



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

INTERIM REPORT 2022



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Zhou Limin (*Chairman*)
Mr Jin Xuesheng (*President*)

Non-Executive Directors

Mr Luo Zhenbang (*Independent*)
Mr Wang Xiaojun (*Independent*)
Ms Chen Jingru (*Independent*)
(*appointed on 30 August 2022*)
Mr Liu Xudong
Mr Hua Chongzhi
Mr Mao Yijin
Ms Leung Sau Fan, Sylvia
(*Independent*)
(*retired on 24 June 2022*)

AUDIT COMMITTEE

Mr Luo Zhenbang (*Chairman*)
Ms Chen Jingru
(*appointed on 30 August 2022*)
Mr Mao Yijin
Ms Leung Sau Fan, Sylvia
(*retired on 24 June 2022*)

REMUNERATION COMMITTEE

Ms Chen Jingru (*Chairman*)
(*appointed on 30 August 2022*)
Mr Wang Xiaojun
Mr Hua Chongzhi
Ms Leung Sau Fan, Sylvia (*Chairman*)
(*retired on 24 June 2022*)

NOMINATION COMMITTEE

Mr Zhou Limin (*Chairman*)
Mr Luo Zhenbang
Mr Wang Xiaojun
Ms Chen Jingru
(*appointed on 30 August 2022*)
Mr Liu Xudong
Ms Leung Sau Fan, Sylvia
(*retired on 24 June 2022*)

ENVIRONMENT, SOCIAL & GOVERNANCE COMMITTEE

Mr Zhou Limin (*Chairman*)
Mr Luo Zhenbang
Mr Hua Chongzhi

COMPANY SECRETARY

Ms Wong Cho Ching
(*appointed on 31 March 2022*)
Mr Chan Ka Kin, Ken
(*resigned on 31 March 2022*)

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditor

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

In the first half of 2022, the global economy has slowed down due to the impact of the novel coronavirus pandemic, the substantial increase in commodity prices and the adjustments to the interest rates for loans. The management of the Company led the employees to work hard and overcome various challenges to ensure the stable development of all core businesses.

For the six months ended 30 June 2022, the unaudited operating revenue of the Company and its subsidiaries was HK\$2,461,773,000, representing an increase of 14.11% as compared with that of HK\$2,157,342,000 for the same period of 2021. Loss for the period was HK\$164,662,000, representing a substantial decrease as compared with a profit of HK\$315,028,000 for the same period of 2021. Loss attributable to shareholders of the Company was HK\$71,994,000, decreased substantially as compared to the profit attributable to shareholders of the Company of HK\$258,768,000 for the same period of 2021. Basic loss per share attributable to shareholders of the Company was HK2.33 cents (first half of 2021: basic earnings per share HK8.39 cents).

Taking into account the Company's development needs and capital position, the Board has resolved to declare an interim dividend of HK0.5 cents per share.

Pursuant to the Company's "Fourteenth Five-Year Plan", the principal businesses of the Company include modern manufacturing industry based on the existing industrial enterprises with large-scale automation as the production mode and high value-added products as the focus, and modern service industry based on the operations of the property of Shenzhen Aerospace Science & Technology Plaza and the industrial property of Huizhou Industrial Garden. Modern manufacturing business mainly includes high-density printed circuit board ("PCB"), liquid crystal display research and development and production etc.

Industrial enterprises continued to optimize their business and product structure, actively promoted technological innovation, and achieved steady growth in operating revenue, which was generally in line with expectations. In the first half of the year, the revenue of the industrial enterprises was HK\$2,235,234,000, representing an increase of 15.70% as compared with the revenue of

Business Review

HK\$1,931,854,000 for the same period in 2021; the operating profit was HK\$108,072,000, representing an increase of 52.68% as compared with the operating profit of HK\$70,784,000 for the same period in 2021.

The PCB business increased the proportion of high-density PCB and achieved outstanding performance. The operating revenue and operating profit increased significantly as compared with the same period of last year. The liquid crystal display business continued to implement production automation and promote technological innovation, and recorded a significant increase in revenue and operating profit as compared with the same period of last year. With the frequent outbreaks of the pandemic, global inflation and the arrival of low sales season, the operation of the plant invested and constructed in Vietnam did not show obvious improvement as its production was intermittently suspended owing to the novel coronavirus pandemic, resulting in a decrease in overall operating profit for the plastic products business. Under the impact of the Sino-US trade dispute and the global economic slowdown, the product structure of the intelligent chargers business had been actively adjusted and the investment in the research and development of new products had been increased, which contributed to the growth in operating profit.

In the first half of the year, Shenzhen Aerospace Technology Investment Company Limited (“Shenzhen Aerospace”) recorded a total revenue of approximately HK\$222,384,000 (first half of 2021: HK\$218,988,000) and a segment profit of HK\$220,781,000 (first half of 2021: HK\$164,796,000) in respect of the property leasing and management business of Shenzhen Aerospace Science & Technology Plaza. As the whole lease tenant, Hangke Houhai failed in fulfilling its obligation under the whole lease agreement, Shenzhen Aerospace entered into the Termination Agreement with Hangke Houhai to terminate the whole lease agreement with effect from 30 June 2022, pursuant to which part of the leased property would change to self-managed operation. Details of which please refer to the announcement of the Company published on 5 July 2022. As Hangke Houhai was unable to meet its contractual obligations and the whole lease agreement was terminated, Shenzhen Aerospace made an impairment under the expected credit loss (“ECL”) model on the billed lease receivables and derecognized the unbilled lease receivables as loss on lease termination in aggregate of approximately

Business Review

HK\$536 million, which affected the overall results and a loss was incurred for the first half of the year. Excluding the effect of increase in the fair value of investment properties, impairment on the billed lease receivables and loss on lease termination, the operating profit of Shenzhen Aerospace was HK\$183,073,000 (first half of 2021: HK\$171,803,000). As at 30 June 2022, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,765,196,000 (31 December 2021: RMB7,734,464,000).

Intelligent power module (IPM) completed the formation of an industrialised company, Zhihao Microelectronics (Huizhou) Co., Ltd.* (志豪微電子(惠州)有限公司) (“Zhihao Microelectronics”), expecting to form an annual production capacity of 12 million IPM in the second half of the year.

The construction project of Phase 5 plant of China Aerospace (Huizhou) Industrial Garden Limited* (航天科技(惠州)工業園發展有限公司) (“HZ Industrial Garden”), a subsidiary of the Company, is progressing in compliance with regulations and in an orderly manner, with a total gross floor area of approximately 41,000 square metres. Upon completion, the project will provide production space for IPM and plastic products etc. In the first half of the year, the project obtained government planning review and building approval, and the plant is expected to be completed by the end of 2023.

RAYITEK Hi-Tech Film Company Ltd., Shenzhen (深圳瑞華泰薄膜科技股份有限公司) (“Rayitek”), an associate engaged in the research and development, production and sales of polyimide films, performed satisfactorily after its listing on the Sci-Tech Innovation Board of Shanghai Stock Exchange. During the period, the Company received dividends of approximately RMB2,945,800 from Rayitek for the year 2021.

PROSPECTS

Looking forward to the second half of the year, although China’s economy will resume growth, the operating environment and situation will remain uncertain due to the heightened geopolitical risks and pandemic prevention and control measures implemented by the governments of Hong Kong and other countries. The Company will continue to implement the “Fourteenth Five-Year Plan” in accordance with the ideas of “market-oriented requirements, international

standards and professional operation”, adhere to innovation as the primary driving force for development, adhere to the combination of investment and demand, foster the balance of capacity and development, adhere to the co-existence of “hard power” and “soft power”, increase the investment in the construction of advanced manufacturing capacity, accelerate the adjustment of industrial layout, and ensure the realization of development goals. It includes investment in the construction of Nantong Hong Yuan, the production capacity of Zhihao Microelectronics, 5G millimetre harmonic filter research and development line, and Phase 5 plant of HZ Industrial Garden. On the other hand, after the termination of the lease between Shenzhen Aerospace and Hangke Houhai, the property will be leased out on self-operated basis. Shenzhen Aerospace will further improve its ability and quality, expecting to restore the occupancy rate to higher level. The Company is expecting to achieve breakthroughs in innovation capability, market development, development strategy and international operation, and strive to build the Company into a red-chip listed company with edges in advanced manufacturing industry, modern service industry and high-tech industry, and strong value creation ability, so as to achieve outstanding results for shareholders.

APPRECIATION

On behalf of the Board, I express my profound gratitude to all the staff for their dedication and loyal services, especially those who stuck to their posts with unremitting efforts during the difficult time of the spread of the novel coronavirus. 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, 30 August 2022

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The unaudited revenue of the Company and its subsidiaries for the six months ended 30 June 2022 was HK\$2,461,773,000, representing an increase of 14.11% as compared with that of HK\$2,157,342,000 for the same period of 2021. Loss for the period was HK\$164,662,000, decreased substantially as compared with a profit of HK\$315,028,000 for the same period of 2021.

LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Loss attributable to shareholders of the Company for the current period was HK\$71,994,000, representing a substantial decrease as compared with a profit attributable to shareholders of the Company of HK\$258,768,000 for the same period of 2021.

The increase in revenue was mainly due to the increase in sales order from the industrial enterprises, especially the printed circuit board and semiconductor businesses. The turnaround from profit to loss was mainly due to the termination of whole lease agreement during the period between Shenzhen Aerospace, a 60% indirect owned subsidiary of the Company, and its whole lease tenant Hangke Houhai. The Company hence made an impairment under ECL model on the billed lease receivables and loss on lease termination of approximately RMB437,000,000 (equivalent to approximately HK\$536,000,000).

Based on the issued share capital of 3,085,022,000 shares during the period, the basic loss per share was HK2.33 cents, representing a substantial decrease as compared with basic earnings per share of HK8.39 cents for the same period of 2021.

DIVIDENDS

Taking into account the Company's financial and cash flow position, in order to reward shareholders' support, the Board declared a 2022 interim dividend of HK0.5 cents per share.

The distribution of 2021 final dividend of HK2 cents per share was approved by shareholders at the Annual General Meeting in June 2022 and warrants of which were dispatched to all shareholders on 22 July 2022.

Management Discussion and Analysis

RESULTS OF CORE BUSINESSES

The core businesses of the Company and the subsidiaries are research and development, design, professional production, sales and services of the hi-tech manufacturing business such as plastic products, electronic products, power products and semiconductor products, as well as the property management business of Shenzhen Aerospace Science & Technology Plaza.

The company promotes various businesses in accordance with the outline of the five-year plan, focuses on the development of advanced manufacturing, modern service industries and high-tech industries, fully utilizing the resources and markets in both overseas and China, and comprehensively deepening reform to achieve high-quality development.

The revenue of the hi-tech manufacturing business is the main source of the Company's revenue and that contributes a significant profit and cash flow, while the property management business of Shenzhen Aerospace Science & Technology Plaza also brings in rental and property management fee income for the Company. The Company will continue to identify and develop new business opportunities, and thereby creating value for shareholders.

Management Discussion and Analysis

Hi-tech manufacturing

The revenue of the hi-tech manufacturing business for the six months ended 30 June 2022 was HK\$2,235,234,000, representing an increase of revenue of 15.70% as compared with the same period of last year and operating profit was HK\$108,072,000, representing an increase of segment profit of 52.68% 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 2022	First half of 2021	Changes (%)	First half of 2022	First half of 2021	Changes (%)
Plastic Products	760,484	671,848	13.19	13,112	19,781	(33.71)
Printed Circuit Boards	686,724	594,098	15.59	61,164	32,957	85.59
Intelligent Chargers	197,009	185,049	6.46	1,997	271	636.90
Liquid Crystal Display	586,128	474,988	23.40	27,540	24,918	10.52
Industrial Property Investment	4,889	5,871	(16.73)	4,259	(7,143)	N/A
Total	2,235,234	1,931,854	15.70	108,072	70,784	52.68

In the first half of 2022, the novel coronavirus continued to affect the world, and the supply chain had not yet returned to normal. In addition, the rising prices of raw materials, especially the rising energy prices, seriously affected normal production and economic operation, exerting significant pressure on the production and operation of hi-tech manufacturing industries. During the period, the hi-tech manufacturing industries strived to continuously optimize its business and product structure through technological transformation and research and development, so as to maintain production scale and production capacity, and actively developed new customer groups, thereby managed to realize a significant overall growth in profit.

Management Discussion and Analysis

Among which, the printed circuit board business performed most ideally, based on new capacity building and technological innovation, the product structure was continuously optimized, and the profit growth rate was as high as 85.59%. During the period, a wholly-owned subsidiary Nantong Hong Yuan Circuit Technology Co., Limited* (南通康源电路科技有限公司) (“Nantong Hong Yuen”) was set up, and the investment in the construction of high density PCB was started planning. It is expected to further increase the production capacity of integrated circuit packaging substrates. The liquid crystal display business had achieved a stable overall product quality through technological innovation and quality control. Among them, the overall process yield of liquid crystal module (LCM) increased by more than 1% compared with the same period last year, and the overall profit increased by more than 10% compared with the same period last year. The plastic products business was affected by the losses of business recorded in Vietnam, and the profit declined by 33.71%. The intelligent charger business maintained a stable development and achieved growth in profit. During the period, Zhihao Microelectronics (Huizhou) Company Limited* (志豪微电子(惠州)有限公司) (“Zhihao Microelectronics”), a newly incorporated wholly-owned subsidiary of the Company, planned a packaging production line on the basis of the previous research and development of intelligent power modules (IPM), expecting to form packaging module production capacity and contribute to profit generation.

Besides, the Company's research and development academy continues to focus on new technology development and products exploration, leading research and development direction of hi-tech manufacturing business and assisting in product upgrades and transformation of manufacturing capabilities.

Looking forward to the second half of 2022, it is expected that the novel coronavirus pandemic will continue to be volatile, while the risks of inflation and recession will both increase. Where changes in the political and economic situation will bring uncertainty to the business environment, economic recovery is coupled with hidden risks. The hi-tech manufacturing business will continue to explore markets and perform well in risk management; at the same time, control production costs, maintain production scale and production capacity, and recruit professional talents, continue to develop high-end products and develop new technologies, so as to meet the ever-changing market environment.

Management Discussion and Analysis

Shenzhen Aerospace Science & Technology Plaza

In the first half of 2022, the whole lease tenant of Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科技投资管理有限公司) (“Shenzhen Aerospace”), Shenzhen Hangke Houhai Investment Development Co., Ltd.* (深圳市航科后海投资发展有限公司) (“Hangke Houhai”), failed to pay its rental arrears. Shenzhen Aerospace filed a civil complaint against Hangke Houhai to the Court, and the relevant litigation is still being processed. Since Hangke Houhai was unable to perform its obligations as agreed in the whole lease agreement, Shenzhen Aerospace and Hangke Houhai entered into an agreement to terminate the whole lease agreement with effect from 30 June 2022. Details of which please refer to the Company’s announcements published on 12 May, 14 June and 5 July 2022 respectively. In this respect, Shenzhen Aerospace made an impairment under the ECL model on the billed lease receivables and loss on lease termination of approximately RMB437,000,000.

During the period, Shenzhen Aerospace and its subsidiaries recorded a total revenue of approximately HK\$222,384,000 (first half of 2021: HK\$218,988,000) and a segment profit of approximately HK\$220,781,000 (first half of 2021: HK\$164,796,000), mainly contributed from the rental and property management fee incomes and increase in the fair value of investment properties.

As at 30 June 2022, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,765,196,000 (31 December 2021: RMB7,734,464,000).

In the second half of 2022, following the termination of the lease agreement with Hangke Houhai, the existing tenants will be taken over by Shenzhen Aerospace and the property leasing business will be changed to a self-managed operation. The Shenzhen property management team will endeavor to source new tenants, continue to do better in property management and pay special attention to anti-epidemic measures so as to improve the quality of property services, thereby increasing the overall value of the property.

Management Discussion and Analysis

Other business

RAYITEK Hi-Tech Film Company Ltd., Shenzhen (深圳瑞華泰薄膜科技股份有限公司) (“Rayitek”), an associate company in which the Company indirectly holds a 23.38% interest, distributed a dividend of RMB0.7 per 10 shares during the period and the Company received dividends of approximately RMB2,945,800 in total.

ASSETS

(HK\$'000)	30 June 2022	31 December 2021	Changes (%)
Non-Current Assets	11,646,633	12,629,902	(7.79)
Current Assets	4,154,319	4,239,260	(2.00)
Total Assets	15,800,952	16,869,162	(6.33)

The decrease in non-current assets was mainly due to the derecognition of certain unbilled lease receivables, the early withdrawal of long-term bank deposits due to early termination of long-term bank deposit, as well as the decrease in Hong Kong dollar equivalent arising from the conversion of assets denominated in RMB at the balance sheet date, while the decrease in current assets was due to the decrease in receivables and inventories.

The equity attributable to shareholders of the Company was HK\$7,948,323,000, representing a decrease of 5.24% as compared with that of HK\$8,388,114,000 as at 31 December 2021.

The equity attributable to shareholders of the Company decreased at the end of the current period as compared with the end of last year, which was mainly due to the loss incurred in the current period. 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\$2.58.

Management Discussion and Analysis

As at 30 June 2022, a pledged bank deposit of HK\$43,364,000 and bills receivable of HK\$102,072,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. Besides, 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 facility 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 2022	31 December 2021	Changes (%)
Non-Current Liabilities	3,365,613	4,254,575	(20.89)
Current Liabilities	2,245,590	1,771,821	26.74
Total Liabilities	5,611,203	6,026,396	(6.89)

The substantial decrease in non-current liabilities was mainly due to the reclassification of the loan from a substantial shareholder during the period, the decrease in deferred taxation due to the decrease in temporary differences arising from the accrued rent upon the derecognition of the unbilled lease receivables, as well as the decrease in Hong Kong dollar equivalent exchange differences arising from the conversion of liabilities denominated in RMB at the balance sheet date, whereas the increase in current liabilities was mainly due to the reclassification of the loan payable to a substantial shareholder to current liabilities.

As at 30 June 2022, the Company and its subsidiaries had other borrowings of HK\$1,497,317,000.

Management Discussion and Analysis

OPERATING EXPENSES

The administrative expenses of the Company and the subsidiaries in the first half of 2022 were HK\$258,598,000, representing an increase of 18.66% as compared to the same period of 2021, mainly due to the increase in labour costs and depreciation and amortization as compared with the same period of last year. The finance costs amounted to HK\$38,677,000, representing an increase of 2.44% as compared with the same period of last year.

CONTINGENT LIABILITIES

As at 30 June 2022, the Company and its subsidiaries did not have any material contingent liabilities.

FINANCIAL RATIOS

	First half of 2022	First half of 2021
Gross Profit Margin	23.95%	24.82%
Return on Net Assets	(1.62%)	2.98%

	30 June 2022	31 December 2021
Assets-Liabilities Ratio	35.51%	35.72%
Current Ratio	1.85	2.39
Quick Ratio	1.56	1.98

LIQUIDITY

The source of funds of the Company and its subsidiaries mainly relies on internal resources and banking and financial institution's facilities. As at 30 June 2022, the cash and bank balance and short-term bank deposits amounted to HK\$2,017,678,000, the majority of which were in Hong Kong Dollars and Renminbi.

Management Discussion and Analysis

CAPITAL EXPENDITURE

As at 30 June 2022, the capital commitments of the Company and its subsidiaries contracted for but not provided in the condensed consolidated financial statements was HK\$137,453,000, mainly for the acquisition of fixed assets and right-of-use assets.

FINANCIAL RISKS

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

HUMAN RESOURCES AND REMUNERATION POLICIES

In the first half of 2022, the novel coronavirus epidemic persists. The Company's leading group for the prevention and control of novel coronavirus continued to strengthen work of the prevention and control of the epidemic and did not dare to relax. At the beginning of the year, when the epidemic broke out again, the Company immediately took strict epidemic prevention measures, including flexible working hours, allowing employees to work from home in turn to reduce employee's contact and encouraging employees to take PCR tests. In addition, the Company and its subsidiaries also encouraged employees to get vaccinated to protect themselves and their families, and provide paid leaves to those employees. In the first half of 2022, most of the Company's employees completed three doses of the vaccine. The company also requires all employees to take a rapid test every Monday and Thursday before going to work.

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

Management Discussion and Analysis

As at 30 June 2022, the Company and the subsidiaries had a total of approximately 7,800 employees based in the mainland, Hong Kong and Vietnam respectively.

APPRECIATION

I would like to express my heartfelt thanks to our shareholders, banks, business partners and all other people from the society who have rendered support to the Company's development. In particular, all employees of the Company still stick to their posts during the novel coronavirus epidemic. I would like to express my gratitude and high praise for their loyalty to the Company and professional attitude.

By order of the Board,
Jin Xuesheng
Executive Director & President

Hong Kong, 30 August 2022

OTHER DISCLOSURES

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2022, 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 2022.

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 2022.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK0.5 cents per share (2021: Nil) for the six months ended 30 June 2022. The interim dividend shall be expected to be paid on or around Friday, 14 October 2022 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Wednesday, 21 September 2022. For details, please refer to the Company's Closure of Register of Members announcement dated 30 August 2022.

CORPORATE GOVERNANCE

On 24 June 2022, Ms Leung Sau Fan, Sylvia, an Independent Non-Executive Director of the Company, retired from the conclusion of the Annual General Meeting. Upon which, (i) the number of Independent Non-Executive Directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules and one-third of the Board as required under Rule 3.10A; (ii) the number of members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules; (iii) the Remuneration Committee did not comprise a majority of Independent Non-Executive Director and the Chairman of the Remuneration Committee became vacant, which did not fulfil the requirement under Rule 3.25 of the Listing Rules; and (iv) the Nomination Committee did not comprise a majority of Independent Non-Executive Director as required under Rule 3.27A of the Listing Rules. Details please refer to the Company's announcements dated 17 June 2022 and 24 June 2022 respectively.

Besides the disclosures above, for the six months ended 30 June 2022, the Company complied throughout the period with the provisions of the *Corporate Governance Code* as set out in Appendix 14 of the Listing Rules.

DIRECTORS' AND CHIEF 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. At the Board meeting on 31 March 2022, the Board of the Company reviewed and approved the formulation of the "The Code and Enforcement Details for Securities Transactions by Directors" as an appendix to the Company's model code for securities transactions, so that internal procedures will be clearer and smoother before Directors conducting securities transactions in the future. In addition, the Company have 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 2022.

Other Disclosures

As at 30 June 2022, save for Mr Mao Yijin, the Director of the Company, being a senior officer of a subsidiary of the Company's substantial shareholder, China Aerospace Science & Technology Corporation, 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*.

LITIGATION

As at 30 June 2022, except for the litigation claim as disclosed in the Company's announcement on 14 June 2022 commenced by Shenzhen Aerospace (as plaintiff), a 60% indirect owned subsidiary of the Company against Hangke Houhai (as defendant), 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 the Company or any of its subsidiaries.

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 (retired on 24 June 2022), 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 2022 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, Mr Wang Xiaojun and Ms Leung Sau Fan, Sylvia (Chairman) (retired on 24 June 2022), and a Non-Executive Director, 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 Mr Zhou Limin (Chairman), the Chairman and Executive Director, Mr Liu Xudong, a Non-Executive Director, and three Independent Non-Executive Directors, Mr Luo Zhenbang, Mr Wang Xiaojun and Ms Leung Sau Fan, Sylvia (retired on 24 June 2022). 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 has a membership comprising Mr Zhou Limin (Chairman), the Chairman and Executive Director, Mr Luo Zhenbang, an Independent Non-Executive Director, and Mr Hua Chongzhi, a 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 above committees can be downloaded from the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

Other Disclosures

STATEMENT OF COMPLIANCE

The financial information relating to the year ended 31 December 2021 that is included in the Interim Report 2022 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 2021 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.

POST PERIOD EVENTS

On 18 August 2022, CASIL New Century, a direct wholly-owned subsidiary of the Company, subscribed to its 23.38% associate, Rayitek, for the Convertible Bonds with face value at RMB100 at a consideration of RMB100,494,000. Details please refer to the Company's discloseable transaction announcement dated 18 August 2022. The subscription price was determined by Rayitek and the sponsor of the issue having considered the market price of convertible bonds and the initial conversion price was set with reference of the average weighted traded price of the shares of Rayitek for the 20 trading days immediately prior to the date of the prospectus and the weighted traded price of the shares of Rayitek for the trading day immediately prior to the date of the prospectus. Based on the prospectus, as Rayitek was to raise RMB430 million by way of issue of the Convertible Bonds, existing shareholders of Rayitek who appeared on the record date (being 17 August 2022) had pre-emptive rights to subscribe for the Convertible Bonds pro rata to their respective shareholdings and the initial conversion price is RMB30.98 per Rayitek Share, subject to adjustment. Having considered the subscription price at face value which is in line with the market practice and the recent market prices of Rayitek shares, CASIL New Century did register to subscribe in full its pro-rated subscription rights with a view to have the option to maintain its shareholding percentage upon full conversion of all Convertible Bonds.

APPOINTMENT OF DIRECTOR

On 30 August 2022, the Company announced the appointment of Ms Chen Jingru as an Independent Non-Executive Director, the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Following the appointment of Ms Chen, the Company has fully complied with the requirements under Rules 3.10(1), 3.10A, 3.21, 3.25 and 3.27A of the Listing Rules. Details please refer to the announcement of appointment of director of the Company dated 30 August 2022.

On 6 September 2022, the Company made a supplemental announcement regarding a warning and administrative penalty made against Ms Chen by CSRC in 2015. After careful assessment of the Regulatory Decision and the Relevant Penalties against Ms Chen, the Board was of a view that Ms Chen remains suitable to serve as an independent non-executive director of the Company. Details of which please refer to the supplemental announcement dated 6 September 2022.

The biography of Ms Chen Jingru is as follow:

Ms Chen Jingru, aged 57, Master of Law, is a global partner of DeHeng Law Offices. Ms Chen obtained a Bachelor's degree majoring in law in 1985 and a Master's degree majoring in law in 1990 from Nankai University. Ms Chen was awarded her professional qualification as a lawyer conferred by the Lawyer Qualification Committee of the PRC Ministry of Justice in 1993. She served as Deputy Officer of the Comprehensive Teaching and Research Office of the Insurance Department of the Central Institute of Finance and Economics (now known as Central University of Finance and Economics), Director of the Beijing Insurance Association, Director of the China Maritime Law Association, Deputy Officer of the Law Department of the Central University of Finance and Economics, and Member of the Third GEM Issuance Examination Committee of the China Securities Regulatory Commission. She has been working in DeHeng Law Offices since 1993. Ms Chen currently serves as independent non-executive director of Glory Health Industry Limited (formerly known as "Guorui Properties Limited"), shares of which are listed on The Stock Exchange of Hong Kong (stock code: 2329) and the external internal auditor of BOC International (China) Co., Ltd. (stock code: 601696), shares of which are listed on Shanghai Stock Exchange. She has extensive experience in the corporate and securities aspects.

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 24 to 66, which comprise the condensed consolidated statement of financial position as of 30 June 2022 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.

Report on Review of Condensed Consolidated Financial Statements

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

30 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	NOTES	Six months ended	
		30.6.2022 HK\$'000 (Unaudited)	30.6.2021 HK\$'000 (Unaudited)
Revenue	3	2,461,773	2,157,342
Cost of sales		(1,872,242)	(1,621,842)
Gross profit		589,531	535,500
Other income	4	37,149	32,469
Other gains and losses	4	(3,060)	(3,162)
Net (loss) gain on lease termination	4	(444,226)	200,861
Gain on deemed partial disposal of an associate		—	5,289
Selling and distribution expenses		(34,894)	(28,543)
Administrative expenses		(258,598)	(217,935)
Research and development expenses		(77,472)	(70,062)
Fair value changes of investment properties		38,301	(8,439)
Impairment losses under expected credit loss model, net of reversal	12	(92,112)	(9,739)
Finance costs	5	(38,677)	(37,755)
Share of results of associates		7,691	10,914
Share of results of joint ventures		(563)	(895)
(Loss) profit before taxation	6	(276,930)	408,503
Taxation	7	112,268	(93,475)
(Loss) profit for the period		(164,662)	315,028

Condensed Consolidated Statement of Profit or Loss
For the six months ended 30 June 2022

	NOTES	Six months ended	
		30.6.2022 HK\$'000 (Unaudited)	30.6.2021 HK\$'000 (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(71,994)	258,768
Non-controlling interests		(92,668)	56,260
		(164,662)	315,028
Basic (loss) earnings per share	8	(HK2.33 cents)	HK8.39 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period	(164,662)	315,028
Other comprehensive (expense) income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translating foreign operations		
— subsidiaries	(390,186)	62,825
— associates	(12,942)	1,983
— joint ventures	(3,896)	802
Other comprehensive (expense) income for the period	(407,024)	65,610
Total comprehensive (expense) income for the period	(571,686)	380,638
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(378,091)	307,039
Non-controlling interests	(193,595)	73,599
	(571,686)	380,638

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	NOTES	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	1,483,782	1,561,752
Right-of-use assets	10	161,793	188,188
Investment properties	10	9,416,666	9,796,960
Interests in associates		279,482	288,347
Interests in joint ventures		144,317	148,776
Deposit paid for property, plant and equipment		21,563	17,820
Long-term bank deposits	13	—	161,369
Pledged bank deposits	13	7,719	8,068
Long term assets	11	131,311	458,622
		11,646,633	12,629,902
Current assets			
Inventories		650,827	729,599
Trade and other receivables	11	1,412,091	1,558,942
Amount due from a related party	18(a)(iii)	544	208
Financial assets at fair value through profit or loss		6,677	5,564
Pledged bank deposits	13	35,645	55,193
Restricted bank deposits	13	30,857	32,325
Short-term bank deposits	13	408,071	462,291
Bank balances and cash	13	1,609,607	1,395,138
		4,154,319	4,239,260

Condensed Consolidated Statement of Financial Position
At 30 June 2022

	NOTES	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Current liabilities			
Trade and other payables	14	1,482,288	1,495,937
Contract liabilities		58,745	73,759
Lease liabilities		22,959	31,499
Amount due to a joint venture		37,375	37,375
Loan from a controlling shareholder	18(a)(i)	584,795	—
Loan from a related party	18(a)(ii)	1,294	13,508
Taxation payable		58,134	119,743
		2,245,590	1,771,821
Net current assets		1,908,729	2,467,439
Total assets less current liabilities		13,555,362	15,097,341
Non-current liabilities			
Lease liabilities		56,337	65,803
Loan from a controlling shareholder	18(a)(i)	—	611,247
Loan from a related party	18(a)(ii)	911,228	952,445
Deferred taxation		2,398,048	2,625,080
		3,365,613	4,254,575
		10,189,749	10,842,766

Condensed Consolidated Statement of Financial Position
At 30 June 2022

	NOTES	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Capital and reserves			
Share capital	15	1,154,511	1,154,511
Reserves		6,793,812	7,233,603
Equity attributable to owners of the Company		7,948,323	8,388,114
Non-controlling interests		2,241,426	2,454,652
		10,189,749	10,842,766

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company									Non-controlling interests	Total
	Share capital	Special capital reserve	General reserve	Translation reserve	Property revaluation reserve	Other reserves	Retained profits	Sub-total	HK\$'000		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2022 (audited)	1,154,511	14,044	109,916	323,341	30,523	44,926	6,710,853	8,388,114	2,454,652	10,842,766	
Loss for the period	-	-	-	-	-	-	(71,994)	(71,994)	(92,668)	(164,662)	
Exchange difference arising on translating foreign operations											
– subsidiaries	-	-	-	(289,259)	-	-	-	(289,259)	(100,927)	(390,186)	
– associates	-	-	-	(12,942)	-	-	-	(12,942)	-	(12,942)	
– joint ventures	-	-	-	(3,896)	-	-	-	(3,896)	-	(3,896)	
Total comprehensive expense for the period	-	-	-	(306,097)	-	-	(71,994)	(378,091)	(193,595)	(571,686)	
Dividend recognised as distribution (note 9)	-	-	-	-	-	-	(61,700)	(61,700)	-	(61,700)	
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	(19,631)	(19,631)	
At 30 June 2022 (unaudited)	1,154,511	14,044	109,916	17,244	30,523	44,926	6,577,159	7,948,323	2,241,426	10,189,749	
At 1 January 2021 (audited)	1,154,511	14,044	89,495	145,266	30,523	44,926	6,447,210	7,925,975	2,359,763	10,285,738	
Profit for the period	-	-	-	-	-	-	258,768	258,768	56,260	315,028	
Exchange difference arising on translating foreign operations											
– subsidiaries	-	-	-	45,486	-	-	-	45,486	17,339	62,825	
– associates	-	-	-	1,983	-	-	-	1,983	-	1,983	
– joint ventures	-	-	-	802	-	-	-	802	-	802	
Total comprehensive income for the period	-	-	-	48,271	-	-	258,768	307,039	73,599	380,638	
Dividend recognised as distribution (note 9)	-	-	-	-	-	-	(61,700)	(61,700)	-	(61,700)	
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	(23,753)	(23,753)	
At 30 June 2021 (unaudited)	1,154,511	14,044	89,495	193,537	30,523	44,926	6,644,278	8,171,314	2,409,609	10,580,923	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended	
	30.6.2022 HK\$'000 (Unaudited)	30.6.2021 HK\$'000 (Unaudited)
Net cash from operating activities	259,289	120,407
Net cash from (used in) investing activities		
Withdrawal of short-term bank deposits	456,022	10,013
Placement of short-term bank deposits	(420,280)	(128,447)
Withdrawal of long-term bank deposits	161,963	—
Withdrawal of pledged bank deposits	31,821	8,907
Placement of pledged bank deposits	(13,820)	(4,812)
Dividend received from an associate	3,614	—
Purchase of property, plant and equipment	(119,621)	(249,229)
Deposits paid for acquisition of property, plant and equipment	(37,660)	(56,674)
Proceeds from disposal of property, plant and equipment	1,633	6,689
Payment for development costs incurred in respect of investment properties	(2,719)	(5,581)
Proceeds from land resumptions	—	328,217
Placement of long-term bank deposits	—	(213,777)
Other investing cash flows	18,832	37,291
	79,785	(267,403)
Net cash used in financing activities		
Dividend paid to non-controlling interests of a subsidiary	(19,631)	(23,753)
Repayments of lease liabilities	(14,817)	(15,074)
Other financing cash flows	(45,358)	(37,755)
	(79,806)	(76,582)

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2022

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net increase (decrease) in cash and cash equivalents	259,268	(223,578)
Cash and cash equivalents at 1 January	1,395,138	1,863,141
Effect of foreign exchange rate changes	(44,799)	11,186
Cash and cash equivalents at 30 June, represented by bank balances and cash	1,609,607	1,650,749

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“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 2021 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 2021 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.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

1. BASIS OF PREPARATION *(continued)*

1A. Significant events in the current interim period

Shenzhen Aerospace Science & Technology Plaza (the “S&T Plaza”) is one of the Group’s key investment properties in Nanshan District, Shenzhen, the People’s Republic of China (the “PRC”) which generates a stable source of income to the Group. The S&T Plaza was leased to two whole lease tenants and the Group’s rental income is accrued and recognised on an effective rental basis after taking into account the rent free period and progressive rentals which are recorded as unbilled lease receivables in the consolidated financial statements of the Group. As affected by the Covid-19 pandemic, the rental and price of properties in Nanshan District had decreased in general and the Group had also encountered issues in collecting rent and management fees as a result of the uncertainty in the economy in 2021. As detailed in note 12, the Group recognised impairment losses under expected credit loss (“ECL”) model on the lease receivables from the S&T Plaza, including both billed and unbilled portions in 2021.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

1. BASIS OF PREPARATION *(continued)*

1A. Significant events in the current interim period *(continued)*

During the six months ended 30 June 2022, the Group has announced that despite of the fact that various approaches have been adopted to recover the rental arrears from one of the major whole lease tenants of its S&T Plaza, namely Shenzhen Hangke Houhai Investment Development Company Limited (“Hangke Houhai”) who entered into a 10-year office lease agreement with the Group in 2016, there is no repayment of the billed lease receivables from Hangke Houhai since April 2022 for the outstanding balance as of 31 December 2021 and all the billed lease receivables from Hangke Houhai since October 2021 are still outstanding as it encountered difficulties in cash flows owing to the unsatisfactory subletting rate after the withdrawal of the lease of the major tenants. The Group filed a civil complaint with Shenzhen City Nanshan District People’s Court, Guangdong Province on 11 May 2022 and the court has officially accepted the filing of the complaint against Hangke Houhai as the defendant, to claim for the outstanding amount of the billed lease receivables. As Hangke Houhai has failed to fulfill its obligation under the original lease agreement and the Group has terminated the lease agreement with effect from 30 June 2022 and accounted for the lease termination in accordance with HKFRS 16 “Leases”. Further details of the lease termination are set out in the Company’s announcement dated 5 July 2022.

On the effective date of lease termination, the gross carrying amount of unbilled lease receivables which represent accrued rental income recognised on effective rental basis is derecognised and resulting in a loss on lease termination amounting to HK\$444,226,000.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

1. BASIS OF PREPARATION *(continued)*

1A. Significant events in the current interim period *(continued)*

The Group's internal credit risk assessment on Hangke Houhai changed from doubtful to loss during the six months ended 30 June 2022, and recognised additional impairment loss under ECL model on billed lease receivables of HK\$175,882,000. Since the litigation by the Group against Hangke Houhai to recover the outstanding billed lease receivables commenced, the balances are assessed under life-time ECL — credit-impaired and the amount would be written off only when the management considers there is no realistic prospect of recovery. In addition, upon the termination of the lease agreement with Hangke Houhai as detailed above, an impairment loss under ECL model previously recognised on unbilled lease receivables of HK\$83,770,000 is reversed during the six months ended 30 June 2022 and included in impairment loss under ECL model line item, as the unbilled lease receivables are derecognised upon the early termination of the lease agreement and no longer assessed under ECL model.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRS”) and application of certain accounting policies becoming relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Lease termination as lessor

Lease termination is when a lessee or lessor decide to break the lease agreement before its expiration. The exercise of termination option which was included as part of the original lease agreement does not constitute a lease modification. Upon the lease termination of an operating lease through exercise of a termination option, the Group revises its calculation of the lease income to ensure the remaining lease payments (which include termination penalty, if any), are recognised on a straight-line basis over the remaining lease term. Accrued rental income, in excess of the remaining lease payments, if any, are reversed and derecognised on the effective date of lease termination.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

Except as described below, 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.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and accounting policies on application of Amendments to HKAS 16 Property, Plant and Equipment – Proceeds before Intended Use

2.1.1 Accounting policies

Property, plant and equipment

Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing the related assets functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss.

2.1.2 Transition and summary of effects

The application of the amendments has had no material impact on the Group's financial position and performance.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 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”.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 2022

	Revenue			Segment results HK\$'000
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	
Hi-Tech Manufacturing Business				
Plastic products	760,484	28,700	789,184	13,112
Liquid crystal display	586,128	—	586,128	27,540
Printed circuit boards	686,724	—	686,724	61,164
Intelligent chargers	197,009	4,382	201,391	1,997
Industrial property investment	4,889	13,334	18,223	4,259
	2,235,234	46,416	2,281,650	108,072
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	222,384	443	222,827	220,781
Reportable segment total	2,457,618	46,859	2,504,477	328,853
Elimination	—	(46,859)	(46,859)	—
Other Business	4,155	—	4,155	1,036
	2,461,773	—	2,461,773	329,889
Unallocated corporate income				19,472
Unallocated corporate expenses				(37,696)
Unallocated gains and losses				(20,708)
Share of results of associates				290,957
Share of results of joint ventures				7,691
Finance costs				(563)
Loss on lease termination				(38,677)
Loss on lease termination				(444,226)
Impairment loss under ECL, net of reversal				(92,112)
Loss before taxation				(276,930)

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 2021

	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)
	1,931,854	43,408	1,975,262	70,784
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	218,988	432	219,420	164,796
Reportable segment total	2,150,842	43,840	2,194,682	235,580
Elimination	—	(43,840)	(43,840)	—
Other Business	6,500	—	6,500	3,962
	2,157,342	—	2,157,342	239,542
Unallocated corporate income				17,880
Unallocated corporate expenses				(35,701)
Unallocated gains and losses				8,368
Share of results of associates				230,089
Share of results of joint ventures				10,914
Finance costs				(895)
Net gain on lease termination				(37,755)
Gain on deemed partial disposal of an associate				200,861
				5,289
Profit before taxation				408,503

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 allocation of interest income, share of results of joint ventures and associates, interest expenses, net (loss) gain on lease termination, certain impairment loss under ECL (net of reversal), gain on deemed partial disposal of an associate, unallocated gains and losses (including unallocated exchange gains (losses) and changes in fair value of financial assets at fair value through profit or loss), 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.

- (a)(ii) Disaggregation of revenue

For the six months ended 30 June 2022

	Timing of revenue recognition		
	A point in time HK\$'000	Over time HK\$'000	Total HK\$'000
Manufacturing of goods (Note)	2,229,841	—	2,229,841
Property management fee	—	40,356	40,356
Others	3,148	—	3,148
Revenue from contracts with customers	2,232,989	40,356	2,273,345
Leases			188,428
Total revenue			2,461,773

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

3. REVENUE AND SEGMENT INFORMATION *(continued)*

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

For the six months ended 30 June 2021

	Timing of revenue recognition		
	A point in time HK\$'000	Over time HK\$'000	Total HK\$'000
Manufacturing of goods (Note)	1,925,983	—	1,925,983
Property management fee	—	42,413	42,413
Others	4,418	—	4,418
Revenue from contracts with customers	1,930,401	42,413	1,972,814
Leases			184,528
Total revenue			2,157,342

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

Geographical information

	Revenue from external customers based on the location of operation for the six months ended	
	30.6.2022 HK\$'000	30.6.2021 HK\$'000
Hong Kong	1,356,583	1,064,611
PRC	903,424	907,258
Overseas	13,338	945
Revenue from contracts with customers	2,273,345	1,972,814
Leases	188,428	184,528
Total revenue	2,461,773	2,157,342

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

3. REVENUE AND SEGMENT INFORMATION *(continued)*

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

	30.6.2022 HK\$'000	31.12.2021 HK\$'000
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	1,338,858	1,390,789
Liquid crystal display	711,987	787,713
Printed circuit boards	1,190,025	1,257,736
Intelligent chargers	257,173	271,298
Industrial property investment	248,200	250,903
	3,746,243	3,958,439
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	9,375,857	10,170,930
Total assets for reportable segments	13,122,100	14,129,369
Other Business	115,153	121,152
Interests in associates	279,482	288,347
Interests in joint ventures	144,317	148,776
Unallocated assets	2,139,900	2,181,518
Consolidated assets	15,800,952	16,869,162

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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)*

	30.6.2022 HK\$'000	31.12.2021 HK\$'000
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	387,078	431,241
Liquid crystal display	215,446	245,423
Printed circuit boards	464,423	453,188
Intelligent chargers	87,394	103,730
Industrial property investment	5,495	6,146
	1,159,836	1,239,728
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	83,762	62,600
Total liabilities for reportable segments	1,243,598	1,302,328
Unallocated liabilities	4,367,605	4,724,068
Consolidated liabilities	5,611,203	6,026,396

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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, restricted bank deposits, long-term 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, loan from a controlling shareholder, loan from a related party and the other unallocated liabilities.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2022 HK\$'000	30.6.2021 HK\$'000
The Group's other income comprises:		
Bank interest income	19,120	15,899
Sales of scrap materials	14,487	11,817
The Group's other gains and losses comprise:		
Net loss on disposal of property, plant and equipment	(262)	(282)
Net gain from change in fair value of financial assets at fair value through profit or loss	1,113	4,117
Net exchange loss	(3,911)	(6,997)
The Group's (loss) gain on lease termination:		
Net loss on lease termination (Note 1A)	(444,226)	—
Net gain on land resumptions (Note 10)	—	200,861

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

5. FINANCE COSTS

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
Interest on:		
Loan from a controlling shareholder	15,423	14,928
Loan from a related party	21,196	20,779
Lease liabilities	2,058	2,048
	38,677	37,755

6. (LOSS) PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	119,545	94,263
Depreciation of right-of-use assets	16,134	19,704

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

7. TAXATION

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax (Note (i))	3,362	5,470
PRC Enterprise Income Tax (Note (ii))	5,136	94,514
	8,498	99,984
Deferred tax credit	(120,766)	(6,509)
	(112,268)	93,475

Notes:

(i) HONG KONG PROFIT TAX

Hong Kong Profits Tax for both periods is calculated at 16.5% of the estimated assessable profits for the period, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

(ii) PRC ENTERPRISE INCOME TAX

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. During the six months ended 30 June 2022, certain subsidiaries of the Group operating in the PRC are eligible as High and New Technology Enterprise till the dates ranging from 1 December 2022 to 30 November 2023 (2021: 1 December 2022 to 30 November 2023) and the income tax rate of these subsidiaries is 15%.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprise engaging in research and development activities are entitled to claim 200% (2021: 200%) of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company for the purpose of basic (loss) earnings per share	(71,994)	258,768
	30.6.2022	30.6.2021
	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earnings per share	3,085,022	3,085,022

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

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

9. DIVIDEND

2021 final dividend of HK2 cents (1.1.2021 to 30.6.2021: 2020 final dividend of HK2 cents) per share amounting to HK\$61,700,000 (1.1.2021 to 30.6.2021: HK\$61,700,000) was declared and approved by the shareholders of the Company during the six months ended 30 June 2022. The amount was subsequently paid to shareholders of the Company on 22 July 2022.

On 30 August 2022, the board of directors of the Company has resolved to declare an interim dividend of HK0.5 cents per ordinary share, totaling HK\$15,425,000, for the six months ended 30 June 2022 (2021: nil). The interim dividend is payable on 14 October 2022 to the shareholders of the Company whose names appear on the Company's register of members on 21 September 2022.

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

During the six months ended 30 June 2022, the Group disposed of certain plant and machinery with an aggregate carrying amount of HK\$1,895,000 for cash proceeds of HK\$1,633,000, resulting in a loss on disposal of HK\$262,000.

During the six months ended 30 June 2021, the Group entered into several land resumption agreements with a government authority in Huizhou, the PRC, for returning the leasehold land at an aggregate carrying amount of HK\$61,042,000 to the government at a consideration of HK\$330,178,000. Certain property, plant and equipment with carrying amount of HK\$68,275,000 were written off due to the land resumption and a net gain on land resumptions of HK\$200,861,000 was recognised in profit or loss. In addition, the Group disposed of certain plant and machinery with an aggregate carrying amount of HK\$5,010,000 for cash proceeds of HK\$4,728,000, resulting in a loss on disposal of HK\$282,000.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

10. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES *(continued)*

During the six months ended 30 June 2022, the Group spent approximately HK\$97,340,000 (1.1.2021 to 30.6.2021: HK\$193,273,000) on acquisition of property, plant and equipment.

During the six months ended 30 June 2022 and 2021, the Group does not enter into any new lease agreement nor renew any of the lease agreement.

The fair values of the Group's investment properties at 30 June 2022 and 31 December 2021 have been arrived on the basis of valuations carried out on that date by Jones Lang LaSalle 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\$9,416,666,000 (31.12.2021: HK\$9,796,960,000) 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\$38,301,000 (1.1.2021 to 30.6.2021: decrease of HK\$8,439,000) has been recognised directly in the condensed consolidated statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

11. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS

	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Trade receivables from contracts with customer	1,211,888	1,276,269
Less: Allowance for credit losses	(28,983)	(30,034)
	1,182,905	1,246,235
Leases receivables		
— billed	273,685	167,968
— unbilled	141,291	603,345
	414,976	771,313
Less: Allowance for credit losses	(196,936)	(114,070)
	218,040	657,243
Other receivables, deposits and prepayment	202,375	176,714
Less: Allowance for credit losses	(59,918)	(62,628)
	142,457	114,086
Total trade and other receivables	1,543,402	2,017,564
Current	1,412,091	1,558,942
Non-current as long term assets	131,311	458,622
	1,543,402	2,017,564

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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

The Group allows an average credit period of 30 to 120 days to its trade customers 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:

	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Within 90 days	1,071,776	1,074,453
Between 91–180 days	107,302	156,979
Between 181–365 days	3,827	14,803
	1,182,905	1,246,235

Included in the Group's trade receivables arising from contracts with customers is bills received amounting to HK\$137,314,000 (31.12.2021: HK\$113,244,000) 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.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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

The Group's rental income is accrued and recognised on an effective rental basis after taking into account the rent free period and progressive rentals which are recorded as unbilled lease receivables which are accrued rental income that are expected to be realised when the rental payment over the effective rental. Lease receivables are invoiced to tenants on a monthly basis after the rent free period and are due for settlement upon the issuance of invoices. As disclosed in note 1A, upon the early termination of lease agreement with Hangke Houhai, the gross carrying amount of unbilled lease receivables which represent accrued rental income recognised on effective rental basis amounting to HK\$444,226,000 is derecognised during the current interim period.

The following is an aged analysis of billed lease receivables, net of allowance for credit losses presented based on invoice date which are also past due balances at the end of the reporting period:

	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Within 90 days	72,358	100,781
Between 91–180 days	14,369	47,011
	86,727	147,792

Included in the Group's other receivables at 30 June 2022 is value-added tax recoverable of HK\$39,008,000 (31.12.2021: HK\$46,533,000).

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

12. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL

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 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021, except for the events as described below.

In relation to the lease receivables due from the two major tenants of the Group, during the year ended 31 December 2021, due to greater financial uncertainty triggered by the Covid-19 pandemic and the persistent uncertainties in the PRC's property market, the directors of the Company believe that there was an increase in the credit risk of these amounts since initial recognition and considered that there was an increase in the loss rate. The Group's internal credit risk assessment on these two tenants was doubtful and measures the loss allowance on a lifetime ECL basis as at 31 December 2021.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

12. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL *(continued)*

As disclosed in note 1A, during the six months ended 30 June 2022, Hangke Houhai encountered difficulties in cash flows and the Group filed a civil complaint against Hangke Houhai as the defendant to claim for the outstanding amount of the billed lease receivables. The Group's internal credit risk assessment on Hangke Houhai changed from doubtful to loss during the six months ended 30 June 2022, and recognised additional impairment loss under ECL model on billed lease receivables of HK\$175,882,000. Since the litigation by the Group against Hangke Houhai to recover the outstanding billed lease receivables commenced, the balances are assessed under life-time ECL — credit-impaired and the amount would be written off only when the management considers there is no realistic prospect of recovery. In addition, upon the termination of the lease agreement with Hangke Houhai as detailed in note 1A, an impairment loss under ECL model previously recognised on unbilled lease receivables of HK\$83,770,000 is reversed during the six months ended 30 June 2022, as the unbilled lease receivables are derecognised upon the early termination of the lease agreement and no longer assessed under ECL model.

Other than the changes in the Group's internal credit risk assessment on Hangke Houhai, there is no changes in the internal credit risk assessment of the other trade receivables, lease receivables, and other financial assets.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

13. PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS, LONG-TERM BANK DEPOSITS, RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

The Group's bank deposits amounting to HK\$43,364,000 (31.12.2021: HK\$63,261,000) have been pledged to secure the general banking facilities of the Group and except for the amount of HK\$7,719,000 (31.12.2021: HK\$8,068,000) are classified as non-current assets as the period pledged is longer than one year, the remaining balances are classified as current assets. The Group's bank deposits amounting to HK\$30,857,000 (31.12.2021: HK\$32,325,000) is restricted due to the involvement in litigations and the directors of the Company believe, based on legal advice, that the actions can be successfully defended and therefore no losses will be incurred.

At 30 June 2022, short-term bank deposits with a maturity more than three months carry fixed interest rates ranging from 2.26% to 2.46% per annum (31.12.2021: 0.19% to 2.75%).

At 31 December 2021, long-term bank deposits with a maturity of more than one year carry fixed interest rates ranging from 2.03% to 3.79% per annum, and the deposits are early withdrawn during the six months ended 30 June 2022 due to the change in strategic plan of the Group and at 30 June 2022, no long-term bank deposits are held by the Group.

At 30 June 2022, bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.001% to 3.15% (31.12.2021: 0.001% to 2.1%) per annum.

The Group performed an impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

14. TRADE AND OTHER PAYABLES

	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Trade payables	712,279	702,640
Accrued charges	203,189	221,558
Payables for acquisition of property, plant and equipment, and investment properties	49,813	94,795
Refundable deposits received	23,361	26,207
Dividend payable	61,700	—
Others	431,946	450,737
	1,482,288	1,495,937

Other payables included an amount of HK\$54,000,000 (31.12.2021: HK\$54,000,000) received from a third party on behalf of China Aerospace Science & Technology Corporation (“CASC”), a controlling shareholder of the Company.

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

	30.6.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Within 90 days	640,670	694,483
Between 91–180 days	66,920	3,697
Between 181–365 days	1,401	—
Over 1 year	3,288	4,460
	712,279	702,640

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

15. SHARE CAPITAL

	30.6.2022 & 31.12.2021 HK\$'000
Issued and fully paid:	
— 3,085,022,000 ordinary shares with no par value	1,154,511

16. COMMITMENTS

	30.6.2022 HK\$'000	31.12.2021 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— acquisition of property, plant and equipment and right-of-use assets	137,453	87,746

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 2022, 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\$6,677,000 (31.12.2021: HK\$5,564,000).

The classification of the Group's financial assets (i.e. financial assets at fair value through profit or loss) at 30 June 2022 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.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 six months ended 30 June 2022, 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 for another five years in 2018 and is unsecured, bears a fixed interest at 5% per annum and is repayable in March 2023. As at 30 June 2022, the Group has drawn down RMB500,000,000 (equivalent to approximately HK\$584,795,000) (31.12.2021: RMB500,000,000 (equivalent to approximately HK\$611,247,000)). Such loan carries a fixed interest rate of 5.0% per annum and the interest incurred to CASC during the six months ended 30 June 2022 amounted to RMB12,569,000 (equivalent to approximately HK\$15,423,000) (1.1.2021 to 30.6.2021: RMB12,569,000 (equivalent to approximately HK\$14,928,000)).

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

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 Science & Technology Finance Company Limited (“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 has been mortgaged in favour of Aerospace Finance by Shenzhen Aerospace Technology Investment Company Limited. As at 30 June 2022, the Group has drawn down RMB779,100,000 (equivalent to approximately HK\$911,228,000) (31.12.2021: RMB779,100,000 (equivalent to approximately HK\$952,445,000)). Such loan carries a fixed interest rate of 4.4% per annum and the interest paid to loans drawn from the Facility during the six months ended 30 June 2022 amounted to RMB17,275,000 (equivalent to approximately HK\$21,196,000) (1.1.2021 to 30.6.2021: RMB17,496,000 (equivalent to approximately HK\$20,779,000)).

During the six months ended 30 June 2022, the Group discounted bills receivables with recourse in aggregate of HK\$1,294,000 (1.1.2021 to 30.6.2021: Nil) to Aerospace Finance for short-term financing. As at 30 June 2022, the associated borrowings amounted to HK\$1,294,000 (31.12.2021: HK\$13,508,000).

- (iii) As at 30 June 2022, deposits placed with Aerospace Finance by the Group amounted to RMB465,000 (equivalent to approximately HK\$544,000) (31.12.2021: RMB170,000 (equivalent to approximately HK\$208,000)) and were included in amount due from a related party.

(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.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

18. RELATED PARTY TRANSACTIONS *(continued)*

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

The Group has deposit 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, the facilities with these banks and certain sales transactions, remaining transactions with other government-related entities are individually insignificant.

(c) Compensation of key management personnel

During the six months ended 30 June 2022, the emoluments of key management personnel were HK\$1,643,000 (1.1.2021 to 30.6.2021: HK\$1,650,000).

19. PLEDGE OF OR RESTRICTION ON ASSETS

Pledge of assets

As at 30 June 2022, bank deposits of HK\$43,364,000 (31.12.2021: HK\$63,261,000) and bills held for future settlement of trade receivables of HK\$102,072,000 (31.12.2021: HK\$83,005,000) and investment properties of approximately HK\$2,225,151,000 (31.12.2021: HK\$2,325,799,000) were pledged to banks and Aerospace Finance to secure general banking facilities granted to the Group.

Restriction on assets

In addition, lease liabilities of HK\$79,296,000 (31.12.2021: HK\$97,302,000) are recognised with related right-of-use assets of HK\$71,776,000 (31.12.2021: HK\$89,411,000) as at 30 June 2022. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2022

20. EVENT AFTER THE END OF THE REPORTING PERIOD

On 18 August 2022, the Group has registered to subscribe for the convertible bonds of Shenzhen Rayitek Hi-Tech Film Company Limited (“Shenzhen Rayitek”) (an associate of the Group which is listed on the Sci-Tech Innovation Board of Shanghai Stock Exchange, and in which the Company indirectly holds 23.38% equity interest) with a principal amount of RMB100,494,000 at a consideration of RMB100,494,000. The Group may convert the convertible bonds into Shenzhen Rayitek’s shares since the first trading day immediately following the expiry of the six-month period after the end of the issue date of the convertible bonds (i.e. 24 August 2022) and until the maturity date of the convertible bonds (i.e. 17 August 2028). Upon completion of the subscription, the convertible bonds will be accounted for as financial assets at fair value through profit or loss under HKFRS 9 “Financial Instruments” and Shenzhen Rayitek will remain as the Group’s associate. Further details of this transaction are set out in the Company’s announcement dated 18 August 2022.