivery via continuous improvement in technological modification, quality control and market exploration. Hence, the business development remained stable, both revenue and operating profit of various segments maintained a double digit growth rate. In particular, business exploration of plastic products was promising, while the operating results of highly precise molds accounted for an increase in results contribution. With the completion of phase I of Vietnam plant and the commencement of production, it has gradually absorbed existing domestic customers who have moved to Vietnam, but local outbreak of the pandemic delayed the progress of production. Through improving automation equipment and effective resources deployment, the liquid crystal display (“LCD”) business has successfully tapped into the Japan market and managed to tide over challenges even under the pressure of chips and screens shortage as well as raw material price surge. Both of its revenue and operating profit have increased significantly as compared with the same period last year.

In order to meet the road construction and urban renewal needs of Zhongkai Road in Huizhou, the Company and China Aerospace (Huizhou) Industrial Garden Limited* (航天科技(惠州)工業園發展有限公司), a 90%-owned subsidiary of the Company, entered into several land surrender and compensation agreements with Huizhou Zhongkai Land Resumption and Reserve Centre and Huihuan Residential District Office on 14 December 2020 and 29 June 2021, respectively to surrender plots of land with a total area of 128,337.81 square metres. Pursuant to those land surrender and compensation agreements dated 29 June 2021, the Company and its subsidiaries hence received a cash compensation of RMB276,358,546.93 (equivalent to approximately HK\$328,217,000) and recorded a net profit before tax of approximately HK\$200,861,000, subject to audit. The net proceeds will be mainly used as general working capital of the Company and its subsidiaries. For details, please refer to the announcement made by the Company on 29 June 2021.

In addition, since its establishment in 2020, the Company’s research and development academy has commenced several hi-tech research and development projects, while provides technical support solutions to various industrial enterprises.

Looking forward to the second half of 2021, it is expected that the novel coronavirus pandemic will remain volatile. With continuous global vaccination and gradual lifting of lockdown measures, economy is set to resume to a positive track. Nonetheless, the changes in political and economic situations would impose uncertainties on the business environment. This coupled with unstable supply chain and expectation on inflation and upward adjustment of interest rates, profitability would be heavily pressurized, and uncertainties exist in tandem with economic recovery. Under such an era with risks and opportunities, the hi-tech manufacturing business will capture opportunities, proactively explore the markets and optimize risk management, while at the same time, enhance production automation, maintain production scale and capacity, and recruit professionals, besides continuously exploring high-end products and conducting research and development on new technologies in order to adapt to the ever-changing market environment.

Shenzhen Aerospace Science & Technology Plaza

In the first half of 2021, 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\$218,988,000 (first half of 2020: HK\$204,443,000) and a segment profit of HK\$164,796,000 (first half of 2020: HK\$117,289,000), the reason of the increase of segment profit was due to the substantial decrease in the reduction in fair value as compared to the same period of last year.

As at 30 June 2021, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,764,900,000 (31 December 2020: RMB7,770,800,000).

In the second half of 2021, Shenzhen Property Management will continue to do better in property management, paying special attention to the continued anti-epidemic measures and safety management and take effective measures to improve the quality of property services and thereby raise the overall value of the property.

Other Business

On 28 April 2021, Shenzhen Rayitek Hi-Tech Film Company Limited*(深圳瑞華泰薄膜科技股份有限公司) (“Shenzhen Rayitek”), an associate in which the Company indirectly held 31.17% interests, was officially listed on the Sci-Tech Innovation Board of Shanghai Stock Exchange (stock code: 688323). The issue price per share was RMB5.97, and a total of 45,000,000 new shares were issued, which was equivalent to approximately 25% of the enlarged issued share capital. As such, the Company's indirect interest in Shenzhen Rayitek was diluted from 31.17% to approximately 23.38%, a gain on deemed partial disposal of an associate of HK\$5,289,000 was recorded. The stock's closing price on the first day of listing was RMB27.12, which is 354.27% higher than the offer price.

ASSETS

(HK\$'000)	30 June 2021	31 December 2020	Changes (%)
Non-Current Assets	12,650,804	12,380,371	2.18
Current Assets	3,979,650	3,736,393	6.51
Total Assets	16,630,454	16,116,764	3.19

The increase in non-current assets was due to the reclassification of long-term bank deposit, which set off the surrender of lands and the decrease in the valuation of the investment properties, while the increase in current assets was due to an increase in revenue that leads to an increase in trade and other receivables and inventories correspondingly.

The equity attributable to shareholders of the Company was HK\$8,171,314,000, representing an increase of 3.10% as compared with that of HK\$7,925,975,000 as at 31 December 2020.

The equity attributable to shareholders increased at the end of the current period as compared with the end of last year, which was mainly due to the net profit from the current period and the increase in exchange differences arising from the conversion of assets and liabilities denominated in RMB during the period, and hence increased the translation reserve and thereby increased the equity attributable to shareholders. 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\$2.65.

As at 30 June 2021, a cash deposit of HK\$49,198,000 and bills receivable of HK\$158,051,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. Property right certificates at an approximate value of RMB1,900,000,000 of Shenzhen Aerospace Science & Technology Plaza were mortgaged by Shenzhen Aerospace to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) so as to obtain a 12-year term loan in the amount of RMB1,300,000,000. Details of which please refer to the Company's announcement published on 30 August 2016.

LIABILITIES

(HK\$'000)	30 June 2021	31 December 2020	Changes (%)
Non-Current Liabilities	4,222,892	4,208,670	0.34
Current Liabilities	1,826,639	1,622,356	12.59
Total Liabilities	6,049,531	5,831,026	3.75

The increase in non-current liabilities was mainly due to the increase in exchange differences arising from the conversion of liabilities denominated in RMB during the period whereas the increase in current liabilities were mainly due to an increase in trade and other payables as a result of an increase in inventories, as well as an increase in tax payable correspondingly. As at 30 June 2021, the Company and its subsidiaries had other borrowings of HK\$1,547,539,000.

OPERATING EXPENSES

The administrative expenses of the Company and its subsidiaries in the first half of 2021 were HK\$217,935,000, which represents an increase in human resources cost and depreciation as compared to the same period of last year. The finance costs amounted to HK\$37,755,000, which represents an increase of 5.63% as compared to the same period of last year.

CONTINGENT LIABILITIES

As at 30 June 2021, the Company and its subsidiaries did not have any material contingent liabilities.

FINANCIAL RATIOS

	First half of 2021	First half of 2020
Gross Profit Margin	24.82%	29.22%
Return on Net Assets	2.98%	1.58%

	30 June 2021	31 December 2020
Assets-Liabilities Ratio	36.38%	36.18%
Current Ratio	2.18	2.30
Quick Ratio	1.80	2.02

LIQUIDITY

The source of funds of the Company and its subsidiaries mainly relies on internal resources and banking facilities. As at 30 June 2021, the free cash and bank balance amounted to HK\$2,228,605,000, the majority of which were in Hong Kong Dollars and Renminbi.

CAPITAL EXPENDITURE

As at 30 June 2021, the capital commitments of the Company and its subsidiaries contracted for but not provided in the condensed consolidated financial statements was HK\$177,911,000, 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

In the first half of 2021, the novel coronavirus epidemic persisted. Under the concern on the health of employees, the Company established a novel coronavirus prevention and control leading group to strengthen the prevention and control of the pandemic. In addition, the Company and its subsidiaries also encouraged employees to get vaccinated to protect themselves and their families, and provided employees with vaccination holiday. At present, most of the employees have taken at least one dose of vaccination. In the second half of 2021, we will continue to promote employee vaccinations, while adopting appropriate and rigorous epidemic prevention measures.

The remuneration policies of the Company and its subsidiaries are determined based on the qualifications, experience and work performance of the employees and with reference to market conditions. The Company and its subsidiaries will continue to improve the quality of human resource management and strictly implement a 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 2021, the Company and its subsidiaries had a total of approximately 8,000 employees based in the mainland, Hong Kong and Vietnam respectively.

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

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the first half of 2021.

CORPORATE GOVERNANCE

For the six months ended 30 June 2021, 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 2021.

As at 30 June 2021, save for Mr Hua Chongzhi and Mr Mao Yijin, the Directors of the Company, are the officers of the substantial shareholder China Aerospace Science & Technology Corporation's academy and subsidiary, 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 2021 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 Non-Executive Directors, Mr Hua Chongzhi. 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 the Chairman and Executive Director, Mr Zhou Limin (Chairman), Non-Executive Directors, Mr Liu Xudong 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.

ENVIRONMENT, SOCIAL & GOVERNANCE COMMITTEE

The Environment, Social & Governance ("ESG") Committee of the Company was established on 30 March 2021, it has a membership comprising Mr Zhou Limin (Chairman), the Chairman and Executive Director, Mr Hua Chongzhi, a Non-Executive Director, and Mr Luo Zhenbang, an Independent Non-Executive Director. The responsibilities of the ESG Committee are to establish the policies relating to environment, social and governance and its reporting.

The terms of reference of the ESG Committee can be downloaded from the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

STATEMENT OF COMPLIANCE

The financial information relating to the year ended 31 December 2020 that is included in the Interim Report 2021 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 2020 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, especially those who served with professionalism and dedication during the difficult time under the ongoing novel coronavirus pandemic. 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,
Zhou Limin
Chairman & Executive Director

Hong Kong, 27 August 2021

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 Zhou Limin (<i>Chairman</i>)	Mr Liu Xudong	Mr Luo Zhenbang
Mr Jin Xuesheng (<i>President</i>)	Mr Hua Chongzhi	Ms Leung Sau Fan, Sylvia
	Mr Mao Yijin	Mr Wang Xiaojun

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