THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 31)

MAJOR TRANSACTION
CONSTRUCTION CONTRACT OF NANTONG HONG YUEN
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting of China Aerospace International Holdings Limited to be held at The Salon One, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, at 10:15 a.m. on Wednesday, 21 June 2023 (or as soon thereafter as the Annual General Meeting shall have concluded or been adjourned) is set out on pages 31 to 32 of this Circular.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Standard Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 10:15 a.m. on Monday, 19 June 2023. Completion of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

25 May 2023

CONTENTS

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

"Annual General Meeting"	the annual general meeting to be convened by the Company for the purpose of, amongst others, receiving the audited accounts of the Company for the year ended 31 December 2022;
"Board"	the Board of Directors of the Company;
"CASC"	China Aerospace Science & Technology Corporation (中國航天科技集團有限公司), a state-owned enterprise established in the PRC, which held approximately 38.37% shareholding in the Company as at the Latest Practicable Date and is the controlling shareholder of the Company;
"China Construction No 8"	China Construction Eighth Engineering Division Corp., Ltd. (中國建築第八工程局有限公司), a limited liability company established in the PRC;
"Company"	China Aerospace International Holdings Limited (中國航天國際控股有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 31);
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Construction Contract"	the construction contract dated 12 May 2023 relating to the construction of the Plants Construction Project Phase I entered into between Nantong Hong Yuen (as principal) and China Construction No 8 (as contractor);
"Construction Works"	the construction works of the Plants Construction Project Phase I at Industrial Land pursuant to the Construction Contract as further elaborated in the sub-paragraph headed "Construction Contract" in this Circular;
"Director(s)"	the directors of the Company;
"Extraordinary General Meeting"	the extraordinary general meeting to be convened by the Company for the purpose of approving the Construction Contract and the transactions contemplated thereunder;
"Industrial Land"	a parcel of industrial land with site area of 131,666 sq.m. located at Nantong High-Tech Development Industrial Zone of the Jiangsu Province acquired in December 2022 with a land use right valid till 30 November 2072 (subject to a building covenant of completion of building before 31 May 2025);

"Latest Practicable Date"	22 May 2023, being the latest practicable date for ascertaining information for inclusion in this Circular;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Nantong Hong Yuen"	Nantong Hong Yuen Circuit Technology Company Limited* (南通康源電路科技有限公司), a limited liability company established in the PRC and is indirectly wholly-owned by the Company through its wholly-owned subsidiary, Dong Guan Hong Yuen Electronics Co., Ltd. (東莞康源電子有限公司);
"Plants Construction Project Phase I"	Nantong Hong Yuen Integrated Circuit Packaging Substrate Project (南通康源集成電路封裝載板項目), the construction of 13 buildings, including 2 factory buildings, 1 production laboratory building, 1 dormitory, 1 canteen, 1 power waste water consolidated station, 1 Category A warehouse, 3 guard stations, and connecting corridors with an aggregate construction floor area of approximately 134,650 sq.m. including underground construction area of 7,188 sq.m. on Industrial Land pursuant to the Construction Contract;
"PRC"	the People's Republic of China, which for the purpose of this Circular excludes Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Share(s)"	the ordinary share(s) in the share capital of the Company;
"Shareholder(s)"	holder(s) of the share(s) of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited; and
"sq.m."	square metre(s).

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

The translation of RMB into Hong Kong dollars has been calculated using the exchange rate of HK$1.00: RMB0.88289. Such exchange rate is for illustration purposes only and does not constitute a representation that any amount has been, could have been or will be translated at such exchange or at all.

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 31)

Executive Directors:
Mr Zhou Limin *(Chairman)*
Mr Song Shuqing *(President)*

Non-Executive Directors:
Mr Hua Chongzhi
Mr Teng Fangqian
Mr Peng Jianguo

Independent Non-Executive Directors:
Mr Luo Zhenbang
Mr Wang Xiaojun
Ms Chen Jingru

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

25 May 2023

To the Shareholders of the Company.

Dear Sir or Madam,

MAJOR TRANSACTION
CONSTRUCTION CONTRACT OF NANTONG HONG YUEN
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The Board of Directors announced that upon the completion of the tender procedure, on 12 May 2023, Nantong Hong Yuen, an indirectly wholly-owned subsidiary of the Company, entered into the Construction Contract with China Construction No 8 in relation to the Plants Construction Project Phase I at a consideration of RMB316,859,999.99 (equivalent to approximately HK$358,889,556). The construction of Plants Construction Project Phase I will be funded by the Company and Nantong Hong Yuen's own funds.

The Plants Construction Project Phase I will be built on a parcel of land newly acquired in December 2022 with site area of 131,666 sq.m. located at Nantong High-Tech Development Industrial Zone of the Jiangsu Province with a land use right valid till 30 November 2072 (subject to a building covenant of completion of building before 31 May 2025) at a consideration of RMB42,791,450 (equivalent to approximately HK$48,467,476). The land use right granted is industrial land. The relevant approvals for the planning and building works in relation to the construction project has been obtained from Nantong Government. Upon completion, it is expected the Plants Construction Project Phase I will be used as the self-use production plants of Nantong Hong Yuen for its production of integrated circuit packaging substrates.

The purpose of this Circular is to provide you with further information regarding (1) the Construction Contract and (2) the notice of Extraordinary General Meeting.

THE CONSTRUCTION CONTRACT

The principal terms of the Construction Contract are set out below:

Date	:	12 May 2023
Parties	:	(1) Nantong Hong Yuen (as principal); and (2) China Construction No 8 (as contractor) To the best knowledge, information and belief of the Board, having made all reasonable enquiries, China Construction No 8 and its ultimate beneficial owners are third parties independent of the Company and its connected persons.
Construction works	:	Pursuant to the Construction Contract dated 12 May 2023, China Construction No 8 undertakes to construct 13 buildings, including 2 factory buildings, 1 production laboratory building, 1 dormitory, 1 canteen, 1 power waste water consolidated station, 1 Category A warehouse, 3 guard stations, and connecting corridors with a construction area of approximately 134,650 sq.m., including underground construction area of 7,188 sq.m. in respect of the Plants Construction Project Phase I and inclusive of all underground engineering (including pile foundation, foundation pit, water pool etc.), structural construction, mechanical and electrical engineering of all buildings, fire safety system, elevator, drainage, public lighting, etc.
Construction period	:	The construction period is 330 days (it is expected to commence construction in late June 2023 and complete in late May 2024).

Consideration : The consideration payable to China Construction No 8 under the Construction Contract is RMB316,859,999.99 (equivalent to approximately HK$358,889,556), which includes the preliminary estimated price for pile foundation engineering works of RMB23,799,085.09 (equivalent to approximately HK$26,955,889). And, the fence work done prior to the Construction Contract of RMB347,750.29 (inclusive of 9% VAT) will be deducted from the consideration.

The parties will agree on the pile foundation engineering work quantity at a later stage of construction. In the event that there is a change of design and an increase in the quantity of work (as permitted by the principal's on-site officers), the adjustment of consideration shall be made according to the unit price submitted in the tender and in case the additional work is not covered in the submitted unit price list, the consideration shall be determined according to the assessment by the independent cost consulting firm. The preliminary estimated price for pile foundation engineering works was made after taking into account the following conditions and factors: (1) the technological conditions (equipment quantity, placement, uniform distribution, point load, etc.) of China Construction No 8; (2) design condition drawings provided by experts of the design institute; and (3) geological survey report and pile test report conducted. It is expected that in the unforeseen circumstances of a change in the conditions and design of the foundation piling design when the actual pile foundation engineering works are conducted, the upward adjustment shall be not more than 5% of the original preliminary estimated price, making the total consideration payable to China Construction No 8 under the Construction Contract to RMB318,049,954.

No adjustment in the consideration will be made in the event of change of government policy or fluctuation in market price (including material and labour) or other foreseen risks.

The consideration was arrived at based on the bidding price offered by China Construction No 8, which has been selected by Nantong Hong Yuen through a public tender procedure. After thorough evaluation of the bids and considering various major factors including the quotation, structural design of the construction, relevant project management experience, performance in carrying out construction works of comparable scale, and qualifications of all bidders. Further, the quotation submitted by China Construction No 8 is not higher than Nantong Hong Yuen's estimation of the Construction Contract value and scale, as carried out by an independent consultant, Nantong Tongcheng Construction Engineering Project Management Company Ltd.* (南通通城建設工程項目管理有限公司), having regard to the costs of materials and labour costs estimated to be incurred, and the prevailing market price for carrying out the construction works with comparable scale and complexity. Accordingly, Nantong Hong Yuen considers that China Construction No 8 is able to provide related construction services so as to satisfy the construction requirements of the Plants Construction Project Phase I.

Performance guarantee : China Construction No 8 shall provide an irrevocable performance guarantee issued by a bank of 10% of the contract consideration in favour of Nantong Hong Yuen before the signing of the Construction Contract. During the term of the Construction Contract, Nantong Hong Yuen shall have the right to set-off any claim against such guarantee.

Payment terms : The consideration of the Construction Contract shall be paid by Nantong Hong Yuen in cash in the manners set out below:

1. Advance construction fee of RMB9,476,384.28 (equivalent to HK$10,733,369): (i) 50% of which shall be payable within 28 days after commencement of works, and (ii) the balance shall be payable in accordance with the progress of the completed works.

2. Construction progress payment: up to 80% of the contract consideration, which shall be paid to China Construction No 8 on a monthly basis according to the progress payment request made by China Construction No 8 (on the value of the work completed, less a 20% as retention) and reviewed by Nantong Hong Yuen.

3. Within 45 days upon completion of the construction works and the project settlement audit and after the submission of construction completion documents for the confirmation of Nantong Hong Yuen, up to 97% of the reviewed settlement price of such completed construction works shall be paid to China Construction No 8. For overdue payment, liquidated damages shall be payable according to the benchmark interest rate of similar loans for the same period as announced by the People's Bank of China; if the payment is overdue for more than 56 days, the liquidated damages shall be payable at twice the benchmark interest rate of similar loans for the same period as announced by the People's Bank of China.

4. Quality guarantee deposit: being 3% of the reviewed settlement price, which shall be withheld at the same time of settlement upon completion of the construction works. A general 24-month defect liability period shall commence from the date of completion and the acceptance of the construction works. China Construction No 8 shall undertake repair works due to defects in the quality of the construction works within the defect liability period, the cost of such repair works shall be borne by China Construction No 8. Upon expiry of the defect liability period, the quality guarantee deposit shall be returned together with interest at the quoted market interest rate for loans of the same period as announced by the People's Bank of China.

Quality warranty period : According to the "Regulations on Construction Project Quality Management", the quality warranty periods shall be as follows:

— for foundation and main structure, the reasonable service life of the project specified in the design documents;

— for roof waterproofing works, toilets with waterproof requirements, anti-seepage of rooms and external walls, 5 years from the date of the completion and the acceptance of the construction works; and

— unless otherwise stated, the quality warranty period is 24 months from the date of the completion and the acceptance of the construction works.

Delay in construction	:	If the construction is delayed due to reasons caused by China Construction No 8, China Construction No 8 shall pay to Nantong Hong Yuen liquidated damages, a daily liquidated sum equivalent to 10% of the average daily contract sum of the Construction Contract for each day of delay, and there is no cap for liquidated damages. In addition, Nantong Hong Yuen may claim China Construction No 8 for all losses suffered as a result of such delay in construction.
Completion	:	Upon the submission of application for completion acceptance by China Construction No 8, Nantong Hong Yuen shall organize for the arrangement of completion inspection and acceptance.
Governing law	:	PRC law

OTHER CONTRACTS

In addition to the Construction Contract, there are other contracts in relation to the detailed design of and the supervision of the contract of the Plants Construction Project Phase I which has been entered into prior to the entering into of the Construction Contract totalled RMB13,558,050 (equivalent to HK$15,356,443). It is also expected that there will be other contracts in relation to the Plants Construction Project Phase I to be entered into during the construction period. Assuming that these contracts are entered into within a 12-month period, such contracts will be aggregated pursuant to rule 14.22 of the Listing Rules. Should the transactions contemplated under the other contracts constitute a discloseable transaction of the Company, the Company will make further announcement as and when required under the Listing Rules.

INFORMATION ON THE COMPANY, NANTONG HONG YUEN AND CHINA CONSTRUCTION NO 8

The Company is an investment holding company. Its subsidiaries are principally engaged in the business of hi-tech manufacturing and the operations of Shenzhen Aerospace Science & Technology Plaza.

Nantong Hong Yuen is a limited liability company established in the PRC and is indirectly wholly-owned by the Company. Nantong Hong Yuen is established to be engaged in the production of integrated circuit packaging substrates, with a focus on high-end FC-type packaging substrates, including FCCSP (being Flip-Chip Chip Scale Package) and FCBGA (being Flip-Chip Ball Grid Array) products.

China Construction No 8 is a limited liability company established in the PRC and is directly wholly-owned by China State Construction Engineering Corporation Limited (中國建築股份有限公司), a company listed in the Shanghai Stock Exchange (stock code: 601668) which is in turn indirectly held as to 56.35% by China State Construction Engineering Corporation (中國建築集團有限公司). China Construction No 8 is principally engaged in the businesses of undertaking construction works, highway works, steel structure works, bridge works, municipal public works and electrical and mechanical works, etc.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONSTRUCTION CONTRACT

The Company is implementing various business initiatives in accordance with the 14th Five-Year Plan, with the Nantong Hong Yuen project being one of the main planned business ventures. The construction of a high-precision printed circuit board factory for our own use will accelerate the high-quality development of the integrated circuit industry in the new era, and increase the production capacity of Dong Guan Hong Yuen and its integrated circuit packaging substrates. The implementation of the Plants Construction Project Phase I in accordance to the Construction Contract will enable the Company and its subsidiaries to expand its production scale in the future.

China Construction No 8 was selected by Nantong Hong Yuen as the contractor of the Plants Construction Project Phase I after due and careful consideration and thorough evaluation of all bidders in accordance with the factors as explained in the sub-paragraph headed "Consideration" under the paragraph headed "The Construction Contract" above.

In view of the above, the Directors are of the view that the terms for the Construction Contract are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECT OF THE TRANSACTION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

It is estimated that the construction of the Plants Construction Project Phase I will be completed within 12-month period from the commencement of the overall construction works. It is expected that upon the Construction Contract becomes effective, there will be an increase in the construction in progress under non-current assets by RMB316,859,999.99 and an increase in the committed and contracted liabilities of the Company and its subsidiaries by RMB316,859,999.99.

As the construction of the Plants Construction Project Phase I will take place in 2023 and 2024, the valuation of the work-in progress is subject to the certification of completion verification and the then market value, the Company expects that the development of the Plants Construction Project Phase I will bring positive effect to the over-all earnings of the Company and its subsidiaries upon completion of the construction and after commercial operation of Plants Construction Project Phase I in its production of integrated circuit packaging substrates. Nantong Hong Yuen and the Company will incur finance costs and expenses to fund the construction.

Upon completion of the construction project, the production capacity of Integrated Circuit Packaging Substrate is expected to reach 240,000 square metres per year.

LISTING RULES IMPLICATIONS

The highest applicable percentage ratios of the acquisition of the parcel of land at Nantong High-Tech Development Industrial Zone were less than 5% and hence, no announcement, disclosure or shareholders' approval requirements under Chapter 14 of the Listing Rules were required to be complied with.

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transaction contemplated under the Construction Contract is more than 25% but all of them are less than 100%, the Construction Contract constitutes a major transaction of the Company and is therefore subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the Shareholders has a material interest in the transaction contemplated under the Construction Contract. As such, no Shareholder is required to abstain from voting if an extraordinary general meeting were to be convened for the approval of the Construction Contract and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is, and in the past twelve months, there has been, no material loan arrangement between (a) China Construction No 8, its directors and legal representatives and any ultimate beneficial owner(s) of China Construction No 8; and (b) the Company, any connected person at the Company's level and/or any connected person at the subsidiary level (to the extent that such subsidiary/subsidiaries is/are involved in the transaction).

EXTRAORDINARY GENERAL MEETING

The notice of the Extraordinary General Meeting is set out on pages 31 to 32 of this Circular.

A form of proxy is enclosed with this document for use at the Extraordinary General Meeting. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Tricor Standard Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 10:15 a.m. on Monday, 19 June 2023. Completion of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting in person if you so wish.

VOTING PROCEDURE

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

As of the Latest Practicable Date, CASC, through its wholly-owned subsidiary, held approximately 38.37% shareholding in the Company and is a controlling shareholder of the Company. CASC and its associate intend to vote in favour of the resolution as set out in the notice of meeting at the Extraordinary General Meeting.

RECOMMENDATION

The Directors, including the Independent Non-Executive Directors are of the opinion that the entering into the Construction Contract is conducted in the ordinary and usual course of business of the Company and its subsidiaries on normal commercial terms which are fair and reasonable, and is in the best interest of the Company and its shareholders as a whole. Accordingly, the Board recommends that the Shareholders to vote in favour of the ordinary resolution regarding the transactions contemplated under the Construction Contract at the Extraordinary General Meeting.

Your attention is also drawn to the other additional information set out in other parts of this Circular.

By order of the Board
Zhou Limin
Chairman & Executive Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

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

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

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

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

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

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

3. DIRECTORS' SERVICE CONTRACTS

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

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and the chief executive officer of the Company were considered to have interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries, other than those businesses in which (a) the Company and its subsidiaries was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Company and its subsidiaries.

5. LITIGATION

In respect of the litigations between Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") and Shenzhen Hangke Houhai Investment Development Company Limited* (深圳市航科后海投資有限公司) ("Hangke Houhai"), including the complaint filed by Shenzhen Aerospace against Hangke Houhai to claim for arrears of rent and penalty for breach of contract and the claim filed by Hangke Houhai against Shenzhen Aerospace in relation to the alleged whole-lease operation loss incurred due to delay in inspection for acceptance and confirming completion of construction works, both sides have submitted additional claim and counter-claim during the trial proceedings of the two cases, including an additional claim by Hangke Houhai for a refund from Shenzhen Aerospace for overpaid rent since pandemic of approximately RMB49,800,000 and consequential interest loss, and a counter-claim made by Shenzhen Aerospace against Hangke Houhai for the payment of rent for February 2020 and penalty for breach of contract of approximately RMB74,200,000. The abovementioned litigations have been heard by the court and are pending judgment of the first instance. In addition, Shenzhen Aerospace has filed a complaint against Shenzhen Huabaorun Management Limited* (深圳市華保潤商業管理有限公司) ("Huabaorun") with the court for a sum of approximately RMB252,913,000 in aggregate, being arrears of rent of approximately RMB52,509,000, the rental late charges in arrears of approximately RMB138,715,000 (accrued up to 31 October 2022 and actual amount be accrued up to the date of settlement), and the sum of approximately RMB61,689,000 being penalty for breach of the whole-lease contract, the performance bonds, the legal fees, and the rentals refund for the rent-free period etc. The complaint is pending a hearing by the court. For details, please refer to the Company's announcement dated 14 February 2023.

In addition to the aforesaid litigations, Shenzhen Aerospace has filed a claim against Hangke Houhai for losses incurred arising from vacant property due to early termination of lease, and for the pre-paid rent collected by Hangke Houhai from the sub-tenants for a total amount of approximately RMB80,984,000. The claim has been accepted by the court and is pending for hearing. In addition, Shenzhen Aerospace has filed an additional claim against Huabaorun for the losses incurred arising from vacant property due to early termination of lease, and for the pre-paid rent collected by Huabaorun from the sub-tenants for a total amount of approximately RMB16,035,000, which, together with the litigation against Huabaorun as mentioned in the Company's announcement dated 14 February 2023, will result in a combined claim of approximately RMB268,948,000 by Shenzhen Aerospace against Huabaorun. These proceedings are pending a hearing by the court.

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

6. FINANCIAL INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES

Financial information of the Company for the three years ended 31 December 2022 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.casil-group.com.

(i) Annual report of the Company for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800303.pdf

(ii) Annual report of the Company for the year ended 31 December 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042901068.pdf

(iii) Annual report of the Company for the year ended 31 December 2022:

https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0425/2023042500749.pdf

7. INDEBTEDNESS

Borrowings

As at the close of the business on 31 March 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Company and its subsidiaries had aggregate indebtedness of approximately HK$1,485,739,000 comprising:

	As at 31 March 2023 (unaudited) *HK$'000*
Borrowings	
Secured and unguaranteed	
Bank loan	114,286
Loan from a related party	1,221,829
Total borrowings	**1,336,115**
Lease liabilities	
Unsecured and unguaranteed	10,554
Secured and unguaranteed	139,070
Total lease liabilities	**149,624**
Total indebtedness	**1,485,739**

As at 31 March 2023, the Company and its subsidiaries had investment properties and self-owned offices pledged to bank and a related party as the security for the bank loan and loan from a related party respectively. In addition, the Company and its subsidiaries had bank deposits with carrying value of approximately HK$43,378,000, and bills receivables of approximately HK$50,563,000 pledged to banks to secure general banking facilities (other than bank loans) granted to the Company and its subsidiaries. The lease liabilities are secured by the rental deposits and unguaranteed.

As at 31 March 2023, Shenzhen Aerospace is defendant in a claim of approximately RMB119,000,000 (equivalent to approximately HK$136,000,000), by its major tenant, Shenzhen Hangke Houhai Investment Development Company Limited ("Hangke Houhai"), for the operating loss in the past. In addition, Hangke Houhai has filed an additional claim for a refund from a subsidiary of the Company for overpaid rent since Covid-19 pandemic of approximately RMB49,800,000 (equivalent to approximately HK$56,916,000) and consequential interest loss.

Save as aforesaid and apart from intra-group liabilities, the Company and its subsidiaries did not have outstanding as at the close of business on 31 March 2023 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts had been translated into Hong Kong dollars at approximate rates of exchange prevailing at the close of business of 31 March 2023.

8. WORKING CAPITAL

After taking into account (1) the internal resources; and (2) present available facilities of the Company and its subsidiaries, and the effects of the transaction contemplated under the Construction Contract, the Directors are of the opinion that the Company and its subsidiaries will have sufficient working capital for its present requirements for at least the next 12 months from the Latest Practicable Date, in the absence of any unforeseen circumstances.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in financial or trading position of the Company and its subsidiaries since 31 December 2022, the date to which the latest audited consolidated financial statements of the Company and its subsidiaries were made up.

10. MATERIAL ACQUISITION AND DISPOSAL SINCE THE DATE OF THE LATEST PUBLISHED AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Since 31 December 2022, being the date on which the latest published audited accounts of the Company and its subsidiaries were made up, there have been no material acquisitions and disposal by the Company or its subsidiaries.

11. PROSPECTS

Overview

In 2022, affected by the adverse situation such as the significant fluctuation in commodity prices and the continuous rise in interest rates and inflation, the global economic operation and development faced greater downward pressure and unstable factors, which posed severe challenges and huge difficulties to the operation of the Company and its subsidiaries. The management of the Company led the employees to actively work hard, forge ahead and overcome difficulties. With the working guidelines of maintaining stable growth, preventing risks, promoting reform and strengthening construction, and taking specific measures such as continuously promoting new capacity building and R&D innovation, seizing market opportunities, and further improving management efficiency and effectiveness through information technology, the Company responded to various challenges and ensured the stable development of various core businesses, pathing a more solid foundation for high-quality development.

Business Review

For the year ended 31 December 2022, the operating revenue of the Company and its subsidiaries was HK$4,501,532,000, representing a decrease of 5.14% as compared with the operating revenue of HK$4,745,367,000 in 2021; the loss for the year was HK$252,722,000, representing a significant decrease as compared with the profit of HK$403,214,000 in 2021; the loss attributable to shareholders for the year was HK$119,918,000, representing a significant decrease as compared with the profit attributable to shareholders of HK$345,764,000 in 2021; the basic loss per share attributable to shareholders was HK3.89 cents (2021: basic earnings per share of HK11.21 cents).

Taking into account the Company's cashflow and financial position, in order to reward shareholders for their support, the Board has resolved to declare a final dividend of HK2 cents per share for 2022.

According to the "14th Five-Year" Plan of the Company, the principal businesses of the Company include the modern manufacturing industry which utilizes the existing industrial enterprises with advanced and efficient automated production methods and high value-added products, and the modern service industry based on the property operation of Shenzhen Aerospace Science & Technology Plaza and Huizhou Industrial Garden. Modern manufacturing industry mainly includes research and development and production of high-density printed circuit board (PCB), liquid crystal display (LCD), liquid crystal module (LCM), and process research and development and manufacturing of intelligent power module (IPM) products, etc.

In 2022, hi-tech manufacturing industries continued to optimize their business, market and product structure, actively promoted technological innovation and improved production capacity and efficiency, and achieved relatively stable operating revenue, which was generally in line with expectations. For the whole year of 2022, the operating revenue of hi-tech manufacturing businesses was HK$4,180,912,000, representing a decrease of 2.51% as compared with that of HK$4,288,768,000 in 2021; the operating profit was HK$212,488,000, representing an increase of 12.12% as compared with that of HK$189,519,000 in 2021.

In terms of business segments, the PCB business timely adjusted the focus of domestic and overseas markets according to the development trend of the industry during the year, and focused on products such as integrated circuit boards and optoelectronic modules with high added value, and fully strengthened the development and cultivation of relevant new customers, and increased the proportion of high-density PCB in operation. The performance was relatively outstanding, and the operating profit recorded a significant increase as compared with 2021. The liquid crystal display business continued to implement production automation and promote technological innovation. While consolidating the European market, it also actively explored related markets in Japan, and recorded a certain increase in operating revenue as compared with 2021. The plastic injection moulding business was adversely affected by the global inflation and the fifth wave of the outward relocation of enterprises in the mainland China. Besides, the operation of the production base invested and constructed in Vietnam did not show significant improvement, resulting in a significant decrease in the overall operating profit. Although the smart charger business was affected by the negative factors such as the Sino-US trade dispute and the global economic slowdown, it actively adjusted the product structure during the year, increased investment in the research and development of new products, and vigorously promoted the upgrading and generation replacement of products, hence ensuring the growth of operating profit in a large extent.

In 2022, Shenzhen Aerospace recorded a total revenue of approximately HK$310,268,000 (2021: HK$440,370,000) and a segment profit of HK$389,340,000 (2021: HK$301,009,000) in respect of the property leasing and management business of Shenzhen Aerospace Science & Technology Plaza. In 2022, as the whole lease tenant of the office premises, Hangke Houhai was unable to fulfill its obligations under the whole lease agreement, Shenzhen Aerospace and Hangke Houhai entered into a termination agreement; Huabaorun, the whole lease tenant of the commercial premises, also defaulted on rental payments and its whole lease contract was terminated. For details, please refer to the announcements of the Company dated 5 July 2022 and 7 November 2022 respectively. During the year, Shenzhen Aerospace commenced litigation against Hangke Houhai for the recovery of rent arrears, etc. The litigation is still in progress. In this respect, Shenzhen Aerospace was required to recognize a loss on lease termination amounting to HK$570,813,000 for the accrued rental income and additional impairment loss under expected credit loss model (net) amounting to HK$147,334,000, which affected the annual results and resulted in a significant loss. Excluding the effect of increase in fair value of investment properties, loss on lease termination and impairment on billed rental receivables, the operating profit of Shenzhen Aerospace was HK$179,900,000 (2021: HK$171,803,000). As at 31 December 2022, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,860,000,000 (31 December 2021: RMB7,734,464,000).

During the year, hi-tech manufacturing industries made a lot of efforts in product development and capacity enhancement, and made certain progress. Among which, the intelligent power module (IPM) product had transitioned to corporate commercialized operation from project research and development. With Chiphow Microelectronics (Huizhou) Co., Ltd.* (志豪微電子(惠州)有限公司) ("Chiphow Microelectronics") as the operating vehicle, it had been equipped with improved ability to accept small batch orders from users, including the commercialized production of package products such as DIP25 and DIP29. In addition, the Integrated Circuit Packaging Substrate Project of Nantong Hong Yuen is under active planning. It is expected that the project will greatly promote the enhancement of the production and operation capacity of carrier plates and high-density PCB, and fill the gap of industrial layout in the Yangtze River Delta region.

In 2022, the Company insisted on promoting technological innovation as one of the main elements leading higher and stronger development. During the year, the Company made necessary and timely investment in fields such as technological innovation, research and development, and achieved fruitful results. Dong Guan Hong Yuen Electronics Co., Limited (東莞康源電子有限公司) ("Dong Guan Hong Yuen") won the second prize of Dongguan Science and Technology Progress Award; Conhui (Hui Zhou) Semiconductor Co., Ltd. (康惠(惠州)半導體有限公司) successfully made breakthroughs in 3D touch modules and fingerprint recognition technologies, and realized the generation replacement and upgrading of products; the research and development project of 5G millimetre-wave filters of the Intelligent Research Institute has achieved phased progress, and the process equipment of the trial production line has been basically in place, creating sufficient conditions for the next step.

The Plants Construction Project Phase 5 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 in compliance with regulations and in an orderly manner with a total construction area of approximately 41,000 square metres. Upon completion, it will provide more ample space for the development of the IPM and plastic injection moulding businesses, and form a better foundation for the expansion of capacity of the Company. During the year, the project had obtained government planning review and building approval, and the construction is expected to be completed in October 2023. Details please refer to the Company's announcement dated 12 October 2022.

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 of the Company engaged in the research and development, production and sales of polyamide films, performed satisfactorily since its listing on the Sci-Tech Innovation Board of Shanghai Stock Exchange. During the year, the Company received an annual dividend of approximately RMB2,945,800 for the year ended 2021 from Rayitek.

Prospect

Looking ahead to 2023, major economies around the world are working to create conditions for economic recovery and development, the operating environment and situation are still full of uncertainties due to geopolitical risks and unfavourable factors such as rising interest rates. The Company will continue to implement the "14th Five-Year Plan" in accordance with the working ideas of "market-oriented requirements, international-oriented standards and professional-oriented operation", adhere to innovation as the primary driving force for development, adhere to the combination of investment and demand, the matching of capacity and development, adhere to both "hard power" and "soft power", increase investment in the construction of advanced manufacturing capacity, accelerate the adjustment of industrial layout, and ensure the realization of development goals. This includes investment in the construction of the production capacity of Nantong Hong Yuen, Chiphow Microelectronics, 5G millimeter-wave filters research and development line, the Plants Construction Project Phase 5 of HZ Industrial Garden, etc. On the other hand, after the termination of the whole lease agreements between Shenzhen Aerospace and Hangke Houhai, and Huabaorun respectively, the project has been changed to self-operated leasing model. Shenzhen Aerospace will further improve its operating capacity and operating quality, and is expected to restore the occupancy rate to a higher level. To achieve breakthroughs in innovation capability, market development, development mode and international-oriented operation, the Company will strive to build itself into an advanced manufacturing company, a modern service company and a high-tech industrial company, and a listed company with strong value creation ability, so as to generate good results for shareholders. With the continuous consolidation and improvement of various necessary construction and infrastructure, and the continuous improvement and optimization of various management measures and rules and regulations, the Company is confident that its prospects and development are optimistic and bright.

Management Discussion and Analysis

Results Performance

The revenue of the Company and the subsidiaries for the year ended 31 December 2022 was HK$4,501,532,000, representing a decrease of 5.14% as compared with that of HK$4,745,367,000 for 2021. The loss of this year was HK$252,722,000, representing a significant decrease as compared with a profit of HK$403,214,000 for 2021.

Loss Attributable to the Owners of the Company

Loss attributable to the owners of the Company was HK$119,918,000, representing a significant decrease as compared with a profit of HK$345,764,000 for 2021.

The decrease in revenue was mainly due to the decrease in rental income from Shenzhen Aerospace. The turnaround from profit to loss was mainly due to the termination of the respective whole-lease contracts during the year between Shenzhen Aerospace, a 60% indirect owned subsidiary of the Company, and its whole lease tenants, Hangke Houhai and Huabaorun. The Company hence made an impairment under ECL model on the billed lease receivables and loss on lease termination of approximately RMB124,939,000 and RMB484,042,000 respectively, being a sum of approximately RMB608,981,000 (equivalent to approximately HK$718,138,000).

Based on the issued share capital of 3,085,022,000 shares during the year, the basic loss per share was HK3.89 cents, representing a significant decrease as compared with basic earnings per share of HK11.21 cents for 2021.

Dividends

Taking into account the Company's financial and cash flow position, the Board proposed the distribution of 2022 final dividend of HK2 cents per share, subject to the approval by shareholders at the Annual General Meeting to be held on 21 June 2023. If approved, warrants of which will be dispatched to all shareholders on or about 18 July 2023.

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. During the year, the Board declared a 2022 interim dividend of HK0.5 cents per share for the six months ended 30 June 2022 on 30 August 2022 and warrants of which were dispatched to all shareholders on 14 October 2022.

Results of Core Businesses

The core businesses of the Company and the subsidiaries are principally engaged in the 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 services industries and high-tech industries, fully utilizing the resources from both overseas and China markets, and comprehensively deepening reform to achieve high-quality development of the Company.

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 management fee income for the Company. The Company will continue to identify and develop new business opportunities, and thereby creating value for shareholders.

Hi-tech Manufacturing

In 2022, amid the gradual recovery of supply chain and freight, raw materials and energy prices are still on the rise, production and economic operations were affected to a certain extent, especially the establishment of new customers. As a result, the turnover of hi-tech manufacturing industries were affected. During the year, the hi-tech manufacturing industries continued to enhance production quality and automation through technological transformation and research and development, so as to maintain the scale and capacity of production. The overall business was able to maintain stable and sustainable development with double-digit growth in profit.

In particular, the printed circuit board business performed most satisfactorily. Despite a slight decline in turnover, based on new capacity building and technological innovation, the product structure continued to be optimized, reporting an increase in profit of 58.25% for the year. During the year, an indirect wholly-owned subsidiary, Nantong Hong Yuan was established, and has acquired a parcel of industrial land located in Nantong Hi-Tech Industry Development Zone with a total area of 131,666 sq.m., planning for the construction of high density PCB production plants for self-use. It is expected to further increase the production capacity of integrated circuit packaging substrates. The intelligent charger business experienced a substantial drop in turnover due to a notable reduction in sales orders from major customers. However, through enhanced procurement management and cost control measures, the overall profit was significantly improved, resulting in a 43.46% increase in profit for the year. The liquid crystal display business achieved stable overall product quality through technological innovation and quality control, resulting in a nearly 4% increase in turnover compared to last year. However, due to changes in the industrial cycle and geopolitical factors, the profit dropped by about 11%. During the year, a newly incorporated indirect wholly-owned subsidiary of the Company, Chiphow Microelectronics, was established to plan and build an assembly line based on the research and development of intelligent power modules (IPM), as well as to gradually develop an assembly module production capacity, expected to contribute to the Company's profitability. The plastic products business was affected by the losses recorded in Vietnam business, resulting in a significant decline in profit by 48.82%.

On 12 October 2022, HZ Industrial Garden, a 90% directly owned subsidiary of the Company, entered into the "Construction Contract with Huizhou Construction Engineering Co., Ltd.* (惠州市建築工程有限公司) in relation to the Plants Construction Project Phase 5" at a consideration of RMB94,546,637.19 (equivalent to approximately HK$104,381,458). Upon completion expected in October 2023, the plants will be used as the production plants of the Company and its subsidiaries. Details of which please refer to the Company's announcement published on 12 October 2022.

Besides, since the establishment of the Company's Intelligent Research Institute in 2021, it focuses 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. During the year, the focus on research and development of the 5G millimetre-wave filters chip has attained stage progress in passing the TriPollar radio frequency performance assessment, and is moving towards the industrialization of 5G millimetre-wave filters chip.

For the year ended 31 December 2022, the revenue of the hi-tech manufacturing business was HK$4,180,912,000, representing a decrease of 2.51% compared to last year; the operating profit was HK$212,488,000, representing an increase of 12.12% compared to last year. The results of the hi-tech manufacturing business are shown below:

	Turnover *(HK'000)*			**Operating Profit** *(HK'000)*		
	2022	2021	Changes *(%)*	**2022**	2021	Changes *(%)*
Plastic Products	**1,430,081**	1,459,512	(2.02)	**16,422**	32,084	(48.82)
Printed Circuit Board	**1,258,426**	1,334,669	(5.71)	**135,543**	85,650	58.25
Intelligent Chargers	**378,380**	421,123	(10.15)	**10,372**	7,230	43.46
Liquid Crystal Display	**1,104,540**	1,062,204	3.99	**51,265**	57,430	(10.73)
Industrial Property Investment	**9,485**	11,260	(15.76)	**(1,114)**	7,125	Loss
Total	**4,180,912**	4,288,768	(2.51)	**212,488**	189,519	12.12

Looking ahead to 2023, it is expected that economic activity will return to normal. However, changes in the political and economic situation are expected to bring uncertainty to the business environment. In addition, the instability in the supply chain and persistent expectations of interest rate hikes will put pressure on profits. While the economy is recovering, hidden risks still exist. During this time of risks and opportunities, the hi-tech manufacturing business will seize the chance to actively explore the market and perform well in risk management. The business will also improve its level of production automation and research and development capability, 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.

Shenzhen Aerospace Science & Technology Plaza

In 2022, Shenzhen Aerospace terminated the whole lease contracts with Hangke Houhai and Huabaorun respectively, and filed a civil complaint against Hangke Houhai for the arrears of rent. The relevant litigations are still being processed. For details, please refer to the company's announcements on 12 May 2022, 14 June 2022, 5 July 2022, 30 September 2022 and 7 November 2022 respectively. In this respect, Shenzhen Aerospace was required to recognize a loss on lease termination amounting to HK$570,873,000 for the accrued rental income and additional impairment loss under expected credit loss model amounting to HK$147,334,000. Following the termination of the lease contracts with Hangke Houhai and Huabaorun, Shenzhen Aerospace Science & Technology Plaza has been fully changed to self-managed operation in leasing. Having taken over the existing tenants, Shenzhen Aerospace will endeavour to source new tenants. As at 31 December 2022, the occupancy rates for commercial premises and office premises of Shenzhen Aerospace Science & Technology Plaza were 39.4% and 32.7%, respectively.

Shenzhen Aerospace and its wholly-owned subsidiary, Shenzhen Aerospace Technology Property Management Company Limited* (深圳市航天高科物業管理有限公司), which is responsible for property management, recorded a total revenue of HK$310,268,000 (2021: HK$440,370,000) and a segment profit of HK$389,340,000 (2021: HK$301,009,000), mainly contributed from the rental and property management fee incomes and increase in the fair value of investment properties during the year.

As at 31 December 2022, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,860,000,000 (2021: RMB7,734,464,000).

In 2023, Shenzhen Aerospace will focus its effort on self-managed operation and further enhance the occupancy rate of its property by working with agencies and strengthening publicity. In addition, communication with the Nanshan District Science and Technology Bureau and Innovation and Technology Bureau will be strengthened, and the licensing of the "Nanshan District Joint Investment Promotion Office" will be used to introduce large-scale enterprises to settle in, and will proactively advocate and enforce its rights in various litigations in accordance with applicable laws.

Other Business

Rayitek, an associate company in which the Company indirectly holds 23.38% interest through its direct wholly-owned subsidiary, CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司) ("CASIL New Century"), distributed a dividend of RMB0.7 per 10 shares during the year and the Company received dividends of approximately RMB2,945,800 in total. On 18 August 2022, Rayitek issued Convertible Bonds. After considering the business performance of Rayitek and in order to maintain the Company's proportion of shareholdings in Rayitek, the Board resolved that CASIL New Century to subscribe for the Convertible Bonds issued by Rayitek at the face value of RMB100 for each in proportion to its shareholding at a consideration of RMB100,494,000. Details of which please refer to the Company's announcement published on 18 August 2022.

Assets

(HK$'000)	**31 December 2022**	31 December 2021	Changes *(%)*
Non-Current Assets	**11,602,450**	12,629,902	(8.14)
Current Assets	**3,663,378**	4,239,260	(13.58)
Total Assets	**15,265,828**	16,869,162	(9.50)

The decrease in non-current assets was mainly due to the derecognition of certain unbilled lease receivables, the reclassification of long-term bank deposits as current assets, 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 for the year was HK$7,658,694,000, representing a decrease of 8.7% as compared with that of HK$8,388,114,000 as at the end of 2021.

The equity attributable to shareholders of the Company decreased as compared with the end of last year, which was mainly due to the loss incurred during the year. Based on the issued share capital of 3,085,022,000 shares during the year, the net assets per share attributable to shareholders of the Company was HK$2.48.

As at 31 December 2022, a cash deposit of HK$41,665,000 and bills receivable of HK$83,449,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. Property right certificates at an approximate value of RMB1,900,000,000 of Shenzhen Aerospace Science & Technology Plaza were mortgaged by Shenzhen Aerospace to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) so as to obtain a 12-year term loan 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)	**31 December 2022**	31 December 2021	Changes *(%)*
Non-Current Liabilities	**3,321,318**	4,254,575	(21.94)
Current Liabilities	**2,159,847**	1,771,821	21.90
Total Liabilities	**5,481,165**	6,026,396	(9.05)

The substantial decrease in non-current liabilities was mainly due to the reclassification of the loan from a major shareholder as current liabilities during the year, 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 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 from a major shareholder to current liabilities.

As at 31 December 2022, the Company and its subsidiaries had other borrowings of HK$1,444,157,000.

Operating Expenses

The administrative expenses of the Company and the subsidiaries in 2022 were HK$451,894,000, representing an increase of 8.37% compared to last year, mainly due to higher labour costs and depreciation and amortization expenses. The finance costs amounted to HK$76,243,000, similar to that of last year.

Contingent Liabilities

During the year ended 31 December 2022, Shenzhen Aerospace is defendant in a claim by its major tenant for the operating loss in the past. The Directors of the Company, after considering the legal advice from its legal adviser in the PRC regarding the claim, conclude that no provision is required as Shenzhen Aerospace should not be liable for the claim in accordance with the lease agreement. However, since there is uncertainty about the court's decision, the claim is then disclosed as contingent liabilities to the Company. Further details of the litigation were set out in the Company's announcements dated 12 May 2022, 14 June 2022, 5 July 2022 and 30 September 2022.

Save for the disclosure above, the Company and the subsidiaries did not have any other material contingent liabilities.

Financial Ratios

	2022	2021
Gross Profit Margin	**21.97%**	22.65%
Return on Net Assets	**(2.58%)**	3.72%

	31 December 2022	31 December 2021
Assets-Liabilities Ratio	**35.90%**	35.72%
Current Ratio	**1.70**	2.39
Quick Ratio	**1.44**	1.96

Liquidity

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking and financial institution facilities. As at 31 December 2022, the cash and bank balance and short-term bank deposits amounted to HK$2,021,327,000, the majority of which were in Hong Kong Dollars and RMB.

Capital Expenditure

As at 31 December 2022, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the consolidated financial statements was approximately HK$150,274,000, mainly the capital expenditure for the acquisition of fixed assets which are expected to be funded by the internal resources and banking and financial institution facilities of the Company and the subsidiaries.

Financial Risks

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

Human Resources and Remuneration Policies

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

As at 31 December 2022, the Company and the subsidiaries had a total of approximately 7,489 employees based in the mainland, Hong Kong and Vietnam respectively.

12. MATERIAL CONTRACT

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

(a) the Construction Contract.

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

As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which had since 31 December 2022, being the date on which the latest published audited accounts of the Company and its subsidiaries were made up, been acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any of the Company and its subsidiaries.

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

14. MISCELLANEOUS

(a) The registered office and principal place of business of the Company is located at Room 1103–1107A, 11/F, One Harbourfront, 18 Tak Fung Street, Hung Hom, Kowloon, Hong Kong.

(b) The company secretary of the Company is Ms Wong Cho Ching, a fellow member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

(c) The Company's share registrar and transfer office is Tricor Standard Limited, of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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

(i) by the Chairman of the meeting; or

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

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

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

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

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

15. DOCUMENTS ON DISPLAY

Copies of the following documents will be published and displayed on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.casil-group.com from the date of this Circular up to the date of the Extraordinary General Meeting (both days inclusive):

(a) this Circular; and

(b) the Construction Contract.

CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 31)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of China Aerospace International Holdings Limited (the "Company") will be held at The Salon One, First Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, at 10:15 a.m. on Wednesday, 21 June 2023 (or as soon thereafter as the Annual General Meeting shall have concluded or been adjourned) to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

Ordinary Resolution

"**THAT** the entering into of the Construction Contract dated 12 May 2023 between Nantong Hong Yuen Circuit Technology Company Limited* (南通康源電路科技有限公司) (as principal) and China Construction Eighth Engineering Division Corp., Ltd. (中國建築第八工程局有限公司) (as contractor), a copy of which is initialed by the Chairman of the meeting for identification purpose, in respect of the construction works in respect of Nantong Hong Yuen Integrated Circuit Packaging Substrate Project (南通康源集成電路封裝載板項目), as more particularly set out in the circular of the Company dated 25 May 2023, be and is hereby approved **AND THAT** the Directors of the Company be and are hereby authorized to take such action and execute such documents as they may deem appropriate and expedient in respect of the proposed transactions contemplated thereunder."

By order of the Board,
Wong Cho Ching
Company Secretary

Hong Kong, 25 May 2023

Notes:

1. The above resolution is required to be approved by way of a poll, and no shareholder is required to abstain from voting.

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

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

Latest time for lodging transfers of shares and related documents for registration	:	4:30 p.m. on Thursday, 15 June 2023
Closure of register of members	:	from Friday, 16 June 2023 to Wednesday, 21 June 2023 (both days inclusive)
Record date	:	Wednesday, 21 June 2023

To ensure Shareholders the right to attend and vote at the Extraordinary General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration on or before 4:30 p.m. on Thursday, 15 June 2023.

4. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the share registrar of the Company, Tricor Standard Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration, no later than 10:15 a.m. on Monday, 19 June 2023.

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