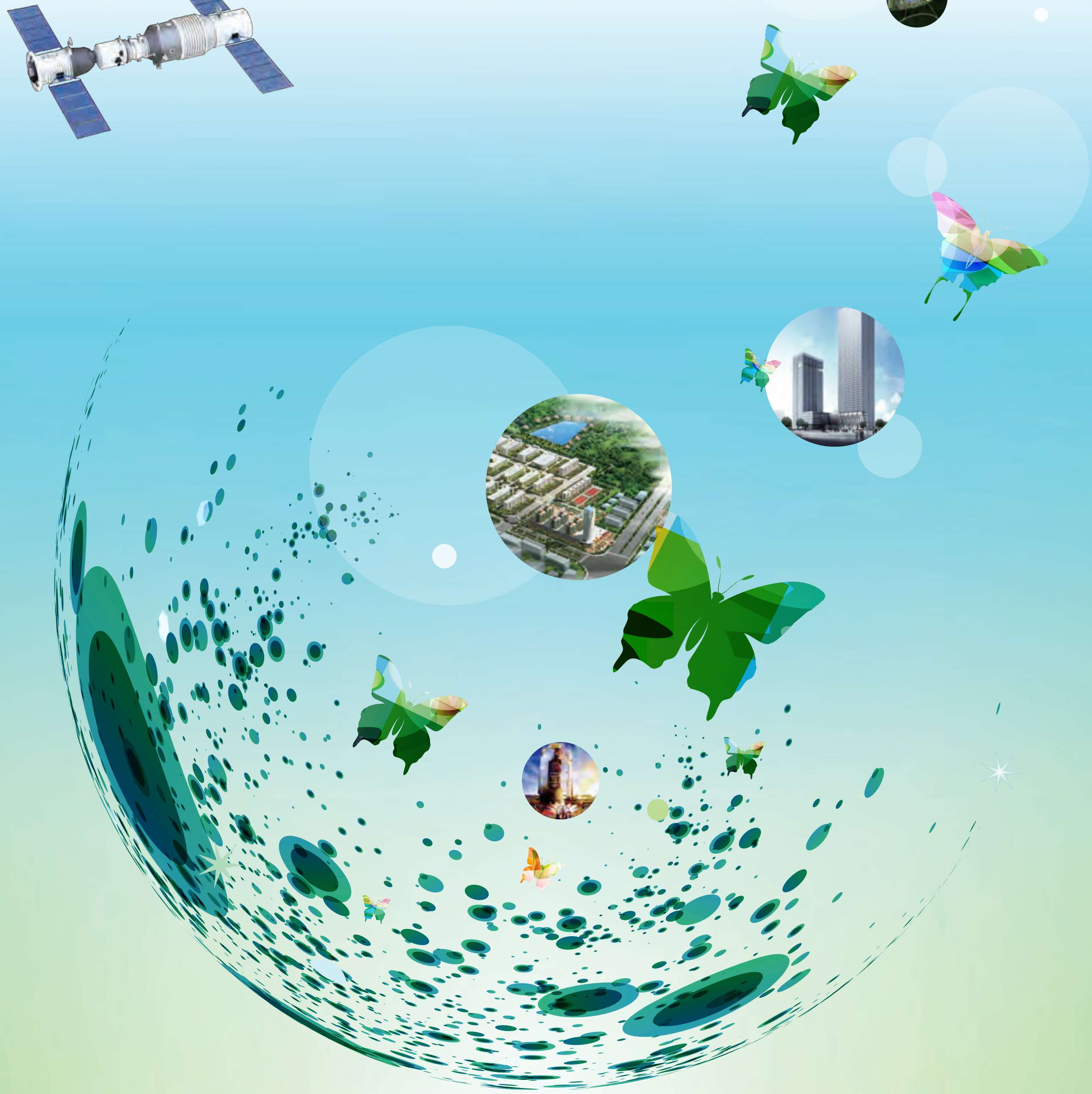
2012
ANNUAL REPORT



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Li Hongjun *(President)*
Mr Jin Xuesheng

Non-Executive Directors

Mr Zhang Jianheng *(Chairman)*
(appointed on 26 March 2012)
Mr Wu Zhuo *(Vice Chairman)*
Mr Luo Zhenbang *(Independent)*
Ms Leung Sau Fan, Sylvia *(Independent)*
(appointed on 26 March 2012)
Mr Wang Xiaojun *(Independent)*
(appointed on 22 March 2013)
Mr Chen Xuechuan
Mr Shi Weiguo
Mr Wu Yanhua *(Chairman) (resigned on 26 March 2012)*
Mr Chow Chan Lum, Charles *(Independent)*
(resigned on 26 March 2012)
Dr Chan Ching Har, Eliza *(resigned on 26 March 2012)*
Mr Zhou Qingquan *(retired on 26 March 2012)*
Mr Wang Junyan *(Independent)*
(resigned on 22 March 2013)

AUDIT COMMITTEE

Mr Luo Zhenbang *(Chairman)*
(appointed on 26 March 2012)
Ms Leung Sau Fan, Sylvia *(appointed on 26 March 2012)*
Mr Shi Weiguo *(appointed on 26 March 2012)*
Mr Chow Chan Lum, Charles *(Chairman)*
(resigned on 26 March 2012)
Mr Zhou Qingquan *(retired on 26 March 2012)*

REMUNERATION COMMITTEE

Ms Leung Sau Fan, Sylvia *(Chairman)*
(appointed on 26 March 2012)
Mr Wang Xiaojun *(appointed on 22 March 2013)*
Mr Chen Xuechuan
Dr Chan Ching Har, Eliza *(Chairman)*
(resigned on 26 March 2012)
Mr Chow Chan Lum, Charles
(resigned on 26 March 2012)
Mr Luo Zhenbang *(resigned on 26 March 2012)*
Mr Wang Junyan *(resigned on 22 March 2013)*

NOMINATION COMMITTEE

(established on 26 March 2012)
Mr Zhang Jianheng *(Chairman)*
Mr Luo Zhenbang
Ms Leung Sau Fan, Sylvia
Mr Wang Xiaojun *(appointed on 22 March 2013)*
Mr Chen Xuechuan
Mr Wang Junyan *(resigned on 22 March 2013)*

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSEL

Reed Smith Richards Butler

PRINCIPAL BANKS & FINANCIAL INSTITUTIONS

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

REGISTERED OFFICE

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* These PRC entities mentioned in this Annual Report do not have English names, the English names set out herein are for identification purposes only.

Zhang Jianheng
Chairman of the Board

RESULTS

For the year ended 31 December 2012, the Company and its subsidiaries reported a turnover of HK$2,615,101,000 (2011: HK$2,187,006,000), representing an increase of approximately 20% over last year. The profit attributable to shareholders was HK$246,725,000 (2011 being restated: HK$387,231,000), representing a decrease of approximately 36%.

In 2012, the continued influence of European sovereign debt crisis resulted in a sluggish global economy, leading to a slowdown in global trade. Despite the impact of various negative factors, the turnover of the hi-tech manufacturing of the Company still achieved a considerable growth when compared with that of last year. The project of Shenzhen Aerospace Science & Technology Plaza, an investment property under construction, recorded at fair value and contributed a considerable amount of profits to the Company. Save as no material one-off non-recurring income was recorded by the Company in 2012, the turnover of the Company grew satisfactorily while a higher profit was achieved when comparing to that of last year. The Board of Directors has proposed the distribution of a final dividend of HK1 cent per share for the shareholders in return.

BUSINESS REVIEW

During the year, the development of the major businesses of the Company performed well. Among which, the hi-tech manufacturing business continued to grow steadily, the project of Complex Zone of the Launching Site in Hainan Province completed the introduction of strategic investors, while the construction of Shenzhen Aerospace Science and Technology Plaza was progressing as scheduled. Both the new materials and the internet of things business recorded a growth in turnover.

Hi-Tech Manufacturing

Hi-Tech Manufacturing

Facing unfavourable factors such as severe global economy, appreciation of RMB, rising costs, human resources shortage and intense competition, the hi-tech manufacturing business had timely adopted certain positive measures, including enhancement of market development efforts, technical upgrading, promotion of meticulous management, optimization of product structure, improvement of employees' productivity, and had both the turnover and the profit set a historical record again. In 2012, the turnover of hi-tech manufacturing business was HK$2,491,522,000 (2011: HK$2,164,071,000), representing an increase of 15% as compared to that of last year. The profit amounted to HK$251,917,000 (2011: HK$216,828,000), representing an increase of 16% as compared to that of last year.

The plastic product business had enhanced the grading and technical specification of its products through technical upgrading, from which the business strived to acquire considerable orders for products of new models in order to serve clients' needs, and strengthened its long-term partnership with major clients, as well as reinforced its market share.

The printed circuit board business continued to focus on the research and development and market exploration of unique products, optimized the product structure of hard board business, completed the transformation of the product structure of soft board business and developed the core clients for SMT business. Meanwhile, the printed circuit board business, through the introduction of new technology and equipment and implementation of technical upgrading by stages, ensures its production capacity for its medium-term development.

The intelligent charger business successfully accomplished the transformation of product structure. The lithium ion battery charger newly developed in recent years accounted for approximately 70% of the turnover, and gradually replaced the traditional Ni-MH charger products.

The semiconductor business had developed a number of new clients while consolidating its relationship with existing clients. The client structure has been optimized, ensuring the profit-oriented sales strategy can be consistently implemented.

New Materials

In 2012, the production capacity of Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek") was becoming stable, the marketing and sales was also strengthened as a result of the gradual improvement of its production conditions. Shenzhen Rayitek progressively saw some achievements in promoting product transformation, as well as making a breakthrough in exploiting medium to high electronic grade film market, and built up a stable client base. As a result, it successfully broke into the electronic grade film market with higher added-value from the electrical grade film market. The newly developed 12.5 micron electronic film products contributed about half of the turnover during the year. At the same time, Shenzhen Rayitek launched its research and development on new products of 9 micron ultra-thin film, functional films and new generation high-performance films, some of which are included in the New Materials Industrialization Plan of Shenzhen and have obtained a subsidy from the municipal government. Such research and development will lay a foundation for the future growth of Shenzhen Rayitek.

Aerospace Service Business

The Complex Zone of the Launching Site in Hainan Province

Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace") had facilitated the municipal government of Wenchang and made considerable progresses in expropriation of lands, of which contracts for approximately 98% of the total area of lands expropriated were executed by the municipal government of Wenchang. In October 2012, Hainan Aerospace, for the first time, successfully bid a site of 58 mu for the Hainan Space Park project and that of 129 mu for its ancillary hotels, which established an important condition for the first phase construction of Hainan Space Park. Meanwhile, the construction of resettlement zones had commenced and the construction plan for the first phase of Hainan Space Park also moved into the detailed design stage.

In November 2012, with the supports from China Aerospace Science & Technology Corporation ("CASC"), Hainan Aerospace successfully introduced Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) ("Hainan Expressway") and China Great Wall Industry Corporation* (中國長城工業集團有限公司) ("China Great Wall") to be its strategic investors. Each of Hainan Expressway and China Great Wall has subscribed the capital of Hainan Aerospace of RMB300,000,000. Meanwhile, Hainan project engaged an advisory agency under Shenzhen Overseas Chinese Town Co., Ltd.* (深圳華僑城股份有限公司) (the "OCT Advisory Agency") as its consultant, so as to provide professional advice on the general planning of the project and the construction and operation of the theme park.

Shenzhen Aerospace Science & Technology Plaza

Following the completion of piling works, the project of Shenzhen Aerospace Science & Technology Plaza moved into the construction stage of main structure during the year. At the end of 2012, the construction reached ground level for the main building and 5th floor for the auxiliary building. At present, the construction of Shenzhen Aerospace Science & Technology Plaza has made a satisfactory progress, and the other tasks of design, tender, approval applications, costs of construction, finance and internal management are also proceeding in order. To complement the marketing and sales in the future and to improve the understanding of the requirements of potential customers, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") has unfolded relevant research works with professional real estate consultants.

Internet of Things

The internet of things software platform developed by Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) ("Aerospace Digitnexus") on its own initiative had basically completed. The marketing works made a remarkable progress, which included the signing of major service contracts for Sichuan Forestry Alert Project and Supply Chain Management System Project of China Construction Steel Structure Corporation Limited* (中建鋼構有限公司). In addition, Aerospace Digitnexus has obtained 3 utility new patent rights, such as smart goods management system, network signal switching device of internet of things and the system of internet of things, personal goods management system etc..

PROSPECT

Against the backdrop of sluggish economies in major developed regions like the US, Europe and Japan, the outlook of the development of the global economy cannot be optimistic. The dual pressure from the sluggish demands and inflation represents a challenge to the export-oriented hi-tech manufacturing business. The business environment continued to be tough. Faced with the challenging market prospects, the Company's hi-tech manufacturing will continue to reinforce management, control costs and risks, increase investment in technical upgrading, as well as the development efforts for domestic and overseas markets, with an aim to actively explore new development opportunities while ensuring the steady operation of business.

The two hi-tech property projects, namely the Complex Zone of the Launching Site in Hainan Province and Shenzhen Aerospace Science & Technology Plaza, will be developed as scheduled on their respective construction plans. The Company will, after the successful introduction of strategic investors to Hainan Aerospace, jointly perform the investment commitments with the strategic investors. Hainan Aerospace will strive to complete the first phase construction of housings and the construction of several municipal facilities in the resettlement zones in 2013, and will explore the possibility of further introducing other strategic partners. With the assistance from the OCT Advisory Agency, Hainan Aerospace will strive for the finalization of various constructions and implementation plans in the near future, so as to commence the construction of the first phase of the project.

The project of Shenzhen Aerospace Science & Technology Plaza recorded a satisfactory progress after moving into the construction stage of the main structure. It is expected that the capping of main structure will be completed during 2013. Shenzhen Aerospace will accomplish the construction of the main structure according to the project schedule and enhance the management efforts over the project. In line with the facilitation of work progress, quality of construction and safety will be emphasized and various construction costs will be well controlled. In addition, preparatory works for marketing and sales will be performed, including the engagement of sales agents and planning agencies, setting up promotion platforms and building up the client base for leasing and solicitation of business. Shenzhen Aerospace will carry out the relevant procedures for the real estate sales qualifications and pre-sale permits, and begins to prepare tasks such as engaging property management companies.

As regard to the new materials business, Shenzhen Rayitek will further improve its production process and enhance production efficiency. The introduction of new products such as HL type film, carbon black polyimide film and corona-resistant polyimide nano film are being promoted principally. Furthermore, Shenzhen Rayitek will continue to develop and deepen its research and development on HE type high modulus polyimide film, low dielectric polyimide, TPI resin, chemical imidized process technology, aerospace prepreg composite membrane and special resin application technology. To enhance the research and development capability, Shenzhen Rayitek will prepare to build an engineering & technology centre and conduct investigation and research for the construction of a new phase of production site.

The internet of things business will strengthen its market development efforts, and expand its forestry projects nationwide based on the foundation works of Sichuan Forestry Project. At the same time, Aerospace Digitnexus will, based on the foundation works of Supply Chain Management System of China Construction Steel Structure Corporation Limited* (中建鋼構有限公司), develop other supply chain management projects for major enterprises. In addition to the markets for forestry and large enterprise supply chain management, Aerospace Digitnexus will strive to explore new markets such as urban fire protection, new energy, oil and petrochemical.

By developing such projects as hi-tech property, new materials and internet of things, the Company absorbed valuable knowledge and experience in merger and acquisition. Looking forward, the Company will enhance its efforts in the field, and further develop two major business segments, hi-tech manufacturing and aerospace services, in accordance with the strategic plan. The Company will develop in full force five business segments of electronic products, hi-tech property, aerospace culture, new materials, and internet of things and satellite application systems.

China Aerospace Science & Technology Corporation established a comprehensive development plan spanning over the thirteenth five-year plan period in its quinquennial meeting in January 2013. The goal to be fulfilled by 2020 is to fully develop CASC into a large world-class aerospace enterprise group. The Company will unswervingly bring its role as the overseas capital operation platform of CASC by devoting all efforts to achieve its goal of the group company, and to strive for better returns for the shareholders of the Company.

APPRECIATION

Mr Wu Yanhua, Mr Zhou Qingquan, Mr Chow Chan Lum, Charles and Dr Chan Ching Har, Eliza resigned from the Board of the Company last year. Mr Wu Yanhua had made an outstanding contribution to the Company during his tenure as chairman. Mr Zhou Qingquan, Mr Chow Chan Lum, Charles and Dr Chan Ching Har, Eliza had also made remarkable contributions to the development of Company during their tenures as directors. On behalf of the Board, I would like to express our wholehearted gratitude to them, and extend a warm welcome to Ms Leung Sau Fan, Sylvia in joining the Company as an independent non-executive director.

Furthermore, on behalf of the Board, I would like to thank our management team and staff for their hard works and substantial achievements, which are crucial to the bloom of the Company, and I would like to express our heartfelt thanks to our respectable clients, banks, professional institutions, and business partners for their long-term trust and support. Finally, I would like to thank, from the bottom of my heart, all members of the Board for their efforts, as well as their precious and professional opinions for the benefit of the Company in the past years.

By order of the Board

Zhang Jianheng
Chairman

Hong Kong, 22 March 2013

RESULTS PERFORMANCE

The audited turnover of the Company and the subsidiaries for the year ended 31 December 2012 was HK$2,615,101,000, representing an increase of approximately 20% as compared with that of HK$2,187,006,000 for 2011. The profit for the year was HK$298,011,000, representing a decrease of 34% as compared with that of HK$448,439,000 (being restated) for 2011.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to shareholders of the Company was HK$246,725,000, representing a decrease of 36% as compared with that of HK$387,231,000 (being restated) for 2011. The decrease in profit was mainly due to, in comparing to 2011, no material one-off non-recurring income was recorded by the Company in 2012.

Based on the issued share capital of 3,085,022,000 shares during the year, the basic earnings per share was HK$0.08, representing a decrease of 36% as compared with that of HK$0.1255 (being restated) for 2011.

DIVIDENDS

The Board proposed the distribution of 2012 final dividend of HK1 cent per share in March 2013, subject to the approval by shareholders at the annual general meeting to be held on 30 May 2013. If approved, warrants of which will be dispatched to all shareholders on or about 26 June 2013.

The 2011 final dividend of HK1 cent per share had been approved by shareholders at the annual general meeting in June 2012 and warrants of which were dispatched to all shareholders on 12 July 2012.

RESULTS OF CORE BUSINESSES

Core businesses of the Company and the subsidiaries are hi-tech manufacturing and aerospace services. The turnover of the hi-tech manufacturing is the main source of the Company's turnover and that contributes a significant profit and cash flow. This has enabled the Company to fulfill gradual development of the business of aerospace services and other new businesses such as hi-tech property, new materials, aerospace cultural industry, internet of things and satellite applications, so as to achieve the Company's new development target and minimize single business risk.

HI-TECH MANUFACTURING

Hi-tech manufacturing

The turnover of the hi-tech manufacturing in 2012 was HK$2,491,522,000, representing an increase of 15% as compared with last year; the operating profit was HK$251,917,000, representing an increase of 16% as compared with last year. The results of the hi-tech manufacturing are shown below:

	Turnover (HK$'000)		Changes	**Operating Profit (HK$'000)**		Changes
	2012	2011	(%)	**2012**	2011	(%)
Plastic Products	**846,598**	808,160	4.76	**67,424**	59,803	12.74
Printed Circuit Boards	**507,340**	450,362	12.65	**107,716**	90,997	18.37
Intelligent Chargers	**764,975**	586,720	30.38	**49,007**	39,286	24.74
Liquid Crystal Display	**358,866**	306,003	17.28	**13,420**	12,391	8.30
Industrial Property Investment	**13,743**	12,826	7.15	**14,350**	14,351	(0.01)
Total	**2,491,522**	2,164,071	15.13	**251,917**	216,828	16.18

Looking forward to 2013, the hi-tech manufacturing still faces the issues of cost increment, market fluctuations and so on. The Company will continue to strengthen the marketing development and the management, enhance productivity and control costs, so as to ensure the hi-tech manufacturing to have a stable growth continuously.

New materials

In 2012, Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek") furthered the improvement of production technology in polyimide film products and completed the adjustment in strategy of major markets, from mainly supplying insulators for electric-engineering market to that of in electronics applications. In 2012, the turnover was HK$84,751,000 and a loss of HK$21,173,000 was recorded, including an impairment loss of goodwill of HK$23,000,000.

Looking forward to 2013, Shenzhen Rayitek continues to improve its existing production technology, further improves its product quality and production capacity, and expands its sales and marketing in order to speed up its business development.

AEROSPACE SERVICES BUSINESS

The Complex Zone of the Launching Site in Hainan Province

In 2012, Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace") continued to assist the government in the rest of land expropriation and that had completed most of the land expropriation. In relation to the construction of resettlement zone, a temporary permit for the planning of construction works had been obtained, the preliminary works such as the master plan, the implementation plan of the construction works, and the planning and design of urban facilities and so on had been completed as well, and the construction works are underway at present. Simultaneously, Hainan Aerospace had obtained the subscription of equity interests by the strategic investors and the subscription was completed in March 2013.

Hainan Aerospace recorded a loss of HK$6,921,000 in 2012, which was mainly the payment of the cost of preparatory work, and administrative and professional fees.

Shenzhen Aerospace Science & Technology Plaza

In 2012, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") completed the design of several construction drawings, underwent several tendering of construction works and completed the work of pilings. Besides, the construction works above the ground level was commenced. In 2013, Shenzhen Aerospace will continue to step up those construction works, design and tendering works, and strive to complete the capping of the main structure.

Shenzhen Aerospace recorded a fair value gain of investment property of HK$229,325,000 in 2012. As at 31 December 2012, the property under construction and land use right of Shenzhen Aerospace Science & Technology Plaza was valuated at approximately HK$2,272,388,000.

Internet of Things

In 2012, Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術(深圳)有限公司) ("Aerospace Digitnexus") basically completed the research of software platform and signed several projects and services contracts. In 2013, Aerospace Digitnexus will continue to explore markets and strengthen research and development so as to maintain a pioneer position of its products.

Aerospace Digitnexus recorded a turnover of HK$36,984,000 and a loss of HK$4,706,000 in 2012, which was mainly the amortization of intangible assets and payment of administrative fees etc..

ASSETS

As at 31 December 2012, the audited total assets of the Company and the subsidiaries were HK$6,635,359,000, of which the non-current assets were HK$4,600,412,000, representing an increase of 15% as compared with that of HK$4,017,469,000 (being restated) as at 31 December 2011. The current assets were HK$2,034,947,000, representing an increase of 6% as compared with that of HK$1,922,948,000 as at 31 December 2011. The increase in non-current assets was mainly due to the increase in fair value of investment properties, whereas the increase in current assets was mainly due to the increase in trade receivables resulting from the increase in turnover correspondingly. The equity attributable to shareholders of the Company was HK$4,118,102,000 representing an increase of 7% as compared with that of HK$3,863,672,000 (being restated) as at 31 December 2011. 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$1.33.

As at 31 December 2012, a cash deposit of the Company and the subsidiaries of approximately HK$110,207,000 had been pledged to banks to obtain credit facilities, Shenzhen Rayitek had pledged its plant and equipment and land use right at the book value of HK$110,392,000 and HK$14,341,000 respectively to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) to secure general banking facilities, and Shenzhen Aerospace had obtained a syndicated loan by securing the land use right and property under construction thereof at value of RMB1,827,000,000 to a syndicate comprising banks and a financial institution.

LIABILITIES

As at 31 December 2012, the total liabilities of the Company and the subsidiaries were HK$1,794,668,000, of which the non-current liabilities were HK$677,456,000, representing an increase of 56% as compared with that of HK$434,795,000 (being restated) as at 31 December 2011, the current liabilities were HK$1,117,212,000, representing an increase of 14% as compared with that of HK$976,396,000 as at 31 December 2011. The increase in non-current liabilities was mainly due to the increase in bank loans and deferred tax, whereas the increase in current liabilities was mainly due to the increase in trade payables resulting from the increase in purchase correspondingly and payables for the construction of Shenzhen Aerospace Science & Technology Plaza. As at 31 December 2012, the Company and the subsidiaries had bank and other borrowings of HK$324,005,000.

Shenzhen Aerospace entered into a syndicated loan agreement of RMB1,500,000,000 with a syndicate of financial institutions in 2011 for the payment of construction costs of the Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction works, the construction costs will increase significantly. Shenzhen Aerospace will gradually drawdown the loan to pay the construction costs. Therefore, the relevant bank debt will gradually increase. As at 31 December 2012, Shenzhen Aerospace had drawn down the loan in the amount of RMB141,000,000.

OPERATING EXPENSES

The administrative expenses of the Company and the subsidiaries in 2012 were HK$296,781,000, representing an increase of 15% as compared with last year, which was mainly due to the increase in human resources expense. The financial costs amounted to HK$14,995,000, of which HK$3,523,000 and HK$5,446,000 had been capitalized and recorded as the construction cost of Shenzhen Aerospace Science & Technology Plaza and the land development cost of the Hainan project.

CONTINGENT LIABILITIES

As at 31 December 2012, the Company and the subsidiaries did not have any other material contingent liabilities.

FINANCIAL RATIOS

	2012	2011 (Restated)
Gross Profit Margin	**19.65%**	20.31%
Return on Net Assets	**6.16%**	9.90%

	31 December 2012	31 December 2011 (Restated)
Assets-Liabilities Ratio	**27.05%**	23.76%
Current Ratio	**1.82**	1.97
Quick Ratio	**1.60**	1.73

LIQUIDITY

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities. The free cash and bank balance as at 31 December 2012 amounted to HK$1,022,285,000, the majority of which were in Hong Kong Dollars and Renminbi.

CAPITAL EXPENDITURE AND INVESTMENT COMMITMENT

As at 31 December 2012, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the consolidated financial statements was HK$910,563,000, mainly for the capital expenditure of the construction of Shenzhen Aerospace Science & Technology Plaza. With the comprehensive commencement of the construction of Shenzhen Aerospace Science & Technology Plaza, Shenzhen Aerospace will draw down the syndicated loan by stages to settle related construction costs.

The commitment of the land development project of the Complex Zone of the Launching Site in Hainan Province is RMB1,200,000,000, and as at 31 December 2012, a sum of RMB535,103,000 had been incurred or paid. The other shareholders of Hainan Aerospace had completed the increase in capital in Hainan Aerospace in March 2013, the registered capital of which is RMB1,200,000,000.

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 level of human resources management and strictly implement the performance-based appraisal system, in order to motivate employees to make continuous improvement in their individual performance and contributions to the Company.

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.

As at 31 December 2012, the Company and the subsidiaries have a total of approximately 6,500 employees based in the Mainland China and Hong Kong respectively.

APPRECIATION

The Company would like to express its heartfelt thanks to all its employees, and shareholders, banks, business partners and all other people from the society who have rendered support to the Company's development.

By order of the Board

Li Hongjun
Executive Director and President

Hong Kong, 22 March 2013

The Company had complied throughout the reporting period with the provisions of the *Corporate Governance Code* and *Corporate Governance Report* as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

BOARD OF DIRECTORS

In 2012, the Board of Directors of the Company comprises the Executive Directors, namely, Mr Li Hongjun (President) and Mr Jin Xuesheng; the Non-Executive Directors, namely, Mr Zhang Jianheng (Chairman) (appointed in March 2012), Mr Wu Zhuo (Vice Chairman), Mr Chen Xuechuan, Mr Shi Weiguo, Mr Wu Yanhua (Chairman) (resigned in March 2012), Dr Chan Ching Har, Eliza (resigned in March 2012) and Mr Zhou Qingquan (retired in March 2012); and the Independent Non-Executive Directors, namely, Mr Luo Zhenbang, Mr Wang Junyan, Ms Leung Sau Fan, Sylvia (appointed in March 2012) and Mr Chow Chan Lum, Charles (resigned in March 2012).

Mr Wu Yanhua and Mr Zhang Jianheng had been consecutively appointed as Chairman of the Company, Mr Wu Zhuo had been appointed as Vice Chairman of the Company and Mr Li Hongjun had been appointed as President of the Company. Mr Wu Yanhua, Mr Zhang Jianheng, Mr Wu Zhuo and Mr Li Hongjun are not related to in financial, business or family aspects. The roles of Chairman and President have been divided according to respective written Terms of Reference.

Each of the Directors of the Company will receive a comprehensive and formal induction on the first occasion of their respective appointment, so as to ensure that they have a proper understanding of the operations and business of the Company and are fully aware of their responsibilities under common law, the Listing Rules, applicable legal requirements, other regulatory requirements and the business and governance policies of the Company.

The specific term for each Non-Executive Director (including Independent Non-Executive Directors) of the Company is two years, provided that each Non-Executive Director is subject to retirement by rotation and re-election, if eligible, under the Articles of Association of the Company.

Those Directors appointed by the Board during the year shall hold office only until the next general meeting and shall then be eligible for re-election. The process for re-election of a Director is in accordance with the Company's Articles of Association, which requires that, other than those Directors appointed during the year, one-third of the Directors for the time being (or the nearest number) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election. The annual report and the circular for annual general meeting contain detailed information on re-election of Directors including detailed biography of all Directors standing for election or re-election so as to ensure shareholders to make an informed decision on their election. If shareholders propose a person for election as a director of the Company, it should be made in pursuant to procedures stipulated in the Hong Kong Companies Ordinance, the Listing Rules and the Company's Articles of Association etc.. Procedures of Articles of Association can be downloaded and reviewed in the Company's website.

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2012, namely, Mr Luo Zhenbang, Mr Wang Junyan, Ms Leung Sau Fan, Sylvia (appointed in March 2012) and Mr Chow Chan Lum, Charles (resigned in March 2012). Among those Independent Non-executive Directors, both Mr Luo Zhenbang and Mr Chow Chan Lum, Charles have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Company had received a letter from each of the Independent Non-Executive Directors confirming his independence in compliance with Rule 3.13 of the Listing Rules. As such, the Board of Directors confirmed the same upon the Nomination Committee had reviewed and confirmed that all Independent Non-Executive Directors are independent. The Independent Non-Executive Directors of the Company are unrelated to each other in every aspect, including financial, business or family.

In 2012, the Company entered into an engagement letter with each of the Directors, in which specified that their responsibilities to comply with the rules and regulations and the Memorandum and Articles of Association and to report director's duties, their right to receive the director's remuneration and to reimburse their expenses incurred reasonably, their length of term and the ways to terminate their appointment and so on. The Directors have understood their duty that they should commit sufficient time to deal with the Company's matters and have confirmed the same to the Company.

The Company had adopted *the Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 of the Listing Rules, as the required standard for the Directors of the Company to trade the securities of the Company. The Company had also adopted a code for employees as the required standard to trade the securities of the Company. The Company has required that, from 30 days before the publication of interim results and 60 days before the publication of annual results, Directors, senior management and each of their respective associates are not allow to trade any securities of the Company.

The Company had enquired with all the Directors as to whether they had complied with Appendix 10 while trading the securities of the Company during 2012. So far as was known to the Company, all Directors had complied with Appendix 10 during the period.

The attendance records of individual Directors during 2012 are set out below:

	Annual General Meeting		**Board Meeting**	
Directors	**Number of meetings entitled to attend**	**Number of attendance**	**Number of meetings entitled to attend**	**Number of attendance**
Zhang Jianheng	1	1	4	4
Wu Zhuo	1	1	4	4
Li Hongjun	1	1	4	4
Jin Xuesheng	1	1	4	4
Chen Xuechuan	1	0	4	4
Shi Weiguo	1	0	4	4
Luo Zhenbang	1	1	4	4
Wang Junyan	1	0	4	3
Leung Sau Fan, Sylvia	1	1	4	4
Wu Yanhua	0	0	1	1
Chen Ching Har, Eliza	0	0	1	1
Zhou Qingquan	0	0	1	1
Chow Chan Lum, Charles	0	0	1	1

Board of Directors

The Board is responsible for determining the Company and the subsidiaries' objectives, strategies, policies, principal business plans and corporate governance, and the management is delegated the responsibilities of running the Company's businesses, making day-to-day decisions concerning business operations and the implementation of the approved strategies in achieving the overall development strategies of the Company.

CORPORATE GOVERNANCE POLICY

The Board is responsible for the Company's corporate governance and shall review and approve the Company's corporate governance in board meeting(s) in a timely manner. This includes but not limited to reviewing the effectiveness and sufficiency of corporate governance measures and policies, reviewing the training arrangements of Directors and senior management, whether the Company policies comply with requirements of rules and regulations, applicability of the Company's internal codes, whether the Company complies with requirements of the *Corporate Governance Code and Corporate Governance Report*, and whether these have been disclosed in the Corporate Governance Report. The corporate governance policy has been covered in the Company's Rules of Board Procedure which mainly regulate and monitor the discussion and decision making procedure of the Board in order to raise the effectiveness of corporate governance. Besides, the Board has made an appropriate internal control and whistle-blowing system so as to effectively monitor the Company's financial and governance situation. At the same time, the Company also made a Shareholder's Communication Policy to effectively put forward disclosures of information and increase the Company's transparency.

In pursuant to the Company's Rules of Board Procedure. Regular board meetings are held at least four times a year, and, if necessary, additional meetings would be arranged. In 2012, the Company held four board meetings, and Mr Zhang Jianheng, the Chairman, also convened a meeting with the Non-Executive Directors (including the Independent Non-Executive Directors) without the presence of the Executive Directors and other management. The Company Secretary assists the Directors in establishing the meeting agenda. Notice of meeting and information package have been sent to Directors within reasonable and practical time prior to a regular board meeting in order to facilitate the Directors informed discussion and decision-making.

The Company Secretary is responsible for taking minutes of meetings. Draft minutes will be sent to all Directors for their comments within a reasonable time after each meeting and will be approved by the Board at the immediate following meeting. Final versions of the board minutes will be sent to all Directors for inspection. The minutes books are kept by the Company Secretary and are open for inspection by the Directors upon request. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board and advising the Board that the procedures are followed and that the Listing Rules are complied with.

BOARD COMMITTEES

The Board has established an Audit Committee and a Remuneration Committee, and a Nomination Committee that has just been established on 26 March 2012, all of which respectively monitors the Company's governance such as financial situation, directors and senior management's remuneration policy, and nomination of directors. The Committees are governed by their respective Terms of Reference. The Committees are accountable to the Board.

AUDIT COMMITTEE

In 2012, the Audit Committee of the Company comprises Mr Luo Zhenbang (Chairman), Mr Chow Chan Lum, Charles (Chairman) (resigned in March 2012) and Ms Leung Sau Fan, Sylvia (appointed in March 2012), all being Independent Non-Executive Directors; and Mr Shi Weiguo (appointed in March 2012) and Mr Zhou Qingquan (retired in March 2012), both being Non-Executive Directors. The major functions of the Audit Committee include serving as a focal point for communication between the Directors and external auditors, reviewing the Company's financial information as well as overseeing the Company's financial reporting system and internal control procedures.

The Audit Committee met twice during 2012 for the purpose of assessing and reviewing the internal control system, the financial statements and corporate governance practices and so on. The Audit Committee also reviewed and approved the arrangement to the staff of raising concerns about improprieties in financial reporting at the meeting in March 2012. The external auditors, the General Manager of Finance Department and the Company Secretary attended both meetings and the General Manager of Internal Audit Department attended one of the meetings.

The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2012.

The attendance records of individual Audit Committee members during 2012 are set out below:

	Number of meetings eligible to attend	Number of attendance
Luo Zhenbang	2	2
Leung Sau Fan, Sylvia	1	1
Shi Weiguo	1	1
Chow Chan Lum, Charles	1	1
Zhou Qingquan	1	1

The Company amended the Terms of Reference of the Audit Committee in 2012 in order to comply with the latest amendments of the Listing Rules, contents of which can be downloaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

REMUNERATION COMMITTEE

In 2012, the Remuneration Committee comprises Ms Leung Sau Fan, Sylvia (Chairman) (appointed in March 2012), Mr Wang Junyan, Mr Luo Zhenbang (resigned in March 2012) and Mr Chow Chan Lum, Charles (resigned in March 2012), all being Independent Non-Executive Directors, and Dr Chan Ching Har, Eliza (Chairman) (resigned in March 2012) and Mr Chen Xuechuan, both being Non-Executive Directors. 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.

The Remuneration Committee met once during 2012. The President, the Controller of Human Resources and the Company Secretary also attended the meeting. The Remuneration Committee reviewed the remuneration and appraisal policy of the Company's Directors and senior management. In 2012, no Director was involved in deciding his/her remuneration.

The attendance records of individual Remuneration Committee members during 2012 are set out below:

	Number of meetings eligible to attend	Number of attendance
Leung Sau Fan, Sylvia	1	1
Wang Junyan	1	1
Chen Xuechuan	1	1
Luo Zhenbang	0	0
Chan Ching Har, Eliza	0	0
Chow Chan Lum, Charles	0	0

The Directors' fees and any other reimbursement or emolument payable to each Director during the year were fully disclosed in the Company's financial statements.

The Company amended the Terms of Reference of the Remuneration Committee in 2012 in order to comply with the latest amendments of the Listing Rules, contents of which can be downloaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

NOMINATION COMMITTEE

The Company established a Nomination Committee on 26 March 2012. Chairman of the Nomination Committee is Mr Zhang Jianheng, being a Non-Executive Director and the Chairman of the Board, and members of the Nomination Committee are Mr Luo Zhenbang, Mr Wang Junyan and Ms Leung Sau Fan, Sylvia, all being Independent Non-Executive Directors, and Mr Chen Xuechuan, being a Non-Executive Director. Main functions of the Nomination Committee are to review the structure, size and composition of the Board in order to implement the Company's strategy. The Company has made the Terms of Reference of the Nomination Committee, contents of which can be downloaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

The Nomination Committee met once during 2012 and the Company Secretary of the Company also attended the meeting. The Nomination Committee reviewed the reasonableness of the structure and composition of the Board and the independency of Independent Non-Executive Directors and considered that the composition of the Board fits the needs of the business development of the Company presently. The Nomination Committee also reviewed the independency of each Independent Non-Executive Directors and confirmed all of them are independent, and the Board, based on the recommendation of the Nomination Committee, also confirmed that all of them have an independency.

The attendance records of individual Nomination Committee members during 2012 are set out below:

	Number of meetings eligible to attend	**Number of attendance**
Zhang Jianheng	1	1
Luo Zhenbang	1	1
Wang Junyan	1	1
Leung Sau Fan, Sylvia	1	1
Chen Xuechuan	1	1

DIRECTORS' TRAINING

The Directors have been reported the financial and the operational information by the Company periodically, and will be informed, both in written and by meetings, the latest amendments of the relevant laws related to listed companies and the Listing Rules in order to let them to understand the related directors' duties and responsibilities. Besides, the Company already informed each Director of the requirement of receiving relevant training each year and the provision of a record of the training they received to the Company. In 2012, the Company arranged a professional legal practitioner to conduct a training related to the disclosure of inside information and insider dealing, all Directors were present the training. All the Directors provided his or her training record during 2012 to the Company pursuant to the *Corporate Governance Code and Corporate Governance Report*.

LIABILITY INSURANCE

The Company had already purchased an insurance for Directors and senior management of the Company and the subsidiaries in respect of the protection against contingent loss and liabilities arising from daily operations that may be borne by the Directors and senior management from each companies.

COMPANY SECRETARY

The Company Secretary of the Company is Mr Chan Ka Kin, Ken, who is a member of the Hong Kong Institute of Chartered Secretaries, has been servicing the Company for many years and he had taken not less than 15 hours' professional training in 2012 which met the requirements as stipulated in Rule 3.28 of the Listing Rules.

The Company Secretary should report to the Chairman of the Board and the President. The selection, appointment or dismissal (if any) of Company Secretary should be approved by the Board in future.

INTERNAL CONTROL

The Company has gradually established, maintained and operated an effective system of internal control, which has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Company has conducted an annual review of the effectiveness of the Company and the subsidiaries' internal control systems over all material controls, including the financial, operational and compliance controls and risk management functions. In addition, the Company considers that it is adequate in resources, qualifications and experience of staff of the Company's accounting and financial reporting function, as well as their training programmes and budget. The Company considers that the present internal control procedures adopted are sufficient to comply with the requirements under the Listing Rules, but the Company will continue to review, revise and strengthen its internal control from time to time, so as to meet with further requirements of internal management under the Listing Rules.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs, the results and the cash flows of the Company and the subsidiaries for that period. In preparing the accounts for the year ended 31 December 2012, the Directors have selected suitable accounting policies and adopted Hong Kong Financial Reporting Standards and applied them consistently. Based on judgments and estimates that are prudent and reasonable, the Directors prepared the accounts on the going concern basis. Auditor's reporting responsibilities are set out on the financial statements by the auditor.

During 2012, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern.

The Company aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects in all published documents such as announcements, circulars, interim reports and annual reports. The Company has announced its annual and interim results in a timely manner within the limits of 3 months and 2 months respectively after the end of the relevant period, as laid down in the Listing Rules.

In 2012, the Company paid a total of approximately HK$5,338,900 to the auditor, of which included an audit fee of approximately HK$4,000,000 and a non-audit fee of approximately HK$1,338,900. The latter comprised fees for provision of services in reviewing interim report and results announcement, and provision of service in the assessment of the Company and its subsidiaries' cash flow and indebtedness in respect of the major and connected transaction regarding the subscription of equity interest in Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司).

INVESTORS' RELATION

The information on the website of the Company will be updated in a proper and timely manner to maintain a quick, fair and transparent disclosure of its information.

The Company, when holding any general meeting, will propose a separate resolution for each substantially separate issue. No "bundling" resolution will be proposed, including nomination of each director.

Meanwhile, the Company, according to the requirements of the Listing Rules 13.39(4), has set out clearly in the circulars to its shareholders that all resolutions to be made at general meetings would be conducted by poll. Besides, all proxies are counted at the general meeting whereas poll results are announced promptly at the meeting, of which the same will be uploaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company on the same day.

The Company held an annual general meeting in June 2012. Circular of the meeting was sent beforehand as required by related rules. In the annual general meeting, the shareholders reviewed and approved the resolutions on the Company's financial results of 2011, the payment of a final dividend, re-election and remuneration fixing of Directors, the re-election and remuneration fixing of auditors, the general mandate to the Board to issue and repurchase shares, and the amendment of Memorandum and Articles of Association.

The Company had set aside enough time for shareholders to raise questions and for Directors to respond in the general meeting. Resolutions being put forward in the general meeting were duly approved by shareholders and the Company Secretary, representing the Chairman, announced all poll results promptly during the meeting, of which the same were uploaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company respectively on the same day's afternoon.

To comply with the amendments of the Listing Rules and the development of the Company, the Board of Directors suggested the relative amendments of the Company's Memorandum and Articles of Association in the board meeting held in March 2012. The amendments mainly included to remove the exemption for voting by a director on a board resolution in which he has an interest, to provide detail procedures to requisite an extraordinary general meeting by shareholder, to tidy up the object clause of the Company, and to include the serving of notices and documents by electronic means etc. The proposed amendments to the Memorandum and Articles of Association were approved by the shareholders at the annual general meeting held in June 2012.

SHAREHOLDERS' RIGHTS

Shall any shareholder of the Company demand the holding of an extraordinary general meeting for approval of any specific resolution, he/she may so demand in accordance to the requirements of Hong Kong Companies Ordinance and the Company's Memorandum and Articles of Association. The said requirements can be downloaded from the Company's website.

Shall any shareholder intend to put forward suggestions in any general meeting or enquiries to the Board, he/she shall do so in written to the Company Secretary of the Company. The letter shall state clearly the identity of the shareholder, the number of shareholding, correspondence address and telephone number, and the related suggestions and enquiries. The Company shall, in a reasonable and practicable manner, pass the said matter to the Board or the President and respond according to the situation.

In addition, the Company receives letters or phone enquiries from shareholders from time to time, the Company shall, in a reasonable and practicable manner, respond as quickly as possible. For matters concerning the Company's shares and basic information of announcements, enquiries shall be put forward to the email of comsec@casil-group.com while for matters concerning investor relations and enquiries from reporters, enquiries shall be put forward to the email of investor.relations@casil-group.com.

Contacts of the Company are as follows:

1103-07A, One Harbourfront,
18 Tak Fung Street, Hung Hom,
Kowloon, Hong Kong

Tel:	(852) 2193 8888
Fax:	(852) 2193 8899
email:	public@casil-group.com
website:	www.casil-group.com
Office Hours:	9:00a.m. to 5:30p.m.
	Monday to Friday (except public holidays)

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2012, the authorised share capital of the Company was 100,000,000,000 shares at HK$0.10 each while the issued share capital is 3,085,021,882 shares, and the market capitalization was about HK$2,129,000,000.

As at 31 December 2012, the Company had total registered shareholders of 1,303, of which included the substantial shareholder, China Aerospace Science & Technology Corporation, holding approximately 38.37%. Since many other shareholders hold shares through HKSCC Nominees Limited in Hong Kong, the actual number of shareholders should be greater than the registered numbers.

According to the public information obtained by the Company and to the best knowledge of the Directors, the Company complied with the sufficiency of public float of not less than 25% as required by the Listing Rules as of the date of this Annual Report.

CORPORATE SOCIAL RESPONSIBILITY

In the midst of continuous business development, the Company also hopes to gradually set forth the message of corporate social responsibility, through consistent encouragement, suggestions and rules compliance, by reducing impacts on the environment and resources so as to contribute to the society and level up the society's sustainability. The Company endeavours to put efforts to become a company with social responsibility.

Fair Trading

The Company and its subsidiaries have engaged into business with their business partners and lending banks based on fair and reasonable terms and complied with related rules and regulations so as to reduce the exposure of risks. The Company and its subsidiaries will execute contracts and settle payables within a reasonable and practicable time according to related contract terms without unreasonable delay. The Company and its subsidiaries also demand the same on its customers so as to facilitate persistent cash flow without affecting business operations.

Environmental Protection

The Company has long been encouraging staff to lessen the consumption of natural resources and also requires its subsidiaries to comply with related environmental protection regulations and ensure such compliance during production and operation, with the hope to reduce unnecessary utilisation of natural resources and environmental pollution.

Social Responsibility

The products of the hi-tech manufacturing enterprises of the Company are made in compliance with related product safety regulations so as to ensure the production processes will not affect health and safety of the staff and finally that of our customers.

The Company and its subsidiaries provide their staff with a comparative reasonable salary level, appropriate medical protection and other insurance coverage. This helps to maintain a comparative stable working environment for the staff. Meanwhile, the Company and its subsidiaries also adequately sponsor the staff to attend some professional seminars and short-term courses in order to encourage staff to consistently increase their own competitiveness to face with the ever-changing market situation and to meet with the requirements of the Company.

Mr Zhang Jianheng, aged 52, a Senior Engineer, is a Non-Executive Director and Chairman of the Company. Mr Zhang graduated from Dalian Institute of Technology in 1982. From 1982 to 1989, he joined the First Film Factory of the Ministry of Chemical Industry and from 1989 to 1996, he joined the First Film Factory of China Lucky Film Company. From 1996 to 2011, he was the Director, Deputy General Manager and General Manager of China Lucky Film Corporation. During the same period, he also served as Deputy Chairman and General Manager, and Chairman of Lucky Film Co., Ltd. (stock code: 600135), a company listed on the Shanghai Stock Exchange. From 2011 till now, he serves as Deputy General Manager of China Aerospace Science & Technology Corporation and from April 2012 as Vice Chairman of ZTE Corporation, the shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 763) and Shenzhen Stock Exchange (stock code: 000063). Mr Zhang was a Standing Committee Member of the 10th Session of All China Youth Federation and Deputy Chairman of the 2nd Session of the State Enterprise Youth Federation. He was elected as a deputy of the 11th National People's Congress in 2008 and was assessed as National Labour Model in 2010. Mr Zhang has extensive experience in corporate administration. He was appointed as a Non-Executive Director and Chairman of the Company in March 2012.

Mr Wu Zhuo, aged 63, a Research Fellow with graduate qualification, is a Non-Executive Director and Vice Chairman of the Company. Mr Wu started his career in Heilongjiang Production and Construction Corps from December 1967 and studied chief design of spacecrafts in Hunan Changsha Technical College from October 1973. In addition, Mr Wu served as Technician in Nanjing Chenguang Machinery Factory from December 1976, Assistant Engineer of the Second Research Academy of the Ministry of Space Industry of China from February 1980, Engineer of Aerospace System Engineering Bureau of the Ministry of Space Industry of China from October 1983, Supervisor and Deputy Division Director of System Engineering Bureau of the Ministry of Aerospace Industry of China from 1988. Through his career in China Aerospace Corporation from June 1993, he had held such positions as Division Director and Deputy Director General of Research & Production Department, Deputy Director General of Human Resources & Training Department and the Head of General Office. From June 1999 onwards, he served as Deputy General Manager of China Aerospace Science & Technology Corporation. Mr Wu was invited to Columbia University as senior visiting scholar for one year in 1988. He was assessed as Research Fellow in 1998 and obtained the Government Subsidy awarded by the State Council in 1999. Mr Wu has been managing in the field of aerospace for a number of years and has extensive capability and experience in the management of system engineering and human resources. He was appointed as a Non-Executive Director and Chairman of the Company in September 2007 and was re-designated as Vice Chairman of the Company in December 2010.

Mr Li Hongjun, aged 47, a Senior Engineer, is an Executive Director of the Company and President of the Group. He started his career in China Academy of Aerospace Propulsion Technology in September 1985 and held such posts as Technician, Vice President and President of Academy of Metrology, Director General of Civilian Products Department of China Academy of Aerospace Propulsion Technology, Deputy General Manager and General Manager of Shaanxi Aerospace Power High-tech Company Limited (stock code: 600343), a company listed on the Shanghai Stock Exchange. In the meantime, he studied in the Party School of the Central Committee majoring in Economic Management by correspondence, the Northwest University majoring in Administrative Management and obtained a master degree of Public Administration, and the Nanyang Technological University, Singapore majoring in Business Administration and obtained a degree of EMBA. He was the Vice President of China Spacesat Company Limited (stock code: 600118), a company listed on the Shanghai Stock Exchange, from May 2004 to June 2005. He was the Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation from June 2005 and was promoted to Director General from December 2007 until May 2010. He has been involved in the senior posts in listed companies for years and has extensive experience in corporate management, market exploration and capital operation. He was appointed as a Non-Executive Director of the Company in March 2008 and was re-designated as an Executive Director of the Company and appointed as President of the Group in May 2010.

Mr Jin Xuesheng, aged 50, a Senior Engineer, is an Executive Director of the Company and Executive Vice President of the Group. He graduated from Harbin Institute of Technology with an engineering bachelor degree and the University of Lancaster in the United Kingdom with a MBA degree. From 1984, he held such positions as Deputy Division Director and Division Director of the Planning and Operation Division, Engineer and Deputy Factory Director at Capital Engineering Factory under China Academy of Launch Vehicle Technology, as well as Managing Director of Langfang Hangxing Packaging Machinery Company Limited, Partner of Beijing Haiwen Investment Consulting Limited, the Vice President and Financial Controller of China Spacesat Company Limited (stock code: 600118), a company listed on the Shanghai Stock Exchange, Deputy General Manager of Beijing Aerospace Satellite Applications Company and Deputy General Manager of Aerospace Technology Investment Holdings Limited. Among which, he was the Executive Director and Vice President of the Company from September 1999 to May 2001, the Director, Deputy General Manager and Financial Controller of Shanghai Aerospace Technology Investment Management Company Limited, a subsidiary of the Company, from November 2006. Mr Jin possesses extensive corporate management experience, especially the experience in financial management. He was appointed as a Non-Executive Director of the Company in March 2008 and was re-designated as an Executive Director of the Company and appointed as Executive Vice President of the Group in May 2010.

Mr Luo Zhenbang, aged 46, is an Independent Non-Executive Director of the Company and a Senior Partner of BDO China Shu Lun Pan CPAs. Mr Luo graduated from the School of Business of Lanzhou in 1991 majoring in Enterprise Management. He has been managing the audit works for several listed companies since 1994. He has been an expert supervisor of Xinda Asset Management Corporation and China Great Wall Asset Management Corporation. He was also an independent director of Long March Vehicle Technology Company Limited, Orient Tantalum Industry Company Limited, Wuzhong Instrument Company Limited and Shengxue Company Limited, as well as an internal audit expert of Northeast Securities Company Limited. He currently serves as independent director of both Digital China Information Service Co., Ltd. and China City Railway Transportation Technology Holdings Company Limited (stock code: 8240), the shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr Luo possesses several professional qualifications, such as Chinese certified public accountant, certified accountant in securities and futures industry, Chinese certified assets valuer and Chinese certified tax accountant and has in-depth experience in accounting, auditing and financial management. He is familiar with the audit of listed companies from various sectors and extensively participates in corporate restructuring for listing, listed company restructure and other business consultation services. He was appointed as an Independent Non-Executive Director of the Company in December 2004.

Ms Leung Sau Fan, Sylvia, aged 49, is an Independent Non-Executive Director of the Company. Ms Leung holds a Bachelor's degree in Accountancy from City University of Hong Kong and a Bachelor of Laws degree from the University of London and is a chartered secretary. Ms Leung is currently an independent non-executive director of Poly (Hong Kong) Investment Limited (stock code: 119), the shares of which are listed on The Stock Exchange of Hong Kong Limited. She has around 20 years of experience in dealing with listing related and corporate finance areas. She was appointed as an Independent Non-Executive Director of the Company in March 2012.

Mr Wang Xiaojun, aged 58, is an Independent Non-Executive Director of the Company. Mr Wang is a practicing solicitor admitted in the Mainland China, Hong Kong and the UK. Mr Wang Xiaojun obtained a Bachelor's degree in Laws from the Renmin University of China in 1983 and a Master of Laws from the Chinese Academy of Social Sciences in 1986. He joined The Stock Exchange of Hong Kong Limited in 1992 and served Richards Butler from 1993 to 1996. In 1996, he served as an associate director of Peregrine Capital Limited. From 1997 to 2001, he served as a director of ING Barings. He established X. J. Wang & Co. in 2001 and that was associated with Jun He Law Offices in 2009. He is currently a partner of Jun He Law Offices. From 2011 to 2012, Mr Wang Xiaojun served as managing director of CCB International (Holdings) Limited. He was an independent non-executive director of Guangzhou Shipyard International Company Limited (stock code: 317.HK and 600685.SH) and currently serves as an independent non-executive director of OP Financial Investments Limited (stock code: 1140.HK), Yanzhou Coal Mining Company Limited (stock code: 1171.HK, 600188.SH and YZC), NORINCO International Company Limited (stock code: 000065.SZ), and Zijin Mining Group Company Limited (stock code: 2899.HK and 601899.SH). Mr Wang Xiaojun is familiar with corporate listing, merger and acquisition and restructure, direct investment and so on and possesses many years of relevant experience. Mr Wang was appointed as an Independent Non-Executive Director of the Company in March 2013.

Mr Chen Xuechuan, aged 50, a Research Fellow, is a Non-Executive Director of the Company. Mr Chen graduated from the Dailian Polytechnic University with a master's degree in engineering and started his career and held such posts as Deputy Factory Officer, Chief Metallurgist, Deputy Chief Engineer and Deputy General Manager of Capital Aerospace Machinery Company from 1983, Person-in-charge of Personnel & Education Department of the First Academy of China Aerospace Corporation from 1997, Person-in-charge of the Academy of Beijing Aerospace System Engineering from 2000, Director General of Human Resources Department of China Aerospace Science & Technology Corporation from April 2005 till now, and as standing council member of Chinese Society of Astronautics, China Institute of Space Law and China Space Foundation, and Director of Aerospace Science & Technology Finance Company Limited from 2007 onwards. Mr Chen has been engaged into the machinery manufacturing of launch vehicles, the management of corporations and academies, as well as human resources management and has substantial experience in corporate management and human resource management. He was appointed as a Non-Executive Director of the Company in August 2008.

Mr Shi Weiguo, aged 42, a Senior Engineer, is a Non-Executive Director of the Company. He studied Applied Physics at Soochow University from 1988 to 1992 and obtained a Bachelor's degree in Science. Since 1992, he served as Technician in Suzhou Nuclear Power Research Institute under the Ministry of Power Industry. He served as Executive of Foreign Trade Branch of China Suzhou International Economic Technical Cooperation Corporation since 1995, and that of Deputy General Manager of Asian Pacific Engineering Branch and Manager of Fujian Branch since 2003, respectively, during which he completed a postgraduate class of National Economic Investment in Nanjing University. Since 2005, he served as Deputy General Manager of Wan Yuan Industrial Company under the China Academy of Launch Vehicle Technology. From March 2007 to December 2007, he served as Deputy General Manager of CASIL Telecommunications Holdings Limited (now known as China Energine International (Holdings) Limited, stock code: 1185), the shares of which are listed on the Stock Exchange of Hong Kong Limited. He was a Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation since December 2007 and is currently that of the Director General since June 2010. Mr Shi has ample experience and ability in market development and operating management. He was appointed as a Non-Executive Director of the Company in July 2010.

Mr Wu Yanhua, aged 50, a research fellow, graduated from the Science & Technology University for National Defense of China with a bachelor's degree in aircraft system engineering in 1984 and from the Beijing University of Aeronautics & Astronautics with a doctoral degree in management science and engineering in 2009. He received a Government Special Allowance awarded by the State Council of China in 2001. Mr Wu started his career in China Academy of Launch Vehicle Technology in 1984, and worked as that of Deputy Division Director of General Planning Division under the Planning Department, Division Director of General Planning Division of General Planning & Finance Department since 1991. He then worked as Assistant to Director General of General Planning & Finance Department in 1997, that of Deputy Director General in 1998 and Director General of General Business Department in 2000. Subsequently, he worked as Director General of Finance Department of China Aerospace Science & Technology Corporation in 2002, that of Chief Economist and Director General of Finance Department in 2004 and Chief Accountant in 2005. Since 2007, he also held such positions as the Vice President of China Association of Chief Financial Officers and that of the President of Aerospace Industry Branch, Deputy Director of China Association For Peaceful Use of Military Industrial Technology, the Chairman of Aerospace Technology Investment Holdings Limited, Aerospace Science & Technology Finance Company Limited, Aerospace Times Properties Development Limited, Aerospace Industry Investment Fund Partners Meeting and Aerospace Industry Investment Fund Management Company. Mr Wu has extensive experience in financial management and corporate administration. He was appointed as a Non-Executive Director and Chairman of the Company in June 2011 and resigned in March 2012.

Mr Chow Chan Lum, Charles, aged 62, is a Partner of Wong Brothers & Company, Certified Public Accountants. Mr Chow carries duties in a variety of functional and social organizations. He is a past President of the Taxation Institute of Hong Kong and has served on a number of committees of the Hong Kong Institute of Certified Public Accountants including the Deputy Chairman of Auditing & Assurance Standards Committee, the members of PRC Accounting and Auditing Sub-Committee, Practice Review Committee, Investigation Panel, Examination Panel, Complaints Panel, Taxation Committee and Professional Standards Monitoring Committee. He is currently a member of Foreign Experts Consultative Committee on China Independent Auditing Standards, Ministry of Finance, the PRC, a member of People's Political Consultative Committee, Guangdong Province, the PRC, Treasurer of the Hong Kong Academy for Performing Arts, Deputy Chairman of the Chinese Entrepreneurs Organization, and an Independent Non-Executive Director of Pak Tak International Limited (stock code: 2668) and Maoye International Holdings Limited (stock code: 848), companies listed on the Stock Exchange of Hong Kong Limited, since October 2002 and November 2007 respectively. He was appointed as an Independent Non-Executive Director of the Company in April 2000 and resigned in March 2012.

Dr Chan Ching Har, Eliza, J.P, BBS, LL.D (Hon), aged 56, is a Senior Consultant of Boughton Peterson Yang Anderson, Solicitors. She is a Member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a Standing Member of the CPPCC Tianjin Committee, the Foreign Economic Affairs Legal Counsel to the Tianjin Municipal People's Government, an arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC), and a China-Appointed Attesting Officer appointed by the Ministry of Justice. She also serves as Chairman of Kowloon Hospital, Chairman of Hong Kong Eye Hospital, Chairman of Pension Appeals Board, member of the Medical Council, member of the Administrative Appeals Board, Investigation Panel Member of the Hong Kong Institute of Certified Public Accountants and the Legal Advisor to The Hong Kong Chinese Enterprises Association. Dr Chan is the Executive Vice-President of the Hong Kong CPPCC (Provincial) Members Association Limited, Honorary President of The Hong Kong China Chamber of Commerce and a Governor of The Canadian Chamber of Commerce in Hong Kong. She was also formerly a Member of the Board of the Hong Kong Hospital Authority, Member of the Hong Kong Public Service Commission, Member of the Board of Education, Member of the Hong Kong Examination and Assessment Authority and Council Member of The Hong Kong University of Science and Technology. She is a Member of the Board of The Hong Kong Science and Technology Park Corporation and a Non-Executive Director of Tianjin Development Holdings Limited (Code:882). Dr Chan has been conferred Justice of the Peace (J.P.) and Bronze Bauhinia Star (B.B.S.) awards by the Chief Executive of the Hong Kong SAR and the Honorary Doctor of Law (LL.D. (Hon)) degree by the University of Victoria in Canada. She was appointed as an Independent Non-Executive Director of the Company in January 1997 and was re-designated as a Non-Executive Director of the Company in December 2004, and resigned in March 2012.

Mr Zhou Qingquan, aged 61, graduated from Northwest Industrial University. From 1976, he held such posts as Deputy Director, Director, Senior Engineer, Deputy General Factory Manager, and General Factory Manager and President in the 801 Research Institute of Shanghai Aerospace Administration and the Research Office of Shanghai Xinxin Machinery Factory respectively. From 1995, he held such posts as Vice President, then President of Shanghai Aerospace Corporation, as well as Deputy Director General of Shanghai Aerospace Administration. He was appointed as an Executive Director of the Company and Vice President of the Group in September 1999 and was re-designated as a Non-Executive Director of the Company and Vice President of the Group in May 2010, and retired as Vice President of the Group in December 2011 and as Non-Executive Director of the Company in March 2012.

Mr Wang Junyan, aged 42, is the Managing Director and Head of Asset Management of CITIC Securities International Investment Management (HK) Limited. Mr Wang holds a master's degree in finance from the Faculty of Business and Economics of the University of Hong Kong and a bachelor's degree with a major in International Trade from the School of Economics of the Zhongshan University. Currently, he is an Adjunct Professor in the Department of Finance, Faculty of Business Administration at The Chinese University of Hong Kong. Since 1997, he served as the Managing Director of First Shanghai Capital Limited, the Managing Director of First Shanghai Financial Holding Limited, an immediate subsidiary of the financial service division of the First Shanghai Group, and an executive director of China Assets (Holdings) Limited (stock code: 170), the shares of which are listed on The Stock Exchange of Hong Kong Limited, and is now serving as an independent director of Livzon Pharmaceutical Group Company Limited (stock code: 000513), the shares of which are listed on Shenzhen Stock Exchange, an independent non-executive director of Wumart Stores, Inc. (stock code: 1025) and an executive director of China New Economy Fund Limited (stock code: 80), the shares of both are listed on The Stock Exchange of Hong Kong Limited. Mr Wang has over ten years'experience in investment banking and securities industry. He was appointed as an Independent Non-Executive Director of the Company in March 2007 and resigned in March 2013.

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and a principal jointly controlled entity are set out in notes 47, 48 and 49 to the consolidated financial statements, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 35.

A final dividend of HK1 cent per share in respect of the year ended 31 December 2012 (2011: HK1 cent per share) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired land and buildings, plant and equipment and motor vehicles, furniture and other equipment of HK$9,263,000, HK$77,385,000 and HK$51,844,000 respectively to cope with the expansion of the Group. Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties during the year are set out in note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2012 comprised the retained profits of approximately HK$878,222,000 (2011: HK$894,986,000).

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the Group's largest customer and five largest customers were 14.3% and 36.4% of the Group's consolidated turnover, respectively. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive

Li Hongjun *(President)*
Jin Xuesheng

Non-Executive

Zhang Jianheng *(Chairman)*	(appointed on 26 March 2012)
Wu Zhuo *(Vice Chairman)*	
Luo Zhenbang *(Independent)*	
Leung Sau Fan, Sylvia *(Independent)*	(appointed on 26 March 2012)
Wang Xiaojun *(Independent)*	(appointed on 22 March 2013)
Chen Xuechuan	
Shi Weiguo	
Wu Yanhua *(Chairman)*	(resigned on 26 March 2012)
Chow Chan Lum, Charles *(Independent)*	(resigned on 26 March 2012)
Chan Ching Har, Eliza	(resigned on 26 March 2012)
Zhou Qingquan	(retired on 26 March 2012)
Wang Junyan *(Independent)*	(resigned on 22 March 2013)

Non-Executive Directors are appointed for a period of 2 years and, being eligible, offer themselves for re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Messrs. Li Hongjun, Jin Xuesheng and Luo Zhenbang retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Messr. Wang Xiaojun retires by rotation in accordance with Article 94 of the Company's Articles of Association and, being eligible, offer himself for re-election.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2012, save for Mr Zhang Jianheng, Mr Chen Xuechuan and Mr Shi Weiguo, the Directors of the Company and officers of China Aerospace Science & Technology Corporation ("CASC"), the substantial shareholder of the Company, and save as holding a total of 130,000 shares in the Company by Ms Leung Sau Fan, Sylvia, none of the Directors, Chief Executive or their associates have any beneficial, non-beneficial interests or short positions in the share capital, warrants and options of the Company, 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 and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Part XV of the Securities & Futures Ordinance discloses the following companies as having 5% or more of the issued capital of the Company:

Name	Capacity	Direct interest (Yes/No)	Number of shares interested (Long position)	Percentage of issued share capital	Number of shares interested (Short position)	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interests in controlled corporation *(Note 1)*	No	1,183,598,636	38.37%	927,107,581	30.05%
Jetcote Investments Limited	Beneficial owner	Yes	131,837,011	4.27%	0	0
	Interests in controlled corporation *(Note 2)*	No	1,051,761,625	34.10%	927,107,581	30.05%
			1,183,598,636	38.37%	927,107,581	30.05%
Burhill Company Limited	Beneficial owner *(Note 2)*	Yes	579,834,136	18.80%	514,118,000	16.67%
Sin King Enterprises Company Limited	Beneficial owner *(Note 2)*	Yes	471,927,489	15.30%	412,989,581	13.38%

Notes:

1. These 1,183,598,636 shares were duplicated in the interests held by Jetcote Investments Limited, a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, and its subsidiaries.

2. Both Burhill Company Limited and Sin King Enterprises Company Limited are wholly-owned subsidiaries of Jetcote Investments Limited. The shares held by them form part of the total number of shares in which Jetcote Investments Limited was deemed interested.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital or underlying shares of the Company as at 31 December 2012.

LITIGATION

As at the issue date of this Annual Report, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware of, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Company and the subsidiaries.

CONNECTED TRANSACTIONS

On 4 May 2012, Shenzhen Rayitek Hi-tech Film Company Limited* (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek"), an indirect 55%-owned subsidiary of the Company, entered into the Loan Agreement with Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance"), pursuant to which Aerospace Finance shall provide an one-year loan in the sum of RMB60,000,000 to Shenzhen Rayitek. As security for the loan, Shenzhen Rayitek will charge its land use right, buildings, and plant and equipment in favour of Aerospace Finance. In addition, CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司), a wholly-owned subsidiary of the Company and the direct holding company of Shenzhen Rayitek, will provide a guarantee in respect of all amounts outstanding under the Loan Agreement in favour of Aerospace Finance. As Aerospace Finance is a connected person of the Company and accordingly, the transactions contemplated under the Loan Agreement and the Guarantee constituted connected transactions of the Company. Details of which please refer to the Company's announcement made on 4 May 2012.

On 5 November 2012, CASIL Hainan Holdings Limited and CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司), wholly-owned subsidiaries of the Company, Hainan Expressway Co., Ltd.* (海南高速公路股份有限公司) ("Hainan Expressway") and China Great Wall Industry Corporation* (中國長城工業集團有限公司) ("China Great Wall") entered into the Subscription Agreement, pursuant to which each of Hainan Expressway and China Great Wall will subscribe the equity interest in Hainan Aerospace Investment Management Company Limited*(海南航天投資管理有限公司) ("Hainan Aerospace") at a consideration of RMB312,720,000 (the "Subscription"). As China Great Wall is a connected person of the Company and accordingly, the subscription by China Great Wall in Hainan Aerospace constituted a connected transaction of the Company. The independent shareholders of the Company approved the transaction at the Extraordinary General Meeting held on 4 January 2013, China Aerospace Science & Technology Corporation and its associates were abstained from voting on the resolution. Details of which please refer to the Company's announcements made on 5 November 2012 and 4 January 2013 and the circular dated 11 December 2012, respectively.

The Independent Non-Executive Directors of the Company reviewed the above connected transactions and confirmed that the connected transactions had been entered into on normal commercial terms and were fair and reasonable and in the interests of the shareholders of the Company and the Company as a whole.

EVENT AFTER THE REPORTING PERIOD

The Subscription referred to the paragraph headed "Connected Transactions" by China Great Wall constituted a connected transaction of the Company, the independent shareholders of the Company approved the transaction at the Extraordinary General Meeting held on 4 January 2013, China Aerospace Science & Technology Corporation and its associates were abstained from voting on the resolution. The Subscription was completed on 19 March 2013. Details of which please refer to the Company's announcements made on 4 January 2013 and 20 March 2013 and the circular dated 11 December 2012.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board

Li Hongjun
Executive Director & President

Hong Kong, 22 March 2013

Deloitte.
德勤

TO THE SHAREHOLDERS OF
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
中國航天國際控股有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 114, which comprise the consolidated and Company's statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 (Restated) HK$'000
Turnover	5	**2,615,101**	2,187,006
Cost of sales		**(2,101,111)**	(1,742,759)
Gross profit		**513,990**	444,247
Other income	7	**39,728**	62,153
Gain on disposal of a subsidiary	39	**—**	100,592
Other gains and losses	7	**(27,120)**	2,284
Selling and distribution costs		**(48,481)**	(51,610)
Administrative expenses		**(296,781)**	(258,230)
Other expenses		**(21,501)**	(22,043)
Fair value changes of investment properties		**256,230**	289,524
Finance costs	9	**(6,026)**	(1,104)
Share of results of associates		**402**	—
Share of results of jointly controlled entities		**1,532**	(1,766)
Profit before taxation	10	**411,973**	564,047
Taxation	11	**(113,962)**	(115,608)
Profit for the year		**298,011**	448,439
Attributable to:			
Owners of the Company		**246,725**	387,231
Non-controlling interests		**51,286**	61,208
		298,011	448,439
Earnings per share — basic	12	**HK8.00 cents**	HK12.55 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 (Restated) HK$'000
Profit for the year	**298,011**	448,439
Other comprehensive income includes:		
Available-for-sale investments		
Fair value gain (loss) arising during the year	**15,876**	(60,801)
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal	**—**	(50,183)
	15,876	(110,984)
Exchange differences arising on translating foreign operations		
Exchange gain arising during the year	**28,931**	129,831
Translation of jointly controlled entities	**(503)**	2,882
Reclassification adjustment for cumulative exchange differences included in profit or loss upon disposal or deregistration of foreign operations	**—**	2,797
	28,428	135,510
Other comprehensive income for the year	**44,304**	24,526
Total comprehensive income for the year	**342,315**	472,965
Total comprehensive income attributable to:		
Owners of the Company	**285,280**	386,261
Non-controlling interests	**57,035**	86,704
	342,315	472,965

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 (Restated) HK$'000	1.1.2011 (Restated) HK$'000
Non-current assets				
Property, plant and equipment	14	**903,618**	858,161	649,696
Prepaid lease payments	15	**74,970**	76,568	45,746
Investment properties	16	**2,629,529**	2,144,333	1,713,848
Goodwill	18	**12,241**	34,980	—
Intangible assets	19	**74,254**	60,056	—
Interests in associates	20	**12,845**	12,346	—
Interests in jointly controlled entities	21	**63,891**	62,862	61,746
Available-for-sale investments	22	**58,140**	42,264	173,040
Prepayment for land development	23	**—**	1,943	148,053
Land development expenditure	23	**665,551**	642,175	77,767
Deposit paid for construction cost of investment properties under construction		**94,597**	70,067	—
Deposit paid for acquisition of intangible assets and property, plant and equipment		**10,776**	11,714	—
		4,600,412	4,017,469	2,869,896
Current assets				
Inventories	24	**243,716**	232,144	191,985
Trade and other receivables	25	**590,357**	448,723	403,025
Prepaid lease payments	15	**2,391**	2,374	1,733
Amounts due from customers for contract work	26	**2,357**	—	—
Loans receivable		**—**	—	70,269
Financial assets at fair value through profit or loss	27	**63,417**	62,911	2,864
Taxation recoverable		**217**	839	1,514
Pledged bank deposits	29	**110,207**	24,942	43,529
Bank balances and cash	29	**1,022,285**	1,151,015	1,489,728
		2,034,947	1,922,948	2,204,647
Current liabilities				
Trade and other payables	30	**924,775**	678,713	691,727
Amount due to an associate	31	**1,050**	1,050	1,050
Taxation payable		**58,717**	53,646	61,916
Bank and other borrowings	32	**123,756**	234,074	—
Obligations under a finance lease	33	**—**	65	767
Other loan	34	**8,914**	8,848	8,482
		1,117,212	976,396	763,942
Net current assets		**917,735**	946,552	1,440,705
Total assets less current liabilities		**5,518,147**	4,964,021	4,310,601

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 (Restated) HK$'000	1.1.2011 (Restated) HK$'000
Non-current liabilities				
Bank and other borrowings	32	**200,249**	46,913	—
Deferred taxation	35	**477,207**	387,882	258,221
Obligations under a finance lease		**—**	—	65
		677,456	434,795	258,286
		4,840,691	4,529,226	4,052,315
Capital and reserves				
Share capital	36	**308,502**	308,502	308,502
Reserves	37	**3,809,600**	3,555,170	3,199,759
Equity attributable to owners of the Company		**4,118,102**	3,863,672	3,508,261
Non-controlling interests		**722,589**	665,554	544,054
		4,840,691	4,529,226	4,052,315

The consolidated financial statements on pages 35 to 114 were approved and authorised for issue by the Board of Directors on 22 March 2013 and are signed on its behalf by:

Li Hongjun
Director

Jin Xuesheng
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	14	**1,799**	3,003
Interests in subsidiaries	17	**588,106**	536,126
Amounts due from subsidiaries	17	**1,508,038**	1,359,022
Interests in jointly controlled entities	21	**15,000**	15,000
Available-for-sale investments	22	**9,000**	9,000
		2,121,943	1,922,151
Current assets			
Other receivables		**1,940**	2,253
Amounts due from subsidiaries	28	**668,568**	841,949
Bank balances and cash	29	**43,010**	130,145
		713,518	974,347
Current liabilities			
Other payables	30	**63,052**	62,390
Amounts due to subsidiaries	28	**107,569**	152,504
Amount due to an associate	31	**1,050**	1,050
Taxation payable		**80**	80
		171,751	216,024
Net current assets		**541,767**	758,323
		2,663,710	2,680,474
Capital and reserves			
Share capital	36	**308,502**	308,502
Reserves	37	**2,355,208**	2,371,972
		2,663,710	2,680,474

Li Hongjun
Director

Jin Xuesheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 *(Note 37)*	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000 *(Note b)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011, as previously stated	308,502	844,929	14,044	23,916	186,768	133,496	11,010	14,309	1,080	2,012,478	3,550,532	572,232	4,122,764
Effect of change in accounting policy	–	–	–	–	(1,691)	–	–	–	–	(40,580)	(42,271)	(28,178)	(70,449)
At 1 January 2011, as restated	308,502	844,929	14,044	23,916	185,077	133,496	11,010	14,309	1,080	1,971,898	3,508,261	544,054	4,052,315
Profit for the year (restated)	–	–	–	–	–	–	–	–	–	387,231	387,231	61,208	448,439
Fair value loss on available-for-sale investments	–	–	–	–	–	(60,801)	–	–	–	–	(60,801)	–	(60,801)
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	–	–	–	–	–	(50,183)	–	–	–	–	(50,183)	–	(50,183)
Exchange gain arising on translating foreign operations (restated)	–	–	–	–	104,335	–	–	–	–	–	104,335	25,496	129,831
Translation of jointly controlled entities	–	–	–	–	2,882	–	–	–	–	–	2,882	–	2,882
Reclassification adjustment for cumulative exchange differences included in profit or loss upon disposal or deregistration of foreign operations	–	–	–	–	2,797	–	–	–	–	–	2,797	–	2,797
Total comprehensive income (expense) for the year	–	–	–	–	110,014	(110,984)	–	–	–	387,231	386,261	86,704	472,965
Acquisition of a subsidiary (restated)	–	–	–	–	–	–	–	–	–	–	–	34,796	34,796
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	–	–	–	(30,850)	(30,850)	–	(30,850)
At 31 December 2011	308,502	844,929	14,044	23,916	295,091	22,512	11,010	14,309	1,080	2,328,279	3,863,672	665,554	4,529,226

Notes:

(a) The general reserve is non-distributable and represents reserve fund and enterprise expansion fund of the subsidiaries in the People's Republic of China other than Hong Kong (the "PRC") used to (i) make up prior years' losses or (ii) expand production operations.

(b) The capital reserve represents (i) capital contribution from a major shareholder of the Company arising from acquisition of subsidiaries and (ii) the difference between the amount of non-controlling interests and fair value of consideration paid upon acquisition of additional interests in subsidiaries.

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 *(Note 37)*	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000 *(Note b)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012, as previously stated	308,502	844,929	14,044	23,916	299,215	22,512	11,010	14,309	1,080	2,386,400	3,925,917	693,941	4,619,858
Effect of change in accounting policy *(Note 2)*	–	–	–	–	(4,124)	–	–	–	–	(58,121)	(62,245)	(41,494)	(103,739)
Adjustments to provisional amounts of assets acquired in prior year *(Note 2)*	–	–	–	–	–	–	–	–	–	–	–	13,107	13,107
At 1 January 2012, as restated	308,502	844,929	14,044	23,916	295,091	22,512	11,010	14,309	1,080	2,328,279	3,863,672	665,554	4,529,226
Profit for the year	–	–	–	–	–	–	–	–	–	246,725	246,725	51,286	298,011
Fair value gain on available-for-sale investments	–	–	–	–	–	15,876	–	–	–	–	15,876	–	15,876
Exchange gain arising on translating foreign operations	–	–	–	–	23,182	–	–	–	–	–	23,182	5,749	28,931
Translation of jointly controlled entities	–	–	–	–	(503)	–	–	–	–	–	(503)	–	(503)
Total comprehensive income for the year	–	–	–	–	22,679	15,876	–	–	–	246,725	285,280	57,035	342,315
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	–	–	–	(30,850)	(30,850)	–	(30,850)
At 31 December 2012	308,502	844,929	14,044	23,916	317,770	38,388	11,010	14,309	1,080	2,544,154	4,118,102	722,589	4,840,691

Notes:

(a) The general reserve is non-distributable and represents reserve fund and enterprise expansion fund of the subsidiaries in the People's Republic of China other than Hong Kong (the "PRC") used to (i) make up prior years' losses or (ii) expand production operations.

(b) The capital reserve represents (i) capital contribution from a major shareholder of the Company arising from acquisition of subsidiaries and (ii) the difference between the amount of non-controlling interests and fair value of consideration paid upon acquisition of additional interests in subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**411,973**	564,047
Adjustments for:		
Depreciation	**97,338**	71,552
Amortisation of prepaid lease payments	**2,465**	1,952
Amortisation of intangible assets	**13,360**	971
Interest income	**(13,796)**	(16,308)
Interest expense	**6,026**	1,080
Finance lease charges	**—**	24
Fair value changes of investment properties	**(256,230)**	(289,524)
Allowance for doubtful debts	**1,278**	638
Allowance for (reversal of) obsolete inventories	**3,375**	(1,241)
Impairment loss recognised in respect of goodwill	**23,000**	—
Share of results of associates	**(402)**	—
Share of results of jointly controlled entities	**(1,532)**	1,766
Gain on disposal/written-off of property, plant and equipment	**(155)**	(56)
Gain on disposal of a subsidiary	**—**	(100,592)
Gain on deregistration of subsidiaries	**(83)**	—
Recovery of loans receivable (including HK$16,760,000 of transaction costs arisen in the collection of loans receivable)	**—**	(45,770)
Reversal of impairment loss recognised in respect of loans receivable	**—**	(1,618)
Operating cash flows before movements in working capital	**286,617**	186,921
Increase in inventories	**(13,112)**	(20,583)
Increase in trade and other receivables	**(140,659)**	(18,899)
Increase in amounts due from customers for contract work	**(2,326)**	—
Increase in financial assets at fair value through profit or loss	**(495)**	(60,000)
Increase (decrease) in trade and other payables	**151,188**	(91,970)
Cash generated from (used in) operations	**281,213**	(4,531)
Hong Kong Profits Tax paid	**(13,902)**	(17,567)
PRC Enterprise Income Tax paid	**(9,313)**	(9,153)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**257,998**	(31,251)

For the year ended 31 December 2012

	NOTES	**2012 HK$'000**	2011 HK$'000
INVESTING ACTIVITIES			
Development costs/deposits paid for investment properties under construction		**(141,388)**	(131,233)
Purchase of property, plant and equipment		**(132,931)**	(85,809)
Placement of pledged bank deposits		**(110,008)**	(23,745)
Withdrawal of pledged bank deposits		**24,942**	43,529
Purchase of intangible assets		**(20,865)**	—
Interest received		**13,796**	16,308
Payment for land development		**(10,871)**	(12,174)
Deposit paid for acquisition of intangible assets and property, plant and equipment		**(10,632)**	(11,509)
Proceeds from disposal of property, plant and equipment		**2,999**	284
Prepayment for land development		**—**	(376,135)
Disposal of a subsidiary, net of cash and cash equivalents disposed of	39	**—**	132,153
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	38	**—**	(74,208)
Repayment of loans receivable		**—**	117,657
Investment in an associate		**—**	(11,933)
Acquisition of available-for-sale investments		**—**	(9,000)
NET CASH USED IN INVESTING ACTIVITIES		**(384,958)**	(425,815)
FINANCING ACTIVITIES			
New bank loans raised		**295,092**	202,864
Repayment of bank loans		**(254,724)**	(2,865)
Dividend paid		**(30,830)**	(30,792)
Interest paid		**(14,995)**	(7,472)
Repayment of obligations under finance leases		**(65)**	(767)
Repayment to former shareholders of a subsidiary acquired during the year		**—**	(74,498)
Finance lease charges		**—**	(24)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(5,522)**	86,446
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(132,482)**	(370,620)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,151,015**	1,489,728
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**3,752**	31,907
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH		**1,022,285**	1,151,015

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries, associates and a principal jointly controlled entity are set out in notes 47, 48 and 49, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011

2(a) Application of new and revised HKFRSs

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRS 7	Disclosures — Transfers of financial assets
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets
Amendments to HKAS 1	As part of the annual improvements to HKFRSs 2009–2011 cycle issued in 2012

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

Amendments to HKAS 12 "Deferred tax: Recovery of underlying assets"

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments to HKAS 12, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that except for certain of the Group's investment properties of which their carrying amounts will be recovered through sale, other investment properties of the Group are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and therefore the "sale" presumption set out in the amendments to HKAS 12 is rebutted by the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011 (continued)

2(a) Application of new and revised HKFRSs (continued)

Amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" (continued)

The application of the amendments to HKAS 12 has resulted in the Group recognising additional deferred taxes on certain investment properties situated in the PRC which are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and are subject to land appreciation tax on disposal of these investment properties. Previously, the Group did not recognised deferred tax relating to land appreciation tax on changes in fair value of those investment properties on the basis that the carrying amounts of these properties were expected to be recovered through use, which is the manner in which the Group expects to recover the carrying amounts of the investment properties.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being increased by HK$70,449,000 and HK$103,739,000 as at 1 January 2011 and 31 December 2011 respectively, with the corresponding adjustment as a reduction to retained profits, translation reserve and non-controlling interests (see summary of effect of change in accounting policy below). In addition, the application of the amendments has resulted in the Group's taxation for the year ended 31 December 2012 and 31 December 2011 being increased by HK$23,502,000 and HK$29,236,000 respectively and hence resulted in the profit for the year ended 31 December 2012 and 31 December 2011 being reduced by HK$23,502,000 and HK$29,236,000 respectively.

Amendments to HKAS 1 "Presentation of financial statements"
(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is Annual Improvements to HKFRSs (2009–2011 Cycle). The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 for the first time, which has resulted in restatement on certain balances in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 without the related notes.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011 (continued)

2(b) Adjustments to provisional values for business combination in 2011

As disclosed in note 38, the Group has finalised the valuation of certain assets values, previously measured at provisional value for a business combination in 2011 certain comparative figures have been adjusted as if the initial accounting had been completed from the acquisition date. The adjustments have no significant effect to the profit or loss for the year ended 31 December 2011.

The effect of change in accounting policy described above on the results for the current and prior year by line items presented in the consolidated income statements are as follows:

	Year ended 31.12.2012 HK$'000	Year ended 31.12.2011 HK$'000
Increase in taxation expenses and decrease in profit for the year	**23,502**	29,236
Decrease in profit for the year attributable to:		
Owners of the Company	**14,101**	17,541
Non-controlling interests	**9,401**	11,695
	23,502	29,236

The effect of change in accounting policy described above on the financial positions of the Group as at 1 January 2011 and 31 December 2011 and the adjustments to provisional values for business combination for the year ended 31 December 2011 is as follows:

	As at 1.1.2011 (originally stated) HK$'000	Adjustments HK$'000	As at 1.1.2011 (restated) HK$'000	As at 31.12.2011 (originally stated) HK$'000	Adjustments HK$'000	Adjustment to provisional values for business combination in 2011 HK$'000 (Note 38)	As at 31.12.2011 (restated) HK$'000
Goodwill	—	—	—	51,001	—	(16,021)	34,980
Intangible assets	—	—	—	21,218	—	38,838	60,056
Deferred taxation	(187,772)	(70,449)	(258,221)	(274,433)	(103,739)	(9,710)	(387,882)
Total effect on net assets	(187,772)	(70,449)	(258,221)	(202,214)	(103,739)	13,107	(292,846)
Retained profits	2,012,478	(40,580)	1,971,898	2,386,400	(58,121)	—	2,328,279
Translation reserve	186,768	(1,691)	185,077	299,215	(4,124)	—	295,091
Non-controllng interests	572,232	(28,178)	544,054	693,941	(41,494)	13,107	665,554
Total effect on equity	2,771,478	(70,449)	2,701,029	3,379,556	(103,739)	13,107	3,288,924

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011 (continued)

The effects of the above changes in accounting policies on the Group's basic earnings per share for the current and prior year presented in the consolidated income statements are as follows:

Impact on basic earnings per share

	Impact on basic earnings per share	
	Year ended 31.12.2012 HK cents	Year ended 31.12.2011 HK cents
Figures before adjustments	**8.46**	13.12
Adjustments arising from changes in the Group's accounting policy in relation to:		
— application of amendments to HKAS 12 in respect of deferred taxes on investment properties	**(0.46)**	(0.57)
Figures after adjustments	**8.00**	12.55

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new or revised standards, amendments and interpretation that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (Revised 2011)	Employee benefits[1]
HKAS 27 (Revised 2011)	Separate financial statements[1]
HKAS 28 (Revised 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) — INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011 (continued)

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for the Group for the annual period beginning on 1 January 2015, with earlier application permitted.

Except for available-for-sale investments, the directors anticipate that the application of HKFRS 9 will not affect the classification and measurement of the Group's other financial assets and liabilities as at 31 December 2012. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) — INT 12 "Consolidation — Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011 (continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

HKFRS 11 replaces HKAS 31 "Interests in joint ventures", HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) — INT 13 "Jointly controlled entities — Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for the Group's annual period beginning on 1 January 2013. The application of these five standards will not have impact on amounts reported in the consolidated financial statements but will result in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of the new standard will not have impact on amounts reported in the consolidated financial statements but will result in more extensive disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2011 (continued)

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for the Group for the annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied.

Other than those disclosed above, the directors anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted (i.e. the non-controlling interests share of recognised identifiable net assets at the date of acquisition) and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period, which cannot exceed one year for the acquisition date, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's statement of financial position at cost (including deemed capital contribution) less any identified impairment loss. Dividend income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Joint ventures

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the statement of financial position of the relevant entity on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

Jointly controlled entities (continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL are mainly investments held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, amounts due from subsidiaries and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated equity securities held for an identified long term strategic purpose as AFS investments.

Equity securities traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS equity investments are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the equity investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade debtors that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of debtors could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to subsidiaries, amount due to an associate, bank and other borrowings and other loan are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment including land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under a finance lease.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. (see the accounting policy in respect of impairment below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally — generated intangible assets — research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to defined contribution retirement benefit schemes including Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries, associates and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Allowance for trade receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, further impairment loss may arise. The management closely monitors the settlement status of trade receivables (as described in note 25) and will strengthen its effort to chase the debts and thus considers that the trade receivables with carrying amount of HK$529,636,000 (2011: HK$395,840,000) are recoverable due to its good credit quality.

Allowances for inventories

The management of the Group reviews an aged analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates that the net realisable value for such finished goods and consumables based primarily on the latest invoice prices and current market conditions. Where the net realisable value is less than the carrying amount, impairment loss may arise. As at 31 December 2012, the carrying amount of inventories is HK$243,716,000 (net of allowances for inventories of HK$42,127,000) (2011: carrying amount of HK$232,144,000 (net of allowance for inventories of HK$38,518,000)).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions and assumptions made on the investment properties, including:

- comparable market transactions with adjustments to reflect different locations or conditions; and
- comparable market rents and transactions, occupancy rate, discount rate and cost to be expended to complete the development of investment properties under construction.

In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation is reflective of the current market conditions and current development of the investment properties. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement. As at 31 December 2012, the carrying amount of investment properties is HK$2,629,529,000 (2011: HK$2,144,333,000).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount which is higher fair value less costs to sell or the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value when the actual future cash flows are less than expected or downward revision of future estimated cash flows due to unfavourable changes in facts and circumstances, further impairment may arise. Where the value in use of the cash-generating unit is less than the carrying amount of the goodwill, impairment loss may arise. As at 31 December 2012, the carrying amount of goodwill was HK$12,241,000 (2011: HK$34,980,000), net of impairment loss of HK$23,000,000 (2011: nil). Details of the recoverable amount calculation are disclosed in note 18.

5. TURNOVER

Turnover represents the gross invoiced amount of sales of goods, less discounts and sales related taxes, and rental income as follows:

	2012 **HK$'000**	2011 HK$'000
Sales of goods	**2,599,514**	2,172,088
Rental income	**15,587**	14,918
	2,615,101	2,187,006

6. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the President, the chief operating decision maker of the Group, that are used to make strategic decisions. The management has identified 9 operating segments: Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and the related industrial property investment), New Material Business (including polyimide films manufacturing), Aerospace Service (including the Shenzhen Aerospace Science & Technology Plaza of property investment project, the Hainan Launching Site Complex Zone of land development project and Internet of Things) which represents the major industries in which the Group engaged.

6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2012

	Turnover			
	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	846,598	102,620	949,218	67,424
Liquid crystal display	358,866	435	359,301	13,420
Printed circuit boards	507,340	—	507,340	107,716
Intelligent chargers	764,975	—	764,975	49,007
Industrial property investment	13,743	16,619	30,362	14,350
	2,491,522	119,674	2,611,196	251,917
New Material Business				
Polyimide films manufacturing	84,751	—	84,751	(21,173)
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	219,222
Land development in Hainan Launching Site Complex Zone	—	—	—	(6,921)
Internet of Things	36,984	—	36,984	(4,706)
	36,984	—	36,984	207,595
Reportable segment total	2,613,257	119,674	2,732,931	438,339
Elimination	—	(119,674)	(119,674)	—
Other Business	1,844	—	1,844	12,810
	2,615,101	—	2,615,101	451,149
Unallocated corporate income				31,435
Unallocated corporate expenses				(66,519)
				416,065
Share of results of associates				402
Share of results of jointly controlled entities				1,532
Finance costs				(6,026)
Profit before taxation				411,973

6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2011

	Turnover			
	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	808,160	79,089	887,249	59,803
Liquid crystal display	306,003	—	306,003	12,391
Printed circuit boards	450,362	—	450,362	90,997
Intelligent chargers	586,720	—	586,720	39,286
Industrial property investment	12,826	13,862	26,688	14,351
	2,164,071	92,951	2,257,022	216,828
New Material Business				
Polyimide films manufacturing	20,843	—	20,843	(760)
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	—	—	248,679
Land development in Hainan Launching Site Complex Zone	—	—	—	(12,152)
Internet of Things	—	—	—	(7,978)
	—	—	—	228,549
Reportable segment total	2,184,914	92,951	2,277,865	444,617
Elimination	—	(92,951)	(92,951)	—
Other Business	2,092	—	2,092	17,536
	2,187,006	—	2,187,006	462,153
Unallocated corporate income				51,171
Unallocated corporate expenses				(77,627)
				435,697
Gain on disposal of a subsidiary				100,592
Recovery of loans receivable				29,010
Reversal of impairment loss recognised in respect of loans receivable				1,618
Share of results of jointly controlled entities				(1,766)
Finance costs				(1,104)
Profit before taxation				564,047

6. SEGMENT INFORMATION (continued)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represents the profit/loss earned/incurred by each segment without allocation of interest income, change in fair value of financial assets at fair value through profit or loss, reversal of impairment loss recognised on loans receivable, share of results of associates, share of results of jointly controlled entities, interest expenses and other corporate income and corporate expenses. This is the measure reported to the President for the purpose of resource allocation and performance assessment.

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

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

	2012 HK$'000	2011 (Restated) HK$'000
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	578,381	563,190
Liquid crystal display	298,059	284,244
Printed circuit boards	273,965	224,483
Intelligent chargers	350,317	306,879
Industrial property investment	235,766	218,391
	1,736,488	1,597,187
New Material Business		
Polyimide films manufacturing	315,208	321,599
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	2,369,201	1,817,284
Land development in Hainan Launching Site Complex Zone	689,328	668,877
Internet of Things	54,618	12,521
	3,113,147	2,498,682
Total assets for reportable segments	5,164,843	4,417,468
Other Business	123,575	108,657
Available-for-sale investments	58,140	54,610
Interests in jointly controlled entities	63,891	62,862
Interests in associates	12,845	12,346
Unallocated assets	1,212,065	1,284,474
Consolidated assets	6,635,359	5,940,417

6. SEGMENT INFORMATION (continued)

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

	2012 HK$'000	2011 (Restated) HK$'000
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	173,528	140,992
Liquid crystal display	51,698	37,000
Printed circuit boards	102,783	82,575
Intelligent chargers	134,510	110,096
Industrial property investment	11,372	9,305
	473,891	379,968
New Material Business		
Polyimide films manufacturing	17,543	36,901
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	107,876	22,034
Land development in Hainan Launching Site Complex Zone	1,916	1,918
Internet of Things	29,630	1,245
	139,422	25,197
Total liabilities for reportable segments	630,856	442,066
Other Business	1,252	1,299
Unallocated liabilities	1,162,560	967,826
Consolidated liabilities	1,794,668	1,411,191

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

- all assets are allocated to operating segments other than bank balances and cash, pledged bank deposits, financial assets at fair value through profit or loss, taxation recoverable and the other unallocated assets; and
- all liabilities are allocated to operating segments other than taxation payable, deferred taxation, other loan, bank and other borrowings and the other unallocated liabilities.

6. SEGMENT INFORMATION (continued)

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

2012

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value gain on investment properties HK$'000	Impairment of goodwill HK$'000	(Gain) loss on disposal of property, plant and equipment HK$'000
Hi-Tech Manufacturing Business					
Plastic products	50,396	22,891	–	–	1,422
Liquid crystal display	7,849	10,655	–	–	–
Printed circuit boards	54,531	26,444	–	–	(1,519)
Intelligent chargers	9,469	7,009	–	–	–
Industrial property investment	8,347	14,225	13,972	–	–
	130,592	81,224	13,972	–	(97)
New Material Business					
Polyimide films manufacturing	3,646	17,563	–	23,000	–
Aerospace Service					
Property investment in Shenzhen Aerospace Science & Technology Plaza	230,517	461	229,325	–	(58)
Land development in Hainan Launching Site Complex Zone	28	1,693	–	–	–
Internet of Things	29,043	8,771	–	–	–
	259,588	10,925	229,325	–	(58)
Segment total	393,826	109,712	243,297	23,000	(155)

6. SEGMENT INFORMATION (continued)

(c) Other segment information (continued)

Amounts included in the measure of segment profit or loss or segment assets: (continued)

2011

	Capital additions (Restated) HK$'000	Depreciation and amortisation HK$'000	Fair value gain on investment properties HK$'000	(Gain) loss on disposal of property, plant and equipment HK$'000
Hi-Tech Manufacturing Business				
Plastic products	26,631	18,588	—	64
Liquid crystal display	3,518	10,359	—	—
Printed circuit boards	29,660	19,889	—	(151)
Intelligent chargers	8,681	4,751	—	—
Industrial property investment	9,145	11,752	15,658	—
	77,635	65,339	15,658	(87)
New Material Business				
Polyimide films manufacturing	292,564	2,694	—	—
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	128,985	610	256,257	—
Land development in Hainan Launching Site Complex Zone	1,097	1,638	—	—
Internet of Things	11,154	450	—	—
	141,236	2,698	256,257	—
Segment total	511,435	70,731	271,915	(87)

6. SEGMENT INFORMATION (continued)

(d) Geographical information

The Group operates in three principal geographical areas — Hong Kong, the PRC and Canada.

The Group's revenue from external customers and information about its non-current assets (other than available-for-sale investments) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011 (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**2,089,595**	1,783,018	**210,705**	206,666
The PRC	**525,334**	403,773	**4,260,474**	3,711,149
Canada	**172**	215	**71,093**	57,390
	2,615,101	2,187,006	**4,542,272**	3,975,205

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012	2011
	HK$'000	HK$'000
Customer A[1]	**373,938**	289,034

[1] Revenue from intelligent chargers.

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000
The Group's other income mainly comprises:		
Bank interest income	13,796	16,308
Recovery of loans receivable *(Note)*	—	29,010
The Group's other gains and losses comprise:		
Impairment loss recognised in respect of goodwill	(23,000)	—
Net exchange (loss) gain	(6,463)	6,804
Net gain (loss) from change in fair value of financial assets at fair value through profit or loss	3,383	(5,556)
Allowance for doubtful trade debts	(1,278)	(638)
Gain on deregistration of subsidiaries	83	—
Gain on disposal/written off of property, plant and equipment	155	56
Reversal of impairment loss recognised in respect of loans receivable *(Note)*	—	1,618

Note: During the year ended 31 December 2011, the Group recovered an amount of HK$117,657,000 from a borrower pursuant to a settlement deed entered into between a subsidiary of the Company and the borrower on 14 September 2007 in respect of the Group's interest bearing loans receivables. The excess of HK$30,628,000, representing the amount recovered over the carrying amount of the loan receivable of HK$70,269,000 net of the transaction costs incurred relating to the debt collections, was recognised in profit or loss for the year ended 31 December 2011 whereby amounts of HK$1,618,000 and HK$29,010,000 were recorded as reversal of impairment loss recognised in respect of loans receivable and recovery of loans receivable respectively. The recovery of loans receivable was mainly related to the additional amount recovered upon settlement net of transaction costs.

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 13 (2011: 12) directors were as follows:

	Li Hongjun HK$'000	Jin Xuesheng HK$'000	Zhang Jianheng* HK$'000	Wu Zhuo HK$'000	Chen Xuechuan HK$'000	Shi Weiguo HK$'000	Luo Zhenbang HK$'000	Wang Junyan HK$'000	Leung Sau Fan, Sylvia* HK$'000	Wu Yanhua# HK$'000	Chan Ching Har, Eliza# HK$'000	Zhou Qingquan# HK$'000	Chow Chan Lum, Charles# HK$'000	2012 HK$'000
Directors' fees														
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	–	–	–	–	35	–	–	35
Independent non-executives	–	–	–	–	–	–	150	150	115	–	–	–	35	450
	–	–	–	–	–	–	150	150	115	–	35	–	35	485
Other emoluments														
Salaries and other benefits	1,594	1,432	–	520	30	30	87	55	89	–	15	99	26	3,977
Bonuses	656	818	–	50	–	–	–	–	–	–	–	–	–	1,524
	2,250	2,250	–	570	30	30	87	55	89	–	15	99	26	5,501
Total emoluments	2,250	2,250	–	570	30	30	237	205	204	–	50	99	61	5,986

	Li Hongjun HK$'000	Jin Xuesheng HK$'000	Wu Zhuo HK$'000	Chen Xuechuan HK$'000	Shi Weiguo HK$'000	Luo Zhenbang HK$'000	Wang Junyan HK$'000	Wu Yanhua# HK$'000	Chan Ching Har, Eliza# HK$'000	Zhou Qingquan# HK$'000	Chow Chan Lum, Charles# HK$'000	Rui Xiaowu## HK$'000	2011 HK$'000
Directors' fees													
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	–	–	150	–	–	–	150
Independent non-executives	–	–	–	–	150	150	–	–	–	–	150	–	450
	–	–	–	–	150	150	–	–	150	–	150	–	600
Other emoluments													
Salaries and other benefits	1,594	1,432	498	20	110	60	30	–	60	1,239	110	–	5,153
Bonuses	586	668	–	–	–	–	–	–	–	944	–	–	2,198
	2,180	2,100	498	20	110	60	30	–	60	2,183	110	–	7,351
Total emoluments	2,180	2,100	498	20	260	210	30	–	210	2,183	260	–	7,951

Note: The bonuses are determined with reference to the operating results, individual performance and comparable market statistics for the two years ended 31 December 2012.

Mr. Li Hongjun is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

* Appointed in 2012
# Resigned/retired in 2012
Resigned in 2011

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included two directors (2011: three directors), details of whose emoluments are set out above. The emoluments of the remaining three (2011: two) highest paid individuals were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	3,432	2,306
Bonuses *(Note)*	2,068	3,902
Contributions to retirement benefits scheme	—	—
	5,500	6,208

Note: The bonuses are determined with reference to the operating results, individual performance and comparable market statistics during the year.

The emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals 2012	2011
HK$1,500,001 to HK$2,000,000	3	—
HK$2,000,001 to HK$2,500,000	—	1
HK$3,500,001 to HK$4,000,000	—	1
	3	2

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

9. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest expenses on:		
— borrowings wholly repayable within five years	14,995	7,472
— finance lease charges	—	24
	14,995	7,496
Less: Amount capitalised to land development expenditure	(5,446)	(6,392)
Amount capitalised to investment properties under construction	(3,523)	—
	6,026	1,104

Interest expenses capitalised during the year arose on the borrowings specifically in relation to the Hainan Launching Site Complex Zone of land development project and the investment properties under construction in Shenzhen Aerospace Science & Technology Plaza respectively.

10. PROFIT BEFORE TAXATION

	2012 HK$'000	2011 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Depreciation on		
— owned assets	**97,338**	71,302
— assets held under a finance lease	**—**	250
Amortisation of prepaid lease payments	**2,465**	1,952
Amortisation of intangible asset (included in cost of sales)	**13,360**	971
Auditors' remuneration		
— current year	**4,200**	4,192
— overprovision in prior year	**(192)**	(25)
Minimum lease payments under operating leases in respect of land and buildings	**13,630**	10,905
Research and development expenses (included in other expenses)	**21,501**	21,309
Staff costs, including directors' remuneration	**463,123**	366,981
Cost of inventories charged to profit or loss including allowance for obsolete inventories of HK$3,375,000 (2011: reversal of HK$1,241,000)	**2,101,111**	1,742,759
Gross rental income	**(15,587)**	(14,918)
Less: Direct operating expenses for investment properties that generated rental income during the year	**2,418**	2,156
	(13,169)	(12,762)

For the year ended 31 December 2012

11. TAXATION

The tax charge for the year comprises:

	2012 HK$'000	2011 (Restated) HK$'000
Current tax:		
Hong Kong Profits Tax	**18,799**	14,111
PRC Enterprise Income Tax	**13,024**	9,372
	31,823	23,483
(Over)underprovision in prior years:		
Hong Kong Profits Tax	**(73)**	107
PRC Enterprise Income Tax	**(3,032)**	(5,513)
	(3,105)	(5,406)
Deferred tax *(note 35)*	**85,244**	97,531
	113,962	115,608

The tax charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2012 HK$'000	2011 (Restated) HK$'000
Profit before taxation	**411,973**	564,047
Tax at Hong Kong Profits Tax of 16.5% (2011: 16.5%)	**67,976**	93,068
Tax effect of share of results of associates	**(66)**	—
Tax effect of share of results of jointly controlled entities	**(253)**	291
Tax effect of expenses not deductible for tax purposes	**7,032**	2,625
Tax effect of income not taxable for tax purpose	**(2,027)**	(23,858)
Land appreciation tax	**23,502**	29,236
Tax effect of tax losses not recognised	**7,280**	5,274
Utilisation of tax losses previously not recognised	**(8,169)**	(11,144)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**25,989**	28,384
Effect of income tax on concessionary rates for certain subsidiaries	**(6,164)**	(4,473)
Overprovision in prior years	**(3,105)**	(5,406)
Others	**1,967**	1,611
Tax charge for the year	**113,962**	115,608

11. TAXATION (continued)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Certain subsidiaries of the Company operating in the PRC are eligible as High and New Technology Enterprise and the income tax rate of these subsidiaries is 15%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Overprovision for the year ended 31 December 2011 mainly included tax refund from tax bureau to certain subsidiaries of the Company in the PRC for successfully claiming during the current year as High and New Technology Enterprise status since 2010. The income tax rate of these subsidiaries is thus reduced to 15%.

12. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company for the year is based on the profit for the year attributable to owners of the Company of HK$246,725,000 (2011: HK$387,231,000) and on 3,085,022,000 shares (2011: 3,085,022,000) in issue during the year.

No diluted earnings per share have been presented as there were no potential ordinary shares outstanding for both years.

13. DIVIDENDS

	2012 **HK$'000**	2011 HK$'000
Dividends recognised as distribution during the year:		
2011 final, paid — HK1 cent		
(2011: 2010 final dividend of HK1 cent) per share	**30,850**	30,850

A final dividend of HK1 cent per share in respect of the year ended 31 December 2012 (2011: HK1 cent) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

14. PROPERTY, PLANT AND EQUIPMENT

	Medium-term leasehold land and buildings in Hong Kong HK$'000	Long-term leasehold land and buildings in the PRC HK$'000	Medium-term leasehold land and buildings in the PRC HK$'000	Plant and equipment HK$'000	Motor vehicles, furniture and other equipment HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January 2011	76,875	7,759	410,759	555,798	139,308	1,190,499
Exchange adjustments	–	326	22,077	25,882	5,170	53,455
Additions	–	–	17,886	46,970	20,953	85,809
Acquisition of a subsidiary	–	–	29,203	132,307	2,002	163,512
Disposals	–	–	–	(6,195)	(3,735)	(9,930)
At 31 December 2011	76,875	8,085	479,925	754,762	163,698	1,483,345
Exchange adjustments	–	59	4,299	6,139	1,637	12,134
Additions	–	–	9,263	77,385	51,844	138,492
Disposals/written off	–	–	–	(28,424)	(3,966)	(32,390)
At 31 December 2012	76,875	8,144	493,487	809,862	213,213	1,601,581
DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	28,912	973	120,836	311,352	78,730	540,803
Exchange adjustments	–	39	6,455	13,440	2,597	22,531
Charged for the year	1,984	127	9,711	45,755	13,975	71,552
Eliminated on disposals	–	–	–	(6,135)	(3,567)	(9,702)
At 31 December 2011	30,896	1,139	137,002	364,412	91,735	625,184
Exchange adjustments	–	13	1,393	2,882	699	4,987
Charged for the year	1,984	124	14,250	59,461	21,519	97,338
Eliminated on disposals/written off	–	–	–	(25,850)	(3,696)	(29,546)
At 31 December 2012	32,880	1,276	152,645	400,905	110,257	697,963
CARRYING VALUES						
At 31 December 2012	43,995	6,868	340,842	408,957	102,956	903,618
At 31 December 2011	45,979	6,946	342,923	390,350	71,963	858,161

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Motor vehicles, furniture and other equipment HK$'000
THE COMPANY	
COST	
At 1 January 2011	11,739
Additions	2,599
At 31 December 2011	14,338
Additions	19
Disposals	(864)
At 31 December 2012	13,493
DEPRECIATION AND IMPAIRMENT	
At 1 January 2011	10,159
Provided for the year	1,176
At 31 December 2011	11,335
Provided for the year	1,223
Eliminated on disposals	(864)
At 31 December 2012	11,694
CARRYING VALUES	
At 31 December 2012	1,799
At 31 December 2011	3,003

Notes:

(a) Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of lease, or 50 years
Plant and equipment	5%–15%
Motor vehicle, furniture and other equipment	6%–25%

(b) The aggregate carrying values of the Group's motor vehicles, furniture and other equipment held under finance leases as at 31 December 2011 amounted to HK$2,029,000 (2012: nil).

15. PREPAID LEASE PAYMENTS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
The Group's prepaid lease payments comprise leasehold land in the PRC held under medium-term leases and are analysed for reporting purposes as:		
Non-current portion	**74,970**	76,568
Current portion	**2,391**	2,374
	77,361	78,942

16. INVESTMENT PROPERTIES

	Investment properties	**Investment properties under construction**	**Total**
	HK$'000	HK$'000	HK$'000
FAIR VALUE			
At 1 January 2011	286,629	1,427,219	1,713,848
Exchange adjustment	7,153	72,642	79,795
Construction costs incurred	—	61,166	61,166
Net increase in fair value recognised in profit or loss	33,267	256,257	289,524
At 31 December 2011	327,049	1,817,284	2,144,333
Exchange adjustment	3,187	19,521	22,708
Construction costs incurred	—	206,258	206,258
Net increase in fair value recognised in profit or loss	26,905	229,325	256,230
At 31 December 2012	357,141	2,272,388	2,629,529

16. INVESTMENT PROPERTIES (continued)

The carrying value of investment properties shown above comprises:

	2012 HK$'000	2011 HK$'000
Land in Hong Kong:		
Medium-term lease	68,155	55,050
Land outside Hong Kong:		
Freehold	71,006	57,287
Long lease	18,833	18,406
Medium-term lease	2,471,535	2,013,590
	2,629,529	2,144,333

The fair values of the Group's investment properties at 31 December 2012 have been arrived at on the basis of valuations carried out on that date by Jones Lang LaSalle Corporate Appraisal & Advisory Limited ("Jones Lang") for properties situated in Hong Kong, Knight Frank Petty Limited ("Knight Frank") for properties situated in the PRC and Atkinson Appraisal Consultants Limited ("Atkinson") for properties situated overseas. Jones Lang, Knight Frank and Atkinson are independent qualified professional valuers not connected with the Group and are members of the Institute of Valuers. The valuation of investment properties other than properties under construction was arrived at by reference to market evidence of transaction prices for similar properties. The valuation of investment properties under construction was arrived at by reference to market evidence of transaction prices for similar properties and by capitalisation of income potential of similar properties, on the basis that the properties will be developed and completed in accordance with the Group's development plan, after taking into account of the estimated construction costs to completion to reflect the quality of the completed development and the restrictions imposed on the development properties to lease or to sell to the third parties.

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

17. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2012 HK$'000	2011 HK$'000
Unlisted shares and capital contribution, at cost	677,386	617,656
Less: Impairment losses recognised	(89,280)	(81,530)
	588,106	536,126
Amounts due from subsidiaries	1,508,038	1,359,022

17. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES (continued)

The impairment loss recognised mainly represents full impairment in investment cost of certain subsidiaries that have been inactive.

At 31 December 2012, the amounts due from subsidiaries are unsecured, interest free and will not be repayable within one year.

Particulars of the principal subsidiaries of the Company at 31 December 2012 and 2011 are set out in note 47.

18. GOODWILL

	HK$'000
COST	
At 1 January 2011	—
Arising on acquisition of a subsidiary	50,396
Adjustments to provisional amounts of assets acquired in prior year *(note 38)*	(16,021)
Exchange adjustments	605
At 31 December 2011, as restated	34,980
Exchange adjustments	261
At 31 December 2012	35,241
IMPAIRMENT	
At 1 January 2011 and 31 December 2011	—
Impairment loss recognised in the year	23,000
At 31 December 2012	23,000
CARRYING VALUES	
At 31 December 2012	12,241
At 31 December 2011	34,980

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGU"s) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the cash-generating unit of the new material business.

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rate of 16.5% (2011: 16%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts.

18. GOODWILL (continued)

The value in use calculations are derived from cash flow projections based on the most recent financial budgets for the next 3 years approved by management. Cash flows beyond the 3-year period have been extrapolated using growth rates of 3% (2011: 7% for the fourth to sixth year and 3% beyond 6-year period) per annum. During the year ended 31 December 2012, the Group recognised an impairment loss of HK$23,000,000 (2011: nil) in relation to goodwill arising on acquisition of Shenzhen Rayitek Hi-tech Film Company Limited due to the current market conditions and the revision of forecast sales for the actual sales in 2012 below its previous financial budgets.

19. INTANGIBLE ASSETS

	Technical knowhow (Restated) HK$'000	Development costs HK$'000	Total HK$'000
COST			
At 1 January 2011	—	—	—
Exchange difference	263	—	263
Arising on acquisition of a subsidiary *(note 38)*	21,959	—	21,959
Adjustments to fair value of assets acquired in prior year *(note 38)*	38,838	—	38,838
At 31 December 2011	61,060	—	61,060
Exchange difference	456	287	743
Additions	—	26,985	26,985
At 31 December 2012	61,516	27,272	88,788
AMORTISATION			
At 1 January 2011	—	—	—
Exchange difference	33	—	33
Provided for the year	971	—	971
At 31 December 2011	1,004	—	1,004
Exchange difference	98	72	170
Provided for the year	6,614	6,746	13,360
At 31 December 2012	7,716	6,818	14,534
CARRYING VALUES			
At 31 December 2012	53,800	20,454	74,254
At 31 December 2011	60,056	—	60,056

19. INTANGIBLE ASSETS (continued)

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Technical knowhow	8 years
Development costs	4 years

Technical knowhow represents technical knowledge and techniques acquired through acquisition of a subsidiary to manufacture polyimide films.

20. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost of unlisted investments in associates	**15,949**	15,949	**3,603**	3,603
Share of post-acquisition profits, net of dividends received	**(3,104)**	(3,603)	**—**	—
Less: Impairment loss recognised	**—**	—	**(3,603)**	(3,603)
	12,845	12,346	**—**	—

Particulars of the associates of the Group at 31 December 2012 and 2011 are set out in note 48.

Summarised financial information in respect of the Group's associates is set out below:

	2012	2011
	HK$'000	HK$'000
Total assets	**115,304**	108,578
Total liabilities	**(61,805)**	(56,730)
Net assets	**53,499**	51,848
Share of net assets of associates	**12,845**	12,346
Total revenue	**74,823**	80,689
Total profit (loss) for the year	**1,668**	(287)
Group's share of profit and other comprehensive income of associates for the year	**499**	—

20. INTERESTS IN ASSOCIATES (continued)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2012 HK$'000	2011 HK$'000
Unrecognised share of results of associates for the year	(266)	(278)
Accumulated unrecognised share of losses of associates	(13,131)	(12,865)

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Cost of unlisted investments in jointly controlled entities	88,531	88,531	15,000	15,000
Share of other comprehensive income	12,985	13,488	—	—
Share of post-acquisition losses	(37,625)	(39,157)	—	—
	63,891	62,862	15,000	15,000

Particulars of the principal jointly controlled entity of the Group at 31 December 2012 and 2011 are set out in note 49.

The summarised financial information in respect of the Group's interest in China Aerospace New World Technology Limited and its subsidiaries which have been extracted from the unaudited consolidated financial statements are as follows:

	2012 HK$'000	2011 HK$'000
Non-current assets	790	1,023
Current assets	63,610	62,091
Current liabilities	509	252
Income	1,779	1,135
Expenses	247	2,901
Other comprehensive income	(503)	2,882

22. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments:				
At fair value				
— equity securities listed in Hong Kong	**49,140**	33,264	**–**	–
At cost				
— unlisted equity securities in Hong Kong	**9,000**	9,000	**9,000**	9,000
	58,140	42,264	**9,000**	9,000

The available-for-sale listed equity securities are held for an identified long term strategic purpose and are stated at fair value by reference to quoted bid price. The classification of the measurement of the available-for-sale listed equity securities amounting to HK$49,140,000 (2011: HK$33,264,000) at 31 December 2012 is Level 1 under the fair value hierarchy. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

At 31 December 2012, the unlisted equity securities of HK$9,000,000 (2011: HK$9,000,000) represent investments in unlisted equity interests and are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

23. PREPAYMENT FOR LAND DEVELOPMENT AND LAND DEVELOPMENT EXPENDITURE

Pursuant to a land development agreement entered into between the Group and the Wenchang Government on 20 August 2008 in relation to the land development in Hainan Launching Site Complex Zone ("Land Development Project"), the Group has advanced the total amount of approximately RMB489,081,000 (equivalent to approximately HK$608,310,000) (2011: RMB488,637,000, equivalent to approximately HK$603,255,000) at 31 December 2012 to the Wenchang Government for the demolition and resettlement works carried out by the Wenchang Government for the Land Development Project of which the amount of approximately RMB489,081,000 (equivalent to approximately HK$608,310,000) (2011: RMB487,062,000, equivalent to approximately HK$601,312,000) has been transferred to land development expenditure in accordance with expenditure requirements on the Land Development Project. Details of the Land Development Project are disclosed in the circular of the Company dated 10 September 2008.

23. PREPAYMENT FOR LAND DEVELOPMENT AND LAND DEVELOPMENT EXPENDITURE (continued)

The arrangement between the Wenchang Government and the Group for the above Land Development Project is considered as jointly controlled operations. The Wenchang Government provided the land for the Land Development Project and is responsible for the demolition and resettlement works while the expenses and costs incurred by the Wenchang Government on demolition and resettlement will be reimbursed by the Group. On the other hand, the Group will be responsible for the construction of basic infrastructure and arranging for or contribute all development costs required for the basic infrastructure of the Land Development Project. The net proceed (after deducting the expenditure incurred for demolition, resettlement and construction of basic infrastructure estimated to be approximately RMB1,200,000,000) from the sale of the land from the Land Development Project shall be shared between the Wenchang Government and CASIL Hainan Holdings Limited, an indirect wholly-owned subsidiary of the Company, in the ratio of 30%: 70%.

Land development expenditure represents the development cost incurred in relation to the Land Development Project less impairment. As at 31 December 2012, the Group has incurred HK$665,551,000 (2011: HK$642,175,000) in the planning and design, demolition and resettlement works in the Land Development Project.

24. INVENTORIES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Raw materials	**104,502**	95,639
Work-in-progress	**60,967**	61,753
Finished goods	**78,247**	74,752
	243,716	232,144

25. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**554,274**	420,616
Less: Allowance for doubtful debts	**(24,638)**	(24,776)
	529,636	395,840
Other receivables, deposits and prepayments	**60,721**	52,883
	590,357	448,723

25. TRADE AND OTHER RECEIVABLES (continued)

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

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**491,252**	368,256
Between 91–180 days	**33,141**	27,584
Between 181–365 days	**5,243**	—
	529,636	395,840

Included in trade receivables for the year ended 31 December 2011 was an amount due from a non-controlling shareholder of a subsidiary of amounting to HK$9,827,000 with a credit period of 90 days. The amount was fully settled during the year.

The Group allows an average credit period of 90 days to its trade customers. Receivables are unsecured and interest-free. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$38,384,000 (2011: HK$27,584,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. There are no balances included in other receivables which have been past due.

The following is an aged analysis of trade receivables which are past due but not impaired:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Overdue 1–90 days	**33,141**	27,584
Overdue 91–270 days	**5,243**	—
	38,384	27,584

Based on the historical experience of the Group, trade receivables aged within 180 days which are past due but not impaired are generally recoverable.

25. TRADE AND OTHER RECEIVABLES (continued)

The following is a movement in the allowance for doubtful debts:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
At 1 January	**24,776**	24,242
Allowance for doubtful debts	**1,278**	638
Amount written off as uncollectible	**(1,416)**	(104)
At 31 December	**24,638**	24,776

26. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**36,984**	—
Less: Progress billings	**(34,627)**	—
	2,357	—
Analysed for reporting purposes as:		
Amounts due from contract customers	**2,357**	—

At 31 December 2012, advances received from customers for contract work amounted to HK$5,977,000 (2011: nil) were included in trade and other payables.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Financial assets at fair value through profit or loss held for trading is analysed as follows:		
Equity securities		
— listed in Hong Kong	**62,125**	61,911
— listed in the PRC	**1,292**	1,000
	63,417	62,911

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The fair value of listed securities is determined by the quoted market bid price available on the relevant exchange. The classification of the measurement of the listed equity securities amounting to HK$63,417,000 (2011: HK$62,911,000) at 31 December 2012 is Level 1 under the fair value hierarchy. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

28. AMOUNTS DUE FROM/TO SUBSIDIARIES

THE COMPANY

Other than HK$6,128,000 (2011: HK$6,128,000) due from certain subsidiaries and HK$7,500,000 (2011: HK$7,500,000) due to certain subsidiaries which bear interest at market rate, the amounts are unsecured, non-interest bearing and repayable on demand.

29. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

THE GROUP

The Group's bank deposits amounting to HK$110,207,000 (2011: HK$24,942,000) have been pledged to secure bank loans and general banking facilities of the Group and are therefore classified as current assets.

THE GROUP AND THE COMPANY

Bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.35% to 1.39% (2011: 0.01% to 0.50%) per annum at 31 December 2012.

30. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**285,109**	221,287	**—**	—
Accrued charges	**124,108**	102,084	**14,396**	13,754
Receipt in advance	**137,196**	98,704	**—**	—
Other payables	**378,362**	256,638	**48,656**	48,636
	924,775	678,713	**63,052**	62,390

Other payables included an amount of HK$54,000,000 (2011: HK$54,000,000) received from a third party on behalf of China Aerospace Science & Technology Corporation and payables to contractors for investment properties under construction of HK$104,263,000 (2011: HK$19,233,000).

30. TRADE AND OTHER PAYABLES (continued)

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

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**268,944**	207,316
Between 91–180 days	**2,825**	2,755
Between 181–365 days	**442**	681
Over 1 year	**12,898**	10,535
	285,109	221,287

31. AMOUNT DUE TO AN ASSOCIATE

THE GROUP AND THE COMPANY

The amount due to an associate is of non-trade nature, unsecured, non-interest bearing and repayable on demand.

32. BANK AND OTHER BORROWINGS

The bank and other borrowings at the end of the reporting period comprise:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Borrowings from the Finance Syndicate *(note 46)*	**175,373**	24,691
Bank borrowings	**74,005**	256,296
Loan from a related party *(note 46)*	**74,627**	—
	324,005	280,987

32. BANK AND OTHER BORROWINGS (continued)

	THE GROUP 2012 HK$'000	2011 HK$'000
Secured	**324,005**	95,802
Unsecured	**–**	185,185
	324,005	280,987
The borrowings are repayable as follows:		
Within one year	**123,756**	234,074
More than one year but not exceeding two years	**24,876**	11,852
More than two years but not more than five years	**175,373**	35,061
	324,005	280,987
Less: Amounts due within one year shown under current liabilities	**123,756**	234,074
Amounts due after one year	**200,249**	46,913

The borrowings carry interest at variable market rate ranging from 6.15% to 7.93% (2011: 6.31% to 7.93%) per annum.

33. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Amounts payable under finance leases:				
Within one year	**–**	66	**–**	65
Less: Future finance charges	**–**	(1)	**N/A**	N/A
Present value of lease obligations	**–**	65	**–**	65
Less: Amount due for settlement within one year shown under current liabilities			**–**	(65)
Amount due for settlement after one year			**–**	–

In prior years, the Group leased certain of its plant and equipment under a finance lease. The average lease term is 3 years. Interest rate underlying all obligations under a finance lease is fixed at 5% per annum at the contract date.

34. OTHER LOAN

THE GROUP

The amount represents advances from a non-controlling shareholder of a non-wholly owned subsidiary. The amount is unsecured, non-interest bearing and is repayable on demand.

35. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

THE GROUP

	Accelerated tax depreciation HK$'000	**Revaluation of investment properties** HK$'000	**Others** HK$'000 *(Note)*	**Total** HK$'000
At 1 January 2011				
— as previously stated	3,648	185,136	(1,012)	187,772
— effect of adoption of the amendments to HKAS 12 *(note 2)*	—	70,449	—	70,449
— as restated	3,648	255,585	(1,012)	258,221
(Credit) charge to profit or loss for the year (restated)	(56)	97,587	—	97,531
Acquired on acquisition of a subsidiary (restated)	—	—	17,885	17,885
Exchange differences	—	14,147	98	14,245
At 31 December 2011, as restated	3,592	367,319	16,971	387,882
Charge (credit) to profit or loss for the year	13	87,431	(2,200)	85,244
Exchange differences	—	3,947	134	4,081
At 31 December 2012	3,605	458,697	14,905	477,207

Note: The amount mainly represents temporary differences arising from allowances for doubtful debts and deferred tax liabilities arising from fair value adjustments on assets acquired (i.e. intangible assets, prepaid lease payments and property, plant and equipment) on acquisition of subsidiaries.

For the purpose of presentation in the consolidated statement of financial position, the above deferred tax assets and liabilities have been offset.

At 31 December 2012, the Group has unused tax losses of approximately HK$1,098 million (2011: HK$1,126 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses, HK$1,050 million (2011: HK$1,106 million) may be carried forward indefinitely and the remaining balance will expire at various dates up to 2017.

35. DEFERRED TAXATION (continued)

THE GROUP (continued)

Deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributable retained profits earned by the subsidiaries in the PRC amounting to approximately HK$797 million (2011: HK$605 million) starting from 1 January 2008 under the EIT Law of the PRC that requires withholding tax upon the distribution of such profits to the non-PRC shareholders as the directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

THE COMPANY

At 31 December 2012, the Company had unused tax losses of approximately HK$40 million (2011: HK$52 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax loss due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.

36. SHARE CAPITAL

Authorised, issued and fully paid share capital

	Number of shares '000	**Nominal value** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	100,000,000	10,000,000
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and 31 December 2012	3,085,022	308,502

37. RESERVES

THE GROUP AND THE COMPANY

Share premium

Under the terms of the court order in the reduction of the share premium on 11 July 1994 and 1 November 2005 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and 1 November 2005 and any write back of the total provisions which have been made against at the effective date the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.

On 1 November 2005, an order of petition (the "Order") was granted by the High Court of Hong Kong Special Administrative Region (the "High Court"). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 25 August 2005, be and the same was confirmed in accordance with the provisions of Section 59 of the Companies Ordinance.

37. RESERVES (continued)

THE GROUP AND THE COMPANY (continued)

Share premium (continued)

The High Court approved the Order. Pursuant to the Order, the capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK$10,000,000,000 divided into 10,000,000,000 ordinary shares of HK$1.00 each (of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid) to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorised share capital of the Company would be increased from HK$1,000,000,000 to HK$10,000,000,000 by creation of additional 90,000,000,000 shares of HK$0.10 each. Accordingly, after the approval of the Order, the authorised share capital of the Company was HK$10,000,000,000 divided into 100,000,000,000 shares of HK$0.10 each, of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK$939,048,000 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

The Company provided an undertaking that in the event of the Company makes any future recoveries in respect of the assets, in respect of which provisions for impairment were made in the financial statements of the Company for the 7 years ended 31 December 2004 "Non-Permanent Loss Assets" beyond the written down value in the Company's audited financial statements as at 31 December 2004, all such recoveries beyond that written down value will be credited to a special capital reserve in the accounting records of the Company and that so long as there shall remain outstanding any debt of or claim against the Company which, if the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective were the date of the commencement of the winding up of the Company would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an un-distributable reserve of the Company for the purposes of section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof provided that:

(1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;

(2) the amount standing to the credit of the special capital reserve shall not exceed the lesser of (a) the amount of provision provided for in respect of the Non-Permanent Loss Assets for the 7 years ended 31 December 2004; or (b) the amount due to the creditors of the Company as at the date when the proposed reduction of capital and cancellation of share premium shall become effective;

(3) the said overall aggregate limit in respect of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits;

(4) the said overall aggregate limit in respect of the special capital reserve may be reduced upon the realisation, after the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective, of any of the Non-Permanent Loss Assets by the total provision made in relation to each such assets as at 31 December 2004 less such amount (if any) as is credited to the said special capital reserve as a result of such realisations; and

37. RESERVES (continued)

THE GROUP AND THE COMPANY (continued)

Share premium (continued)

(5) in the event that the amount standing to the credit of the said special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (3) and or (4) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

The Company further undertook that for so long as the undertaking remains effective, to (1) cause or procure its statutory auditors to report by way of a note or otherwise a summary of the undertaking in its audited consolidated financial statements or in the management accounts of the Company published in any other form; and (2) publish or cause to be published in any prospectus issued by or on behalf of the Company a summary of the undertaking.

THE COMPANY

	Share premium HK$'000	Special capital reserve HK$'000 *(note a)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011	844,929	630,977	1,080	644,287	2,121,273
Profit and total comprehensive income for the year	—	—	—	281,549	281,549
Dividend recognised as distribution	—	—	—	(30,850)	(30,850)
At 31 December 2011	844,929	630,977	1,080	894,986	2,371,972
Profit and total comprehensive income for the year	—	—	—	14,086	14,086
Dividend recognised as distribution	—	—	—	(30,850)	(30,850)
At 31 December 2012	844,929	630,977	1,080	878,222	2,355,208

Notes:

(a) Under the terms of the court order in the reduction of the share premium on the effective date, the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and 1 November 2005 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account until the amount of paid up share capital, share premium and the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisions stated in (3) and or (4) of this note. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.

(b) The Company's reserves available for distribution to shareholders as at 31 December 2012 comprised the retained profits of HK$878,222,000 (2011: HK$894,986,000).

38. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2011, the Group acquired 55% shareholding in 深圳瑞華泰薄膜科技有限公司 (Shenzhen Rayitek Hi-tech Film Company Limited) ("Shenzhen Rayitek") which is principally engaged in manufacturing and trading of polyimide films and related composite materials. The aggregate consideration of acquiring a 55% shareholding in Shenzhen Rayitek was cash consideration of RMB63,040,000 (equivalent to approximately HK$76,906,000). This acquisition allows the Group to develop polyimide films, a new materials business, with great competitiveness and profitability. Simultaneously, the Group expects the acquisition will have synergy effect to the Group's Hi-Tech Manufacturing Business. This transaction was completed on 31 August 2011 and has been accounted for using the purchase method of accounting. The assets and liabilities recognised at the date of acquisition were previously reported as provisional amounts. Upon finalisation of the valuation, the provisional amounts of certain items are restated retrospectively. Details are set out below. The amount of goodwill arising on acquisition as restated was HK$34,375,000.

Acquisition-related costs amounting to HK$734,000 were excluded from the consideration transferred and were recognised as expenses for the year ended 31 December 2011, within the administrative expenses. The assets and liabilities recognised at the date of acquisition are as follows:

	HK$'000 (Restated)
Net assets acquired:	
Intangible assets	60,797
Prepaid lease payments	29,157
Property, plant and equipment	163,512
Inventories	9,596
Trade and other receivables	18,567
Bank balances and cash	2,698
Trade and other payables	(41,419)
Amounts due to former shareholders	(74,498)
Bank borrowings	(73,198)
Deferred taxation	(17,885)
	77,327

A valuation report received in the current year indicated that the fair value of the intangible assets of Shenzhen Rayitek at the date of acquisition was finalised as HK$60,797,000. The following comparative figures of 2011 have been restated as if the initial accounting had been completed from the acquisition date:

	Provisional amounts HK$'000	**Adjustments** HK$'000	**Restated** HK$'000
Goodwill	50,396	(16,021)	34,375
Intangible assets	21,959	38,838	60,797
Deferred taxation	8,175	9,710	17,885
Non-controlling interests	21,689	13,107	34,796

38. ACQUISITION OF A SUBSIDIARY (continued)

The fair value of trade and other receivables at the date of acquisition amounted to HK$18,567,000 with gross contractual amounts of HK$18,567,000. The best estimate at acquisition date of the contractual cash flows expected to be collected amounted to HK$18,567,000.

	HK$'000 (Restated)
Consideration transferred	76,906
Plus: non-controlling interests (45% in Shenzhen Rayitek)	34,796
Less: Net assets acquired	(77,327)
Goodwill arising on acquisition	34,375

The non-controlling interests (45%) in Shenzhen Rayitek recognised at the acquisition date was measured by reference to the share of the fair value of the identifiable assets acquired and the liabilities assumed which amounted to HK$34,796,000.

Goodwill arose in the acquisition of Shenzhen Rayitek is attributable to the anticipated profitability of the polyimide films and related products in the new market, manufacturing and aerospace sector. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected revenue growth and future market development of Shenzhen Rayitek. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration paid	76,906
Bank balances and cash acquired	(2,698)
	74,208

Included in the profit for the year ended 31 December 2011 was a loss of HK$2,403,000 attributable to the additional business generated by Shenzhen Rayitek. Revenue for the year ended 31 December 2011 included HK$20,843,000 generated from Shenzhen Rayitek.

Had the acquisition been completed on 1 January 2011, total group revenue for the year ended 31 December 2011 would have been HK$2,215,245,000, and profit for the year ended 31 December 2011 would have been HK$440,963,000 (restated). The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Shenzhen Rayitek been acquired at the beginning of the year ended 31 December 2011 in which the acquisition took place, the directors have calculated depreciation of plant and equipment and amortisation of intangible assets acquired on the basis of the finalised fair values for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

39. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2011, the Group disposed of its interests in a subsidiary, CASIL Satellite Holdings Limited ("CASIL Satellite"), which was engaged in investment holding and its major assets are available-for-sale investments, to China Great Wall Industry (Hong Kong) Corp. Limited ("Great Wall HK"), an indirect wholly-owned subsidiary of China Aerospace Science & Technology Corporation ("CASC") at a cash consideration of HK$132,300,000, determined in accordance with a sale and purchase agreement entered with Great Wall HK in March 2011. The completion of the disposal was in September 2011 upon the fulfillment of the conditions, among others, waiver from general offer from the Securities and Futures Commission of Hong Kong as well as approvals from the relevant governmental authorities in the PRC. CASC is a substantial shareholder of the Company and has the ability to exercise significant influence over the Group.

Analysis of assets and liabilities over which control was lost:

	22.9.2011 HK$'000
Available-for-sale investments	78,975
Bank balances and cash	14
Other payables	(28)
	78,961
Reclassification adjustment:	
— Investment revaluation reserve	(50,183)
— Translation reserve	2,797
	31,575
Gain on disposal	100,592
Transaction costs incurred	133
Consideration received	132,300
Net cash inflow arising on disposal:	
Cash consideration	132,300
Transaction costs paid	(133)
Bank balances and cash disposed of	(14)
	132,153

Included in the gain on disposal of a subsidiary is an amount of HK$103,389,000 attributable to gain on disposal of available-for-sale investments.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which mainly includes the borrowings disclosed in notes 32 and 34, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

41. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Fair value through profit or loss				
Held for trading	**63,417**	62,911	**—**	—
Loans and receivables (including cash and cash equivalents)	**1,666,972**	1,584,171	**2,221,556**	2,333,369
Available-for-sale investments	**58,140**	42,264	**9,000**	9,000
Financial liabilities				
Amortised cost	**997,444**	833,096	**154,938**	202,190

b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, pledged bank deposits, trade and other receivables, financial assets at fair value through profit or loss, bank balances and cash, trade and other payables, amount due to an associate, obligations under a finance lease, bank and other borrowings and other loan. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Company's major financial instruments include other receivables, amounts due from subsidiaries, available-for-sale investments, bank balances and cash, other payables, amounts due to subsidiaries and amount due to an associate. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

41. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

The Group is mainly exposed to cash flow interest rate risk in relation to floating-rate borrowings (see note 32 for details). The Company is exposed to fair value interest rate risk in relation to the non-current amounts due from subsidiaries which are interest free and will not be repayable within one year (see note 17 for details). In addition, the Group and the Company are also exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on bank balances. However, the management consider the Group's and the Company's exposure of the bank balances is not significant as interest bearing bank balances are within short maturity period and thus it is not included in sensitivity analysis.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to cash flow interest rate risk for bank and other borrowings after considering the impact of interest expenses being capitalised as land development expenditure. For variable-rate bank and other borrowings, the analysis is prepared assuming the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period. A 50-basis-point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit after taxation for the year ended 31 December 2012 would decrease/increase by HK$1,215,000 (2011: HK$267,000).

Other price risk

The Group is exposed to equity price risk through its investments in listed and unlisted equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly on equity instruments operating in aerospace and energy sector quoted in the Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks (excluding those available-for-sale investments stated at cost) at the end of the reporting period.

If the prices of the financial assets at fair value through profit or loss had been 10% (2011: 10%) higher/lower, the Group's profit for the year ended 31 December 2012 would increase/decrease by HK$5,295,000 (2011: HK$5,253,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

If the prices of the listed available-for-sale investments had been 10% (2011: 10%) higher/lower, the Group's investment revaluation reserve would increase/decrease by HK$4,914,000 (2011: HK$3,326,000) as a result of the changes in fair value of available-for-sale investments for the year ended 31 December 2012.

41. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group is not exposed to significant foreign currency risk as majority of its transactions are denominated in Hong Kong dollars and Renminbi ("RMB") (the functional currencies of the Group's major subsidiaries) and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the end of the reporting period. The Company is exposed to foreign currency risk as certain amounts due from/to subsidiaries are denominated in RMB other than the functional currency of the Company. In order to mitigate the foreign currency risk, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Company's monetary assets and monetary liabilities denominated in RMB at the end of the reporting period, are as follows:

	Assets		Liabilities	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**823,762**	794,242	**59,497**	57,990

Sensitivity analysis

The sensitivity analyses below details the Company's sensitivity to a 5% (2011: 5%) increase and decrease in Hong Kong dollars against RMB. 5% (2011: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate.

The sensitivity analysis includes amounts due from/to subsidiaries denominated in RMB.

	Increase (decrease) in profit after taxation
	HK$'000
2012	
— if Hong Kong dollars weaken against RMB	**38,214**
— if Hong Kong dollars strengthen against RMB	**(38,214)**
2011	
— if Hong Kong dollars weaken against RMB	30,739
— if Hong Kong dollars strengthen against RMB	(30,739)

The resulting amounts above are mainly attributable to the exposure outstanding on amounts due from/to subsidiaries at the end of the reporting period.

41. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2012 and 2011 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the statements of financial position.

The Company's credit risk is primarily attributable to other receivables, amounts due from subsidiaries and bank balances. In addition, regular reviews on aging and recoverability are performed by the management of the Company to ensure that adequate impairment losses, if any, are made for irrecoverable amounts.

At 31 December 2012, the Company also has significant concentration of credit risk which has an amount of HK$2,176,606,000 (2011: HK$2,200,971,000) due from a number of subsidiaries. The directors of the Company has closely monitored and reviewed the recoverability of the amounts and the directors of the Company consider such risk is significantly reduced.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has no significant concentration of credit risk in trade receivable, with exposure spread over a number of counterparties and customers. The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. When the amount payable is not fixed, the amount disclosed has been determined by reference to the interest rates at year end. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

41. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	On demand and less than 1 month HK$'000	1 month to 1 year HK$'000	1–5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
THE GROUP						
At 31 December 2012						
Financial liabilities						
Non-interest bearing	**–**	**285,199**	**388,240**	**–**	**673,439**	**673,439**
Bank and other borrowings						
— variable rate	**6.29**	**–**	**141,774**	**212,931**	**354,705**	**324,005**
		285,199	**530,014**	**212,931**	**1,028,144**	**997,444**
At 31 December 2011						
Financial liabilities						
Non-interest bearing	–	210,752	341,292	–	552,044	552,044
Bank and other borrowings						
— variable rate	6.69	1,198	239,876	53,443	294,517	280,987
Finance lease	5.00	66	–	–	66	65
		212,016	581,168	53,443	846,627	833,096

	Weighted average interest rate %	On demand and less than 1 month HK$'000	1 month to 1 year HK$'000	1–5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
THE COMPANY						
At 31 December 2012						
Financial liabilities						
Non-interest bearing	**–**	**154,938**	**–**	**–**	**154,938**	**154,938**
At 31 December 2011						
Financial liabilities						
Non-interest bearing	–	202,190	–	–	202,190	202,190

41. FINANCIAL INSTRUMENTS (continued)

c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices; and

- the fair values of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The classification of the Group's financial assets at 31 December 2012 and 2011 using the fair value hierarchy is Levels 1 and 2 (see notes 22 and 27). The directors consider that the fair value of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates to the carrying amount.

42. PLEDGE OF ASSETS

At 31 December 2012, bank deposits of HK$110,207,000 (2011: HK$24,942,000), plant and equipment of HK$110,392,000 (2011: HK$109,574,000), land use right of HK$14,341,000 (2011: HK$14,556,000) and investment properties with an aggregated carrying amount of HK$2,272,388,000 (2011: HK$1,817,284,000) respectively were pledged to banks to secure general banking facilities and loan facilities granted to the Group.

43. COMMITMENTS

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**16,448**	25,425
— acquisition of an intangible asset	**13,993**	11,023
— properties under construction	**886,122**	1,102,392
	910,563	1,138,840
Capital expenditure authorised but not contracted for		
— properties under construction	**548,180**	553,467

In addition, at 31 December 2012, the Group has committed investment of approximately HK$826,986,000 (2011: HK$832,827,000) for the Hainan Launching Site Complex Zone project in Wenchang City, Hainan Province as detailed in note 23.

44. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**15,747**	10,173	**2,712**	1,306
In the second to fifth year inclusive	**22,317**	17,658	**4,068**	—
Over five years	**33,506**	30,972	**—**	—
	71,570	58,803	**6,780**	1,306

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for a term of two to thirty years.

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated and rentals are fixed for term of 2 years.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012	2011
	HK$'000	HK$'000
Within one year	**4,243**	6,223
In the second to fifth year inclusive	**4,399**	951
	8,642	7,174

The properties held have committed tenants for the next one to three years.

45. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme, limit to HK$1,000 per month from 1 January 2012 to 31 May 2012 and HK$1,250 per month from 1 June 2012 to 31 December 2012 (2011: HK$12,000 per annum) per staff.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of HK$10,835,000 (2011: HK$8,202,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

46. RELATED PARTY TRANSACTIONS

Balances of related parties of the Company and the Group have been disclosed in respective notes. In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following 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 year, except as disclosed below, the Group did not have any individually significant transactions with other government-related entities in its ordinary and usual course of business.

Transactions with the CASC Group

During the year ended 31 December 2012, the Group entered into a loan facility with Aerospace Science & Technology Finance Company Limited (航天科技財務有限責任公司) ("Aerospace Finance"), a subsidiary of CASC, for an amount of RMB60,000,000 (equivalent to approximately HK$74,627,000) for a period of one year from the first draw down date. As security for the loan, the relevant land use right and property, plant and equipment with carrying amount of HK$14,341,000 and HK$110,392,000 respectively were charged in favour of Aerospace Finance. The interest paid to Aerospace Finance during the year amounting to HK$2,852,000.

During the year ended 31 December 2012, the Group entered into electronic commercial service agreements (the "Agreement") with 航天新商務信息科技有限公司 (the "Associate") for an amount of RMB300,000 (equivalent to approximately HK$368,000) per year for a period of five years commencing from the date of the Agreement. During the year, the Group also paid to the Associate service fee of RMB200,000 (equivalent to approximately HK$246,000) for renovation and maintenance of the Group's website and RMB200,000 (equivalent to approximately HK$246,000) as corporate membership fee. CASC and its related companies also have substantial interests and significant influence over the Associate.

During the year ended 31 December 2012, the Group entered into a subscription agreement with Hainan Expressway Co., Ltd. (海南高速公路股份有限公司) ("Hainan Expressway") and China Great Wall Industry Corporation (中國長城工業集團有限公司) ("China Great Wall"), pursuant to which Hainan Expressway and China Great Wall will conditionally subscribe 50% enlarged equity interest in Hainan Aerospace Investment Management Company Limited (海南航天投資管理有限公司) ("Hainan Aerospace"), a wholly-owned subsidiary of the Company (see note 50).

During the year ended 31 December 2011, the Group entered into a facility ("Facility") with a syndicate of financial institutions including Aerospace Finance, a subsidiary of CASC, and certain government-related banks (together "Finance Syndicate") for a bank guarantee of up to RMB150,000,000 and advances of RMB1,350,000,000 for the construction of Shenzhen Aerospace Science & Technology Plaza ("Aerospace Plaza") for a period of 5 years from the first drawdown date. The land use right of Aerospace Plaza has been mortgaged in favour of the Finance Syndicate as security. As at 31 December 2012, the Group has drawn down RMB141,000,000 (equivalent to approximately HK$175,373,000) (2011: RMB20,000,000 (equivalent to approximately HK$24,691,000)).

46. RELATED PARTY TRANSACTIONS (continued)

Transactions with the CASC Group (continued)

During the year ended 31 December 2011, the Group disposed of its interest in a subsidiary, CASIL Satellite to Great Wall HK, an indirectly wholly-owned subsidiary of CASC at a cash consideration of HK$132,300,000 and a gain on disposal of HK$100,592,000 is recognised in profit or loss (see note 39).

During the year ended 31 December 2011, the Group contributed a sum of RMB10,000,000 (equivalent to approximately HK$11,933,000) in relation to the formation of the Associate (see note 48), representing approximately 15.7% shareholding of the Associate. CASC and its related companies also contributed a sum of RMB20,000,000 (equivalent to approximately HK$23,866,000) and RMB32,000,000 (equivalent to approximately HK$38,186,000) in the Associate, representing approximately 31.5% and 50.2% shareholding in the Associate respectively.

Transactions with other government-related entities

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

The Group has deposits placements, borrowings and other general banking facilities, with certain banks which are government-related entities in its ordinary course of business. Other than the substantial amount of bank balances, bank and other borrowings (note 32) and the Facility with these banks, Land Development Project with the Wenchang Government (note 23), transactions with other government-related entities are individually insignificant.

Compensation of key management personnel

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 8.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	held by subsidiaries %	attributable to the Company %	Principal activities
Incorporated and operating in Hong Kong:					
CASIL Clearing Limited	HK$10,000,000	100	—	100	Provision of treasury services
CASIL Electronic Products Limited	HK$15,000,000	100	—	100	Distribution of plastic and metal products and moulds
CASIL Hainan Holdings Limited	HK$1	—	100	100	Investment holding
CASIL Optoelectronic Product Development Limited	HK$3,000,000	—	100	100	Distribution of LCD modules
CASIL Semiconductor Limited	HK$15,000,000	—	100	100	Distribution of liquid crystal displays
China Aerospace Industrial Limited	HK$1,000,000	100	—	100	Investment holding and property investment
Chee Yuen Industrial Company Limited	HK$20,000,000	—	100	100	Distribution of plastic and metal products and moulds
Digilink Systems Limited	HK$60,000,000	100	—	100	Investment holding
Hong Yuen Electronics Limited	HK$5,000,000	—	100	100	Distribution of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	—	100	100	Distribution of intelligent battery chargers and electronic components
Incorporated and operating in Canada:					
Vanbao Development (Canada) Limited	CAD1,080,000	—	79.25	79.25	Property investment
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Sinolike Investments Limited	US$1	100	—	100	Investment holding
Registered and operating in the PRC:					
Chee Yuen Plastic Products (Huizhou) Company Limited#	HK$72,000,000	—	100	100	Manufacturing of plastic and metal products and moulds
China Aerospace (Huizhou) Industrial Garden Limited##	US$12,000,000	90	—	90	Property investment
Conhui (Huizhou) Semiconductor Company Limited#	HK$90,400,000	—	100	100	Manufacturing and distribution of liquid crystal displays and LCD modules

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Company %	Principal activities
Registered and operating in the PRC: (continued)					
東莞康源電子有限公司#	HK$150,000,000	–	100	100	Manufacturing and distribution of printed circuit boards
Huizhou Jeckson Electric Company Limited##	US$1,000,000	–	90	90	Manufacturing of intelligent battery chargers and electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited##	US$720,000	–	90	90	Electroplating of metals
Shenzhen Chee Yuen Plastics Company Limited##	HK$25,000,000	–	100	100	Manufacturing and distribution of plastic products
航科新世紀科技發展(深圳)有限公司#	US$50,000,000	100	–	100	Investment holding
深圳市航天高科投資管理有限公司##	RMB700,000,000	–	60	60	Property investment
海南航天投資管理有限公司#	RMB600,000,000	–	100	100	Land development
深圳瑞華泰薄膜科技有限公司##	RMB30,000,000	–	55	55	Manufacturing and distribution of polyimide films and related composite materials
航天數聯信息技術(深圳)有限公司#	HK$50,000,000	–	100	100	Development and sale of software and related products

Wholly foreign-owned enterprises registered in the PRC

Sino-foreign joint equity enterprises registered in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

48. PARTICULARS OF ASSOCIATES

Details of the Group's associates at 31 December 2012 and 2011 are as follows:

Name of associate	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group %	Principal activities
Registered and operating in the PRC:			
航天新商務信息科技有限公司*	RMB63,800,000	15.7	Provision of information service
Incorporated and operating in Hong Kong:			
Postel Development Company Limited	HK$10,000	30	Trading
Sonconpak Limited	HK$12,000,000	30	Manufacturing of carton box

* The Group has the ability to exercise significant influence over this associate because it has the power to appoint one representative in the board of that company. Accordingly, it is regarded as an associate of the Group.

49. PARTICULARS OF A PRINCIPAL JOINTLY CONTROLLED ENTITY

Details of the Group's principal jointly controlled entity at 31 December 2012 and 2011 are as follows:

Name of jointly controlled entity	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:			
China Aerospace New World Technology Limited	HK$30,000,000	50	Investment holding

The above table lists the jointly controlled entity of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

50. EVENTS AFTER THE REPORTING PERIOD

On 5 November 2012, the Group entered into a subscription agreement with Hainan Expressway and China Great Wall, pursuant to which Hainan Expressway and China Great Wall will conditionally subscribe 50% enlarged equity interest in aggregate in Hainan Aerospace, a wholly-owned subsidiary of the Company which is engaged in a Land Development Project in Hainan (see note 23), at a consideration of RMB312,720,000 (equivalent to approximately HK$388,955,000) by each of Hainan Expressway and China Great Wall respectively. China Great Wall is an indirectly wholly-owned subsidiary of CASC. Upon the completion of the above transaction, Hainan Aerospace will cease to be a subsidiary of the Company.

Details of the transaction are set out in the circular of the Company dated 11 December 2012. The above transaction was approved by the shareholders of the Company pursuant to the Extraordinary General Meeting held on 4 January 2013.

The major classes of assets and liabilities of Hainan Aerospace are as follows:

	31.12.2012 HK$'000
Property, plant and equipment	23,256
Land development expenditure	673,872
Pledged bank deposits	85,000
Bank balances and cash	114,835
Other assets	521
Total assets	897,484
Amounts due to fellow subsidiaries	123,134
Bank borrowings	62,189
Other liabilities	1,916
Total liabilities	187,239

During the year, Hainan Aerospace contributed HK$5.7 million (2011: HK$9.9 million) to the Group's net operating cash outflows, paid HK$12.6 million (2011: HK$390.1 million) in respect of investing activities and paid HK$122.7 million (2011: received HK$179 million) in respect of financing activities.

RESULTS

	Year ended 31 December				
	2012	2011 (Restated)	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**2,615,101**	2,187,006	1,879,745	1,361,045	1,707,919
Profit before taxation	**411,973**	564,047	419,464	680,888	153,777
Taxation	**(113,962)**	(115,608)	(75,335)	(141,050)	(12,524)
Profit for the year	**298,011**	448,439	344,129	539,838	141,253
Attributable to:					
Owners of the Company	**246,725**	387,231	292,478	393,940	144,596
Non-controlling interests	**51,286**	61,208	51,651	145,898	(3,343)
	298,011	448,439	344,129	539,838	141,253

ASSETS AND LIABILITIES

	At 31 December				
	2012	2011 (Restated)	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**4,600,412**	4,017,469	2,869,896	2,293,318	1,707,564
Current assets	**2,034,947**	1,922,948	2,204,647	1,831,762	1,543,889
Current liabilities	**(1,117,212)**	(976,396)	(763,942)	(760,601)	(628,087)
Non-current liabilities	**(677,456)**	(434,795)	(187,837)	(132,595)	(139,727)
Shareholders' funds	**4,840,691**	4,529,226	4,122,764	3,231,884	2,483,639
Attributable to:					
Owners of the Company	**4,118,102**	3,863,672	3,550,532	2,690,430	2,149,954
Non-controlling interests	**722,589**	665,554	572,232	541,454	333,685
	4,840,691	4,529,226	4,122,764	3,231,884	2,483,639

Note: The financial information for the year ended 31 December 2011 has been restated to reflect the effect of early adoption of Amendments to HKAS 12 titled "Deferred tax: Recovery of underlying assets" issued by the Hong Kong Institute of Certified Public Accountants. The financial information for the three years ended 31 December 2008, 2009 and 2010 has not been adjusted.

Location	Lot number	Existing use	Approximate gross floor area/site area (sq. m)	Group's interest (%)
MEDIUM TERM LEASES IN HONG KONG				
Units 402, 405 to 407 on 4th Floor the whole of 17th Floor and Car Park Nos. P1, L3, LD1, LD2 and LD5 on Ground Floor, Car Park Nos. P17-22 and P24 on 1st Floor and Car Park Nos. P34, P36 and P37 on 2nd Floor China Aerospace Centre 143 Hoi Bun Road Kwun Tong Kowloon	Kwun Tong Inland Lot. No. 528	Industrial	3,290	100
Unit A on 2nd Floor of Tsun Win Factory Building, No. 60 Tsun Yip Street, Kwun Tong Kowloon	Kwun Tong Inland Lot No. 10	Industrial	230	100
MEDIUM TERM LEASES IN THE PRC				
China Aerospace Industrial Estate Zhong Kai Development Zone Huizhou City Guangdong Province China	—	Industrial	118,867	90
South of Bin Hai Avenue and the East of Hou Hai Bin Road Nanshan District Shenzhen Guangdong Province China	—	Under development	12,619	60
FREEHOLD LAND OVERSEAS				
1111-11 Street S.W. and 1202-12, 1208-12, 1212-12, 1216-12, 1218-12, 1220-12, 1222-12 & 1226-12 Avenue S.W. Calgary, Alberta Canada	—	Vacant	4,234	79.25
LONG TERM LEASE IN THE PRC				
Level 8, Zhong Hai Building Zhong Hai Hua Ting North Zone No. 399 Fu Hua Road Futian District Shenzhen Guangdong Province China	—	Office	1,043	100