CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

2017 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Li Hongjun *(President)*
Mr Jin Xuesheng

Non-Executive Directors

Mr Gong Bo *(Chairman)*
(appointed on 24 February 2017)
Mr Luo Zhenbang *(Independent)*
Ms Leung Sau Fan, Sylvia *(Independent)*
Mr Wang Xiaojun *(Independent)*
Mr Mao Yijin
Mr Xu Liangwei
Mr Zhang Jianheng *(Chairman)*
(resigned on 24 February 2017)

AUDIT COMMITTEE

Mr Luo Zhenbang *(Chairman)*
Ms Leung Sau Fan, Sylvia
Mr Mao Yijin

REMUNERATION COMMITTEE

Ms Leung Sau Fan, Sylvia *(Chairman)*
Mr Wang Xiaojun
Mr Xu Liangwei

NOMINATION COMMITTEE

Mr Gong Bo *(Chairman)*
(appointed on 24 February 2017)
Mr Luo Zhenbang
Ms Leung Sau Fan, Sylvia
Mr Wang Xiaojun
Mr Xu Liangwei
Mr Zhang Jianheng *(Chairman)*
(resigned on 24 February 2017)

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSEL

Reed Smith Richards Butler

PRINCIPAL BANK & FINANCIAL INSTITUTION

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

REGISTERED OFFICE

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

CHAIRMAN'S STATEMENT

Gong Bo
Chairman of the Board

OVERVIEW

In 2017, the global economic climate was turning optimistic, certain economies such as the U.S., the Eurozone, Japan and China all were recovering simultaneously. Driven by the global economy, Hong Kong's economic growth accelerated and its economic performance was ideal. The Company seized market opportunities, continued to develop and innovate, improved production efficiency, optimized product mix, gave full play to various advantages, improved comprehensive competitiveness, and managed to achieve the business goal of the whole year.

For the year ended 31 December 2017, the Company and its subsidiaries reported a turnover of HK$3,661,325,000 (2016: HK$3,087,848,000), representing an increase of 18.57% as compared with that of last year, whereas overall gross profit margin was 27.97% (2016: 25.63%). If removing the impact of change in fair value of investment properties, the profit attributable to shareholders of the Company should be HK$334,481,000 for the year (2016: HK$224,999,000), representing an increase of 48.66% as compared with that of last year, which reflected the contribution brought by business growth in hi-tech manufacturing and the new rental income generated from Shenzhen Aerospace Science & Technology Plaza.

In 2017, upon taken into account of the impact of decrease in change in fair value of investment properties, the Company and its subsidiaries recorded a profit of HK$666,817,000, representing a decrease of 44.58% as compared with that of HK$1,203,252,000 in 2016; profit attributable to shareholders was HK$486,183,000, representing a decrease of 38.93% as compared with that of HK$796,108,000 in 2016; earnings per share attributable to shareholders was HK15.76 cents (2016: HK25.81 cents).

In considering the development needs and funding position of the Company as a whole, the Board recommended the payment of a dividend of HK3 cents per share for the year.

BUSINESS REVIEW

In 2017, the performance of hi-tech manufacturing business of the Company was ideal. Shenzhen Aerospace Science & Technology Plaza began to provide a stable rental income for the Company. The internet of things business launched a new agricultural product traceability project. Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) and the local government had reached a settlement agreement, formally withdrawing from the project of the Complex Zone of the Launching Site in Hainan.

Hi-tech Manufacturing

In 2017, in the face of several adverse factors including complicated economic situation, the continued increase in the costs of raw materials and labour, and the decrease of orders from several major customers, the hi-tech manufacturing business underwent many challenges. However, through active market development, adjustment in cost structure and lowering the cost, the hi-tech manufacturing business managed to grow steadily. The turnover of the hi-tech manufacturing business for the year was HK$3,166,627,000 (2016: HK$2,843,681,000), representing an increase of 11.36% as compared with last year; the operating profit was HK$292,101,000 (2016: HK$306,068,000), representing a decrease of 4.56% as compared with last year.

Chairman's Statement (continued)

The development of plastic product business in domestic market in China was ideal, which, to a certain extent, alleviated the impact of the reduction of orders caused by the relocation of production base by Japanese customers. The overall market for office equipment was relatively stable, and the newly developed high-end audio and auto parts also increased in businesses. The intelligent charger business mainly focuses on low-power battery products in five aspects, including the charger, the lithium battery charger, the mobile power pack, the Ni-MH charger and the intelligent remote control. At the same time, the newly developed market for medium and high power products gradually achieved some results. The product structure of the electroplating business expanded from electro-digital products to auto parts products and home appliances products. The newly completed electroplating factory in Boluo, Huizhou will enhance and innovate the electroplating technology, which includes the enhancement for the simple external appearance technology to new industrial technology in the integration of external appearance and functions, and also developed diversified types of electroplating (such as the colour diversification of pearl nickel), thus increase the market competitiveness significantly.

Three major products in the printed circuit board ("PCB") business recorded a growth, including rigid PCB, flexible PCB and mix of rigid and flexible PCB. However, the increase in raw materials and operating costs, as well as the fierce competition in the market, had greatly affected its profitability. Liquid crystal display business had strengthened its marketing efforts by developing new sizable customers gradually. Through the major works of vigorously promoting technological innovation, quality improvement, energy saving and consumption reduction and supply chain management, the business recorded a comparative better growth in sales.

Shenzhen Aerospace Science and Technology Plaza

In 2017, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") and its wholly owned subsidiary, Shenzhen Aerospace Technology Property Management Company Limited* (深圳市航天高科物業管理有限公司), recorded a total revenue of HK$394,121,000 and a profit of HK$734,499,000; if removing the effect of the change in the fair value of the investment properties, the operating profit was HK$353,206,000. The leasing work is ideal and the tenants are mainly high-tech and financial enterprises which provide a new source of revenue for the Company. As of the end of 2017, the valuation of Shenzhen Aerospace Science & Technology Plaza was about RMB7,642,000,000 (2016: RMB7,345,000,000).

The Complex Zone of the Launching Site in Hainan

Since the participation in the project development of the Complex Zone of the Launching Site in Hainan by Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, it has gone through various effects such as the austerity measures in China, the changes in government compensation standard, the substantial increase in construction costs and so on, which may bring to Hainan Aerospace a stability risk if the development of the Complex Zone of the Launching Site is continued. On 23 June 2017, Hainan Aerospace and the Municipal Government of Wenchang City came to an agreement ("Settlement Agreement") to terminate the Land Development Agreement of the Complex Zone of the Launching Site in Hainan signed on 20 August 2008. Pursuant to the Settlement Agreement, the Municipal Government of Wenchang City will fully take over the resettlement zone project in the Complex Zone, and return the project funds of RMB1,333,808,100, as confirmed by the audit, to Hainan Aerospace, and RMB290,000,000 of which was repaid. At the same time, the government is committed to return the remaining part by equivalent assets or cash to Hainan Aerospace by 31 December 2019. We believed that, with the strong support of China Aerospace Science & Technology Corporation ("China Aerospace") and the Government of Hainan Province, Hainan Aerospace and the Municipal Government of Wenchang City will actively cooperate to fulfil the Settlement Agreement.

Hainan Aerospace repaid all bank loans and shareholder loans during the year, and cancelled the joint account in accordance with the Settlement Agreement, basically completed the transfer of the project to the Municipal Government of Wenchang City.

As of 31 December 2017, the carrying amount of Company's interest in Hainan Aerospace was HK$686,154,000; whereas the Company's share of loss for the year ended 31 December 2017 was HK$10,566,000.

Internet of Things Application and Cross-border E-commerce Logistics

In 2017, the cross-border e-commerce logistics business of Aerospace Digitnexus Information Technology (Shenzhen) Company Limited* (航天數聯信息技術(深圳)有限公司) ("Aerospace Digitnexus") was affected by the customs policy adjustment and the fierce competition of the industry, the import postal service therefore did not perform as expected. During the year, through the introduction of RFID electronic label agricultural product traceability project, it plans to integrate and upgrade the industrial traceability of landmark agricultural products nationwide gradually. This will provide a real-time monitoring of agricultural production process, hydrological and geological information to guarantee the quality of products, and will conduct traceable tracking of delivery time and location information by adopting the RFID electronic tags so as to provide accurate logistics distribution in accordance with the sales of primary agricultural products wholesale market in various regions. The agricultural product traceability project has begun to take effect since its initiation.

As of 31 December 2017, the operating income of Aerospace Digitnexus was about HK$94,171,000, an increase of 25.56% as compared with that of HK$75,001,000 in 2016; the operating profit was about HK$9,176,000, representing an increase of 28.62% as compared with that of HK$7,134,000 in 2016.

PROSPECTS

Looking forward to 2018, the global economy is expected to maintain a relatively fast recovery and the U.S. economy will grow modestly. The domestic economic structure in China will be further optimized, and the performance of high-tech industries, equipment manufacturing and service industry is getting better, becoming a new driving force for economic growth. It is expected that China will, under the main key of steady growth, implement a proactive fiscal policy and prudent monetary policy, strengthen supply-side structural reform, accelerate the construction of an innovative country and enhance innovation and competitiveness of the economy so as to support its economic growth.

However, the potential risk factors that may affect the global and Hong Kong economies cannot be ignored. Global financial markets and economic performance will continue to be plagued by geopolitical issues, global trade wars caused by the emergence of trade protectionism and terrorist attacks. The Federal Reserve of the United States and a number of central banks are likely to raise interest rates and tighten policy, which will exert an impact on global financial markets. The Company will do well in various risks and internal control management while maintaining fast growth in face of global and Hong Kong economies. The Company will adhere to the principles of prudent operation and stringent risk control, and push forward the progress of various tasks proactively.

In 2018, the hi-tech manufacturing will strengthen its marketing, enhance efforts in technological upgrade and maintain a strong competitiveness. Aerospace Digitnexus will strive to transform from the cross-border e-commerce clearance service into an integrated port operator, and from the service provider of intelligent warehousing software to that of the traceability system under the internet of things application.

Chairman's Statement (continued)

China's economy has shifted from a high-speed growth stage to a high-quality development stage, and the country is at a crucial stage of changing development mode, optimizing economic structure and transforming growth momentum. At the same time, the Chinese government has actively promoted the Belt and Road Initiative and construction of Guangdong-Hong Kong-Macao Greater Bay Area. The advent of the new era offers an invaluable opportunity yet a significant challenge for the development of the Company. Under the full support of China Aerospace, the Company will deepen reform, promote industrial transformation and products upgrade comprehensively and adhere to the strategic development goal of becoming an international business and investment and financing platform of China Aerospace so as to create greater investment value and return for the Company's shareholders.

APPRECIATION

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

By order of the Board,

Gong Bo
Chairman

Hong Kong, 23 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The turnover of the Company and the subsidiaries for the year ended 31 December 2017 was HK$3,661,325,000, representing an increase of 18.57% as compared with that of HK$3,087,848,000 for 2016. The profit of this year was HK$666,817,000, representing a decrease of 44.58% as compared with that of HK$1,203,252,000 for 2016.

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Profit attributable to the owners of the Company was HK$486,183,000, representing a decrease of 38.93% as compared with that of HK$796,108,000 for 2016.

The increase in turnover was mainly due to an increase in businesses of hi-tech manufacturing and cross-border e-commerce logistics, and the substantial increase in the rental income and management fee income of Shenzhen Aerospace Science & Technology Plaza. The decrease in profit attributable to the owners was mainly due to a decrease in the fair value gain of investment property of Shenzhen Aerospace Science & Technology Plaza.

Based on the issued share capital of 3,085,022,000 shares during the year, the basic earnings per share was HK15.76 cents, representing a decrease of 38.93% as compared with that of HK25.81 cents for 2016.

DIVIDENDS

The Board proposed the distribution of 2017 final dividend of HK3 cents per share in March 2018, subject to the approval by shareholders at the Annual General Meeting to be held on 28 May 2018. If approved, warrants of which will be dispatched to all shareholders on or about 22 June 2018.

The distribution of 2016 final dividend of HK2 cents per share was approved by shareholders at the Annual General Meeting in May 2017 and warrants of which were dispatched to all shareholders on 28 June 2017.

RESULTS OF CORE BUSINESSES

The core businesses of the Company and the subsidiaries are hi-tech manufacturing, internet of things application and cross border e-commerce logistics, and the operation of Shenzhen Aerospace Science & Technology Plaza.

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. In recent years, the Company has gradually developed other new businesses. With the completion of Shenzhen Aerospace Science & Technology Plaza and that being turned into asset management, it brought in constant rental revenue and relatively minimized the Company's individual business risk in the past.

Hi-tech manufacturing

In 2017, the recovery of global economy turned around many years of sluggish condition. Capital market was getting active while commodity market rebounded stably. Yet, various risks and challenges still existed. Under the circumstances of recovered macroeconomic growth, the growth rate of consumer electronics market still leveled off. Consumer electronics products were still facing severe operating environment and fierce market competition, this together with customers' requests to reduce prices under quality assurance and consistent rise in production costs such as materials, staff and environmental protection etc., further narrowing the already limited profit margin and suppressing the profitability of hi-tech manufacturing. To overcome various unfavourable causes, the hi-tech manufacturing strengthened investment in technology innovation and automation in production, having introduced advanced equipments in order to raise productivity and quality, and enhanced cost control and underwent business transformation that consistently improved product structure. Operating business managed to record a stable growth.

Management Discussion and Analysis (continued)

In 2017, intelligent chargers had gone on trial production of the medium to high power battery products, thereby widening its product structure and horizontal integration. The electroplating products of the plastic products business had expanded into vehicle accessories and electroplating of household appliances. Its technical level had also been raised to a new technology of incorporating both the appearance and functions while at the same time developing various types of electroplating. Besides, its electroplating gantry line will be planned to start production in the first half of 2018, going to bring sustainable development to the company. The growth in the sales of rigid-flex printed circuit boards ("PCB") of the PCB business was prominent, of which the factory of high-density PCB had started production in July 2017 and appropriate existing sales orders was also introduced to fill up the original production capacity. The business of semiconductors showed relatively good results in market exploration and its sales recorded a historical high. It will continue to push forward its intelligent production process so as to raise its competitiveness in touch screen products market and thus improve its product lines.

The turnover of the hi-tech manufacturing business for the year ended 31 December 2017 was HK$3,166,627,000, representing an increase of 11.36% as compared with last year; the operating profit was HK$292,101,000, representing a decrease of 4.56% as compared with last year. The results of the hi-tech manufacturing business are shown below:

	Turnover (HK$'000)			Operating Profit (HK$'000)		
	2017	2016	Changes (%)	2017	2016	Changes (%)
Plastic Products	1,227,047	1,111,678	10.38	87,619	79,375	10.39
Printed Circuit Boards	780,295	678,919	14.93	86,158	133,525	(35.47)
Intelligent Chargers	519,636	516,356	0.64	38,109	37,717	1.04
Liquid Crystal Display	623,696	521,174	19.67	55,162	40,969	34.64
Industrial Property Investment	15,953	15,554	2.57	25,053	14,482	72.99
Total	3,166,627	2,843,681	11.36	292,101	306,068	(4.56)

Looking forward to 2018, the competition in the electronic information industry will remain intense. The hi-tech manufacturing strives to explore markets of high end products, continue to put effort in the research and development of new products and market development, raise automation in production, expand in scale and capacity of production, and in the meantime, strives to reduce inventory and receivables, establish and reach the target of market diversification as soon as possible so as to maintain a stable business and sustained development, explore businesses by ways of merger and acquisition or cooperation etc., in order to ensure its continuous and stable growth.

Shenzhen Aerospace Science & Technology Plaza

In 2017, the rental income of Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) had brought consistent and constant revenue to the Company. In 2017, Shenzhen Aerospace and its wholly-owned subsidiary, Shenzhen Aerospace Technology Property Management Company Limited* (深圳市航天高科物業管理有限公司), recorded a turnover of HK$394,121,000 and a segment profit of HK$734,499,000.

As at 31 December 2017, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,642,000,000.

Internet of Things Application and Cross-border E-commerce Logistics

In 2017, Aerospace Digitnexus Information Technology (Shenzhen) Company Limited* (航天數聯信息技術(深圳)有限公司) ("Aerospace Digitnexus") recorded a turnover of HK$94,171,000 and an operating profit of HK$9,176,000. During the year, except for continuing to maintain and complete the prevailing projects of internet of things, the clearance centre in Kaiping of Aerospace Digitnexus ran smoothly and continued to develop an e-commerce logistics service platform. Its subsidiary, Jiangmen Aerospace Digitnexus Technology Company Limited* (江門航天數聯科技有限公司), also started a RFID traceable agricultural products project, planning to integrate and upgrade the agricultural product sector with regional landmarks throughout the country and to provide traceable tracking of delivery time and location information of products.

In 2018, Aerospace Digitnexus will continue to put effort in optimizing its product techniques, and doing well on the development in internet of things applications and cold-chain logistics warehouse management while integrating with mature products in the market and form market influence speedily in order to maintain constant operating profit.

The Complex Zone of the Launching Site in Hainan

In 2017, Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, had decided to withdraw from the land development project of the Complex Zone of the Launching Site in Hainan as a result of, including but not limited to, the austerity measures, the changes in government compensation standard, the substantial increase in construction costs and so on in recent years which may bring to Hainan Aerospace a stability risk on the continuity of development. On 23 June 2017, Hainan Aerospace entered into a Settlement Agreement to the Land Development Agreement of the Complex Zone of the Launching Site in Hainan with the Municipal Government of Wenchang, pursuant to which both parties agreed to release the Land Development Agreement of the Complex Zone of the Launching Site in Hainan, their rights and obligations under which will be terminated accordingly. Details of which please refer to the Company's announcements published on 8 March 2017 and 23 June 2017. Thereafter, Hainan Aerospace will continue to work with the Municipal Government of Wenchang in completing the subsequent works as soon as possible.

Management Discussion and Analysis (continued)

ASSETS

(HK$'000)	31 December 2017	31 December 2016	Changes(%)
Non-Current Assets	11,847,675	10,463,151	13.23
Current Assets	2,727,433	2,321,425	17.49
Total Assets	14,575,108	12,784,576	14.01

The increase in non-current assets was mainly due to an increase in the valuation of investment properties while the increase in current assets was mainly due to an increase in both accrual rental income of rental-free period and inventory. The equity attributable to shareholders of the Company was HK$7,090,625,000, representing an increase of 14.55% as compared with that of HK$6,190,158,000 as at 31 December 2016. Based on the issued share capital of 3,085,022,000 shares during the year, the net assets per share attributable to shareholders of the Company was HK$2.30.

As at 31 December 2017, a cash deposit of HK$20,098,000 and bills receivables of HK$104,626,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. As to the mortgage of part of Shenzhen Aerospace Science & Technology Plaza at a value of approximately RMB1,900,000,000 by Shenzhen Aerospace to Aerospace Finance, it will be performed once the application of property right certificates is completed.

LIABILITIES

(HK$'000)	31 December 2017	31 December 2016	Changes(%)
Non-Current Liabilities	3,110,127	3,166,056	(1.77)
Current Liabilities	2,258,769	1,643,386	37.45
Total Liabilities	5,368,896	4,809,442	11.63

The decrease in non-current liabilities and the increase in current liabilities were mainly due to the reclassification of a controlling shareholder's loan from non-current liabilities to current liabilities. As at 31 December 2017, the Company and the subsidiaries had bank and other borrowings of HK$1,295,084,000.

OPERATING EXPENSES

The administrative expenses of the Company and the subsidiaries in 2017 were HK$337,674,000, representing an increase of 8.00% as compared with last year. The finance costs amounted to HK$57,217,000.

CONTINGENT LIABILITIES

As at 31 December 2017, the Company and the subsidiaries did not have any other material contingent liabilities.

FINANCIAL RATIOS

	2017	2016
Gross Profit Margin	**27.97%**	25.63%
Return on Net Assets	**7.24%**	15.09%

	31 December 2017	31 December 2016
Assets-Liabilities Ratio	**36.84%**	37.62%
Current Ratio	**1.21**	1.41
Quick Ratio	**1.05**	1.25

LIQUIDITY

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities. As at 31 December 2017, the free cash and bank balance amounted to HK$1,063,168,000, the majority of which were in Hong Kong Dollars and Renminbi.

CAPITAL EXPENDITURE AND INVESTMENT COMMITMENT

As at 31 December 2017, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the consolidated financial statements was HK$51,061,000, mainly for the acquisition of fixed assets.

FINANCIAL RISKS

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

HUMAN RESOURCES AND REMUNERATION POLICIES

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

As at 31 December 2017, the Company and the subsidiaries had a total of approximately 7,200 employees based in the mainland and Hong Kong respectively.

APPRECIATION

I would like to express my heartfelt thanks to our 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, 23 March 2018

CORPORATE GOVERNANCE REPORT

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 2017, 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 Gong Bo (Chairman) (appointed on 24 February 2017), Mr Zhang Jianheng (Chairman) (resigned on 24 February 2017), Mr Mao Yijin and Mr Xu Liangwei; and the Independent Non-Executive Directors, namely, Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun.

The Chairman of the Company was Mr Gong Bo (appointed on 24 February 2017) and Mr Zhang Jianheng (resigned on 24 February 2017) and Mr Li Hongjun had been appointed as President of the Company. Each of Mr Gong Bo, Mr Zhang Jianheng and Mr Li Hongjun are not related to each other 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 in the Company's website for reference.

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2017, namely, Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun. Among those Independent Non-Executive Directors, Mr Luo Zhenbang has 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. Among which, Mr Luo Zhenbang has been the Company's Independent Non-Executive Director for more than nine years who continuously demonstrates the characters of being an Independent Non-Executive Director and is able to provide independent opinion. 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.

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 Articles of Association and to report director's duties, their right to receive a 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 and effort 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 allowed 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 2017. So far as was known to the Company, all Directors had complied with Appendix 10 during the year.

The Board is responsible for determining the Company and its subsidiaries' objectives, strategies, policies, principal business plans, risk management and internal control, 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.

The attendance record of Directors during 2017 is set out below (due to personal reason, Ms Leung Sau Fan, Sylvia, Chairman of the Remuneration Committee, was unable to attend the annual general meeting):

Annual General Meeting/ Board Meeting

	Annual General Meeting		Board Meeting	
Directors	**Number of meetings entitled to attend**	**Number of attendance**	**Number of meetings entitled to attend**	**Number of attendance**
Gong Bo	1	1	3	3
Li Hongjun	1	0	4	4
Jin Xuesheng	1	1	4	3
Mao Yijin	1	1	4	4
Xu Liangwei	1	1	4	4
Luo Zhenbang	1	1	4	4
Leung Sau Fan, Sylvia	1	0	4	4
Wang Xiaojun	1	1	4	4
Zhang Jianheng	0	0	1	1

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's 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, risk management system 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.

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 2017, the Company held four board meetings, and Mr Gong Bo, 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 are 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 are sent to all Directors for their comments within a reasonable time after each meeting and to be approved by the Board at the immediate following meeting. Final versions of the board minutes are 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, a Remuneration Committee and a Nomination Committee, 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 and accountable to the Board. The Terms of Reference of respective committees can be downloaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

Audit Committee

In 2017, the Audit Committee of the Company comprises Mr Luo Zhenbang (Chairman) and Ms Leung Sau Fan, Sylvia, both being Independent Non-Executive Directors; and Mr Mao Yijin, being a Non-Executive Director. 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, risk management and internal control procedures.

The Audit Committee met twice during 2017 for the purpose of assessing and reviewing the internal control system, risk management, the financial statements and corporate governance practices and so on. The external auditors, the Financial Controller, the General Manager of Finance Department, the General Manager of Internal Audit Department and the Company Secretary attended both meetings.

The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2017.

The attendance record of Audit Committee members during 2017 is set out below:

	Number of meetings eligible to attend	**Number of attendance**
Luo Zhenbang	2	2
Leung Sau Fan, Sylvia	2	2
Mao Yijin	2	2

Remuneration Committee

In 2017, the Remuneration Committee comprises Ms Leung Sau Fan, Sylvia (Chairman) and Mr Wang Xiaojun, both being Independent Non-Executive Directors, and Mr Xu Liangwei, being a Non-Executive Director. 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 twice during 2017, respectively reviewed the remuneration and appraisal policy of the Company's Directors and senior management and approved the remuneration of Non-Executive Directors. The Administration Controller and the Company Secretary attended both meetings. In 2017, no Director was involved in deciding his/her remuneration.

The attendance record of Remuneration Committee members during 2017 is set out below:

	Number of meetings eligible to attend	**Number of attendance**
Leung Sau Fan, Sylvia	2	2
Wang Xiaojun	2	2
Xu Liangwei	2	2

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.

Corporate Governance Report (continued)

Nomination Committee

In 2017, the Nomination Committee comprises Mr Gong Bo (Chairman) (appointed on 24 February 2017), Mr Zhang Jianheng (Chairman) (resigned on 24 February 2017) and Mr Xu Liangwei, all being Non-Executive Directors, and Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, all being Independent Non-Executive Directors. Main functions of the Nomination Committee are to review the structure and size of the Board in order to implement the Company's strategy.

The board diversity policy is a reference base of the Company for the selection of director candidates. With reference to the Company's unique corporate culture and background, the Company will consider the candidate's different personal factors, including skills, regional and industrial experience, background, expertise, culture, independence, age, sex and other professional qualifications etc. in assessing the board's most suitable composition. Appointment depends on capability. Besides, as practically as possible, the Company will maintain the right balance and recruit the most suitable personnel with ample experience to manage various business of the Company. The Nomination Committee reviews the implemented board diversity policy at appropriate time and set up measurable targets in order to ensure effectiveness of the policy and fit into the ongoing business development of the Company.

At present, there are 8 members in the Board of the Company, including 7 male directors and 1 female director. All directors possess university or above educational level whereas some possess qualifications in accountancy, chartered secretary and laws etc., and have ample experiences of giant enterprise management, financial management, legal and human resources etc. in different fields.

The Nomination Committee met once during 2017 while the Company Secretary attended the meeting. The Nomination Committee reviewed the qualifications and experience of all candidates of directors, the structure of the Board, confirmed the rotation list of Directors at the Annual General Meeting, and reviewed the independency of each of the 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 record of Nomination Committee members during 2017 is set out below:

	Number of meetings eligible to attend	Number of attendance
Gong Bo	0	0
Luo Zhenbang	1	1
Leung Sau Fan, Sylvia	1	1
Wang Xiaojun	1	1
Xu Liangwei	1	1
Zhang Jianheng	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, if any, 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 2017, the Company arranged a written training regarding *the Responsibilities of Directors on Enterprise Valuation* issued by the Securities and Futures Commission and *Guidelines on Identification of Discloseable Transactions and Inside Information* of the Company. All Directors participated appropriate trainings according to their own needs and provided a training record during 2017 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 its subsidiaries in respect of the protection against contingent loss and liabilities arising from daily operations that may be borne by Directors and senior management.

COMPANY SECRETARY

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

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 2017 which met the requirements as stipulated in Rule 3.28 of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company's Board of Directors is responsible for the risk management and internal control system and ensuring their effectiveness. The Company has gradually established, maintained and implemented an effective internal control system with clear definition of the responsibilities and duties of all businesses and operating departments, and has set up an internal audit department which is responsible for conducting regular or irregular audit on relevant businesses and operating departments to ensure effective check and balance of power, and for maintaining and implementing the risk management and internal control system.

The Company's management evaluates the risk management and internal control system each year. Firstly, each of the subsidiaries reviews and evaluates the design and actual operation of their organizational structure, development strategy, human resource, corporate culture, social responsibility and so on. Secondly, the head of each department of the Company reviews the internal control of such companies by examining the risk identification and analysis and solutions taken, as well as reviewing and verifying the design and operation of relevant control measures on such as financing activities, asset management, purchase, sales, research and development, engineering project, guarantees, outsourcing, overall budget and contract management. If any potential loophole is noted and recognized, the Company will put forward proposals, requiring relevant companies to enact or revise their rules and rectify the loophole within a specified period. Appraisal of the internal control environment will be carried out each year. Continuous improvements can strengthen the Company and its subsidiaries' internal control and reduce the possibility of risk occurrence.

During this year, the Company and its subsidiaries had inspected whether or not the risk management and internal control system is effective, and reviewed and restructured the internal rules and systems to confront the potential operational, market and financial risks during daily operation. The inspection covered all major control levels including financial, operational, compliance and risk management control. It especially standardized the decision-making on major issues, important appointment and removal, arrangement for material projects and use of large-amount of funds.

The Company has established the *Rules on Administration of Information Disclosure Affairs* and *Guidelines on Identification of Discloseable Transactions and Inside Information* to maintain sound corporate governance and duly fulfill information disclosure obligations of a listed company and protect the rights and interests of the Company and investors. The Company and its subsidiaries shall regularly monitor their transactions and identify whether the counter-party is a connected party or not. Where a possible notifiable transaction is identified, it shall report to the Company immediately. When a transaction is confirmed as a notifiable transaction, the Company Secretary will draw up disclosure documents as soon as possible, publish an announcement upon obtaining approval from the Board of Directors. During the period, employees who have become aware of the transaction shall bear the duty of confidentiality and may not disclose it to the public without authorization.

The Model Code for Securities Transactions by Employees of the Company also provides that specific employees who are aware of or privy to any negotiations or agreements related to a notifiable transaction, connected transaction or any insider information must refrain from dealing in the Company's securities as soon as they become aware of them or privy to them.

The Board of Directors has considered and believed that the Company has sufficient resources; employee qualification and experience in executing accounting, financial reporting and internal audit functions, and relevant employees have received sufficient and proper training courses.

The Company's management has provided the Board of Directors with a confirmation letter relating to the effectiveness of the risk management and internal control system. The Board of Directors believes that such risk management and internal control system was designed to manage rather than eliminate the risks arising from the failure to meet business objectives, and will only make a reasonable but no absolute guarantee shall there be no significant misrepresentation or loss to be incurred. Therefore, the Company believes it is sufficient to implement the current risk management and internal control system, but it will make necessary review and revision from time to time to meet the requirements of laws and regulations, the Listing Rules and internal management and to strengthen its risk management and internal control.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial year, which give a true and fair view of the state of affairs, the results and the cash flows of the Company and its subsidiaries for that period. In preparing the accounts for the year ended 31 December 2017, the Directors had selected suitable accounting policies and adopted *Hong Kong Financial Reporting Standards* and applied them consistently. Based on judgments and estimations that are prudent and reasonable, the Directors prepared the accounts on a going concern basis. Auditor's reporting responsibilities are set out on the financial statements by the auditor.

During 2017, 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 2017, the Company paid a total of approximately HK$4,950,000 to the auditor, of which included an audit fee of approximately HK$4,155,000 and a non-audit fee of approximately HK$795,000. The latter comprised fees for provision of services in reviewing interim report, results announcements, continuing connected transactions and so on.

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 Rule 13.39(4) of the Listing Rules, 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 and 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 May 2017. 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 2016, 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. All proposed resolutions were approved by the shareholders.

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 meeting chairman, announced the 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.

The Company did not amend its Articles of Association in 2017.

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 Articles of Association. The said requirements can be downloaded from the Company's website for reference.

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 at comsec@casil-group.com while for matters concerning investor relations and enquiries from reporters, enquiries shall be put forward to the email at investor.relations@casil-group.com.

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2017, the issued share capital was 3,085,021,882 shares, and the market capitalization was about HK$2,900,000,000.

As at 31 December 2017, the Company had total registered shareholders of 1,076, 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 31 December 2017.

CORPORATE SOCIAL RESPONSIBILITY

In the midst of continuous business development, the Company, endeavouring to become a company with social responsibility, through consistently encouraging and advising staff and by complying related rules, hopes to gradually deliver the message of corporate social responsibility in minimising impacts on the environment and consumption of resources so as to contribute to the society and raise the society's capability of sustainability.

Working Environment

The Company and its subsidiaries adhere to the principle of fair recruitment regardless of age, gender, marital status, race, nationality, religion or disability, and always regard staff as the most important assets and appoint them according to their ability. Every staff enjoys equal opportunities. The remuneration policy is determined based on the employee's qualifications, experience and performance on the job, with reference to the current market situation. The Company and its subsidiaries will continue to enhance the human resources management skill 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.

In response to regulations and actual needs, all industrial enterprises have in place various provisions, including but not limited to labour protection for female workers and underage workers, adequate protection of staff's work and rest time, paid annual and causal leaves and occupational injury management, in order to comprehensively and reasonably protect the welfare of staff.

The Company and its subsidiaries provide the staff with a comparatively reasonable salary, appropriate medical protection and other insurance coverage. This helps to maintain a comparatively 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 and encourage staff to continuously develop themselves and increase their own competitiveness, in order to adapt to the ever-changing market and to meet with the requirements of the Company. Some industrial enterprises also set up a training management centre for staff training, including staff ability building, occupational safety and health, various trainings in vocational skills, etc.

In 2017, the Company and its subsidiaries had no significant labour disputes.

As at 31 December 2017, the Company and its subsidiaries had a total of approximately 7,200 employees based in Mainland China and Hong Kong respectively.

Environmental Protection

Each industrial enterprise discharges various wastes, pollutants and noise during their daily operations. Emissions are mainly greenhouse gases, exhausted gas, waste water and waste materials etc. in the course of production. All these pollutants and wastes emission are scopes of concern of each industrial enterprise. Shall the law of environmental protection be violated, its production progress may then be seriously hampered and results of the Company as a whole will be severely affected. Therefore, the industrial enterprises have always strictly complied with the provisions of laws concerning environmental protection, waste collection, pollutant emission and noise emission in Mainland China. In response to the needs of different industries, they have also established energy management system, pollutant emission and waste management control procedures and safety management system for hazardous chemicals. Besides, they have also hired qualified companies to detect whether the levels of noise, exhaust gas and waste water exceed the standard, and to handle various hazardous industrial wastes, thereby striving to control and reduce pollution on communities.

In 2017, the emissions of industrial enterprises were lower than the standard prescribed by laws. Also, neither significant violation of environmental protection laws nor accidents exerting significant adverse impact on the environment occurred.

On the other hand, the Company encourages its staff to lower the consumption of natural resources and adopts energy saving measures, hoping to minimize unnecessary wastages of natural resources and environmental pollution.

Operating Practices

The industrial enterprises are responsible for producing different types of products, and have established a sound internal test and detection system. The reject rate has remained at a relatively low level and the products are in compliance with relevant product safety regulations, so as to ensure the production process does not affect staff's health and safety and final products do not affect customers' health and safety.

In 2017, products of all hi-tech manufacturing business had no significant quality problems.

In addition, in response to the needs of different industries and the requirements of customers, major industrial enterprises have applied for and acquired relevant international certifications respectively, such as Quality Management System Standard (ISO 9001), Environmental Management System Standard (ISO 14001), Occupational Health and Safety Management Standard (OHSAS 18001), Restriction of Hazardous Substances Directive (ROHS 2.0), Quality System Requirements for Automotive Products and Services (ISO/TS 16949) and so on. Some industrial enterprises even established manuals for green products and technical specifications for green product management. Relevant management and staff must learn and be familiar with all provisions, and strive for compliance with varied specific requirements in the production process, which also reflects the Company's emphasis on social responsibility and willingness to safeguard the interests of all stakeholders and to reasonably assume social responsibility.

The Company has always emphasized on arm's length transaction. The Company and its subsidiaries always enter into transactions with partners of various businesses and lending banks etc. on fair, equal and reasonable terms in compliance with relevant laws and regulations, so as to reduce risks and maintain good relationship with them. The Company and its subsidiaries will perform agreements in accordance with provisions therein, and settle accounts payable within a reasonable and feasible period as prescribed therein and never defer payment without cause. It also hopes its clients to perform agreements likewise and settle their accounts payable within a reasonable and feasible period and never defer payment without cause to ensure nil interruption of respective capital flow and respective businesses will not be affected.

Pursuant to the requirements of the Listing Rules, the Company has developed *the Arrangements for Staff's Raising Concerns about Improprieties in Financial Reporting*. If an employee of the Company or its subsidiaries lodges complaints about improprieties in financial reporting, such improprieties will be independently investigated and handled by the Chairman of the Audit Committee.

Besides, major industrial enterprises have established *the Supplier Management and Control Procedures*, covering the qualification accreditation, annual assessment and regular monitoring of the suppliers, and developed provisions for anti-commercial bribery as well as product delivery and service management system, including product quality control methods and product complaint handling.

In 2017, the Company did not receive any complaints regarding improprieties in financial reporting; and there were no material disputes between the Company and its subsidiaries and business partners and lending banks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company had complied throughout the reporting period with the "comply or explain" provisions in the ESG Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board of Directors of the Company is responsible for evaluating and determining relevant environmental, social and governance risks, ensuring that the Company has a proper and effective management and internal control system in place for environmental, social and governance risks. It assumes all responsibilities for environmental, social and governance strategies and reporting. The management of the Company has confirmed to the Board of Directors that the abovementioned risk management and internal control system is effective.

CORE BUSINESSES

The Company and its subsidiaries mainly engage in hi-tech manufacturing business, which includes production and sales of plastic products, liquid crystal display, printed circuit boards and intelligent chargers, the operations of Shenzhen Aerospace Science & Technology Plaza, internet of things applications and cross-border e-commerce logistics.

The hi-tech manufacturing business is not only a main source of the Company's revenue, but also a main source of its profit and cash flow from operation. In the recent years, the Company has been gradually making inroads into other new businesses, such as having turned property construction of Shenzhen Aerospace Science & Technology Plaza into asset management, so as to achieve the Company's new development objectives and reduce the risk arising from engaging in a single business.

CORPORATE SOCIAL RESPONSIBILITY

In the midst of continuous business development, the Company endeavours to become a company committed to social responsibility by complying related laws and regulations, satisfying customers' requirements on environment and social responsibility and providing on-going encouragement and advice to staff in anticipation of gradually delivering the message of corporate social responsibility. This helps to enable all company-wide entities minimize environmental impacts and reduce consumption of resources, while providing employees with a stable and protected work environment so as to reward the society and enhance sustainability of the society.

Scope of coverage

Unless otherwise stated, the Environmental, Social and Governance Report includes major enterprises incorporated in Mainland China in hi-tech manufacturing business (hereinafter referred to as "Major Industrial Enterprise(s)"), and a newly added property management company, an indirect subsidiary of the Company, responsible for management of Shenzhen Aerospace Science & Technology Plaza (hereinafter referred to as "Property Management Company"), whereas all these enterprises and company referred to as "Major Operating Enterprises" as a whole.

The Key Performance Indicators ("KPIs") in 2016 includes Major Industrial Enterprises while KPIs in 2017 includes Major Operating Enterprises.

A. *Environment*

General disclosure

Emission

The Major Industrial Enterprises discharge various wastes, pollutants and noise during their daily production. Emissions of which are mainly greenhouse gases, exhaust gas, waste water and waste materials etc. The Property Management Company engages in provision of property management services. Its impact on the environment mainly comes from the emission of exhaust gas, domestic garbage and wastes, consumption of electricity and water resources and various kinds of material consumption. Emissions of these pollutants and wastes are significant scope of each Major Operating Enterprise. Shall the law of environmental protection be severely violated, the production progress may possibly be affected, thereby, hampering the Company's overall business results. Hence, Major Operating Enterprises have always strictly complied with the provisions of laws of Mainland China concerning environmental protection, waste collection, pollutant emission and noise emission while at the same time have also established energy management system, pollutant emission and waste management control procedures and safety management system for hazardous chemicals in response to the needs of different industries. Besides, each Major Operating Enterprise has also engaged qualified professional companies to test whether their noise, exhaust gas and waste water emission levels exceed the stipulated standard, and to dispose of and recycle various hazardous industrial wastes, thereby striving to control and reduce pollution on communities.

In 2017, the wastes, pollutants and noise emitted by each Major Operating Enterprise were lower than the standard prescribed by laws. Also, no material violation of environmental protection laws or accidents exerting material adverse impact on the environment was noted.

Use of resources

The Company always encourages staff to reduce the consumption of natural resources and adopt energy saving measures. Its subsidiaries are also required to comply with the related environmental protection regulations and ensure such compliance during the process of production and operation. Further, the Major Operating Enterprises have strengthened education to their staff about energy saving and environmental protection, implemented target management for use of water and electricity to gradually reduce the consumption, and maximize the use of recyclable packaging materials instead of disposables with a view to reducing unnecessary consumption of natural resources and environmental pollution.

Environment and natural resources

The Major Industrial Enterprises, as manufacturers of electronic products, may affect the environment mainly due to emission of waste gas and waste water, production of solid wastes, consumption of electricity, water resources and various materials. The Property Management Company's impact on the environment mainly comes from the emission of exhaust gas, domestic garbage and wastes, consumption of electricity and water resources and various kinds of material consumption. By doing this, each Major Operating Enterprise had identified the impact of their business scope over the environment and relevant environmental factors, placed them in orders according to their environmental impact by using scientific methods and determined significant environmental factors, and took appropriate measures accordingly. These measures include improving the manufacturing technique, complying with regulatory requirements (including 24-hour real-time testing of waste water volume and its pH scale as required by relevant government departments), reducing emissions, recycling, contingency plans and setting goals for consumption reduction for reasonable management purpose.

The KPIs for the Major Operating Enterprises relating to the environment are roughly as follows:

Indicators

			2016	2017
Emissions				
A1.2	Total greenhouse gas emissions		108,702 tonnes	**124,123 tonnes**
A1.3	Total hazardous waste produced		1,062 tonnes	**1,704 tonnes**
A1.4	Total non-hazardous waste produced		707 tonnes	**1,371 tonnes**
Use of Resources				
A2.1	Total direct and indirect energy consumption	Electricity	67,519,063 kilowatts	**81,693,814 kilowatts**
		LNG	120,026 kilograms	**126,800 kilograms**
		Environmental-friendly fuel	24,300 liters	**25,100 liters**
		Gasoline	44,888 liters	**52,519 liters**
		Diesel	13,756 liters	**20,849 liters**
A2.2	Total water consumption		876,332 tonnes	**1,088,057 tonnes**
A2.5	Total packaging material used		2,060 tonnes	**1,996 tonnes**

B. *Social: Employment and Labour Practice*

General disclosure

Employment

The Company and its subsidiaries adhere to the principle of fair recruitment regardless of age, gender, marital status, race, nationality, religion or disability, and always regard staff as the most important assets and appoint them according to their ability. On the other hand, the Company and its subsidiaries continuously enhance their human resources management skill 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 Company and its subsidiaries provide the staff with a reasonable salary, appropriate medical protection and other insurance coverage, which helps to maintain a comparatively stable working environment for the staff. All employees enjoy equal opportunity and the salary policy is based on the qualification, experience and work performance of employees as well as the prevailing market rates.

Subject to regulations and based on actual needs, the Company and its subsidiaries have put in place various requirements, including but not limited to labour protection for female workers and underage workers, adequate protection of staff's work and rest time, paid annual and causal leaves and occupational injury management, so as to provide full and reasonable protection of staff's benefits.

Health and safety

The Major Operating Enterprises have established a complete set of occupational safety and health management system in accordance with the provisions of regulations by establishing methods for evaluation, disposal and administration of hazard sources, rules and methods for safe operation as well as relevant methods for administration of safety performance. The Major Operating Enterprises will monitor and check the above-mentioned methods on a regular basis, evaluate hazard sources once each year, offer trainings on safe operation rules on a regular basis, manage and drill emergency plans on a regular basis, and evaluate and assess safety performance.

The Major Operating Enterprises will provide employees with body check on a regular basis, and new employees will receive pre-employment training and can only be recruited after they pass the assessment.

Development and trainings

The Company and its subsidiaries will provide certain funding to their staff for attending some professional seminars and short-term courses, and encourage their staff to continuously develop themselves and increase their own competitiveness so as to adapt themselves to the ever-changing market and to meet with the requirements of the companies. Certain industrial enterprises also set up a specialized training management centre to steer for staff training, including staff ability building, occupational safety and health, various trainings in vocational skills, etc. All training costs are borne by such enterprises. Each Major Operating Enterprise also arrange for employees to attend ball games and other recreational activities held internally by the enterprises.

Labour standards

The Company and its subsidiaries expressively stipulate that they will not employ child labour of less than 16 years old and endeavor not to employ child labour by accident, and will not support the practice of employing child labour by other companies or social groups. Currently, all staff employed are 18 years old or above.

During recruitment, staff of the human resource department of Major Operating Enterprises must carry out a strict inspection of the personal documentation of candidates; verify their photos to confirm it is the candidate himself/herself before such application can be registered. The candidate must fill in a registration form and staff of the human resource department will check the information filled in by the candidate and verify the information in the registration form if necessary. If the enterprise finds out that child labour is employed out of negligence, it must stop the child labour from working and arrange as soon as possible the child labour back to the place where he/she is domiciled under the supervision of his/her parents or guardian and report to the local labour authority.

The Company and its subsidiaries also make it clear that they will not mandatorily require employees to work overtime persistently and employees can work overtime only on a voluntary basis.

In 2017, the Company and its subsidiaries had no significant labour disputes.

As at 31 December 2017, the Company and its subsidiaries had a total of approximately 7,200 employees (31 December 2016: approximately 6,600 employees) based in Mainland China and Hong Kong.

The KPIs of the Major Operating Enterprises relating to employees and safety are roughly as follows:

Employment	Indicator	Type	Age	Gender	2016 Total Persons	2016 Geographical Region	2017 Total Persons	2017 Geographical Region
B1.1	Total workforce by gender, employment type, age group and geographical region	Clerical Staff	18~30	Male	356	China (100%)	**300**	**China (100%)**
			18~30	Female	178	China (100%)	**127**	**China (100%)**
			above 30	Male	303	China (100%)	**525**	**China (100%)**
			above 30	Female	140	China (100%)	**164**	**China (100%)**
		Factory Worker	18~30	Male	1,473	China (100%)	**1,468**	**China (100%)**
			18~30	Female	1,064	China (100%)	**881**	**China (100%)**
			above 30	Male	886	China (100%)	**791**	**China (100%)**
			above 30	Female	567	China (100%)	**952**	**China (100%)**
B1.2	Employee turnover rate by gender, age group and geographical region		18~30	Male	115 (3.75%)	China (100%)	**156 (5.35%)**	**China (100%)**
			18~30	Female	82 (2.66%)	China (100%)	**88 (3.00%)**	**China (100%)**
			above 30	Male	22 (1.15%)	China (100%)	**60 (2.78%)**	**China (100%)**
			above 30	Female	23 (1.20%)	China (100%)	**35 (1.61%)**	**China (100%)**

Safety	Indicator	2016	2017
B2.1	Number and rate of work related fatalities	0 (0%)	**0 (0%)**
B2.2	Lost working days due to work injury	26 days	**641 days**

Environmental, Social and Governance Report (continued)

Development & Training	Indicator	Type	Gender	2016	2017
B3.1	The percentage of employees trained by gender and employee category	Senior Management	Male	100%	**100%**
			Female	100%	**100%**
		Middle Management	Male	100%	**100%**
			Female	100%	**100%**
		Other Employees	Male	100%	**100%**
			Female	100%	**100%**
B3.2	The approximate training hours completed per employee by gender and employee category	Senior Management	Male	10–50 hours	**20–60 hours**
			Female	10–50 hours	**20–30 hours**
		Middle Management	Male	30–80 hours	**32–60 hours**
			Female	30–80 hours	**12–60 hours**
		Other Employees	Male	12–110 hours	**12–195 hours**
			Female	12–110 hours	**12–195 hours**

C. *Social: Operational practices*

General disclosure

Supply chain management

The Company has always emphasized on arm's length transaction. The Company and its subsidiaries always enter into transactions with partners of various businesses and lending banks etc. on fair, equal and reasonable terms in compliance with relevant laws and regulations, so as to reduce risks and maintain good relationship with them. The Company and its subsidiaries will perform agreements in accordance with provisions therein, and settle accounts payable within a reasonable and feasible period as prescribed therein and never defer payment without cause. It also hopes its clients to perform agreements likewise and settle their accounts payable within a reasonable and feasible period and never defer payment without cause to ensure nil interruption of respective capital flow and respective businesses will not be affected.

Prior to engaging a supplier, each Major Operating Enterprise will identify appropriate suppliers based on actual needs while collecting information such as quality, service, delivery terms, price and reputation in the industry as the basis for selection, and request suppliers to provide their basic information and product samples.

In addition, each Major Operating Enterprise has put into place procedures for administration and control of suppliers, including qualification identification, annual review and regular supervision for suppliers, formulated anti-commercial bribery rules. Meanwhile, management system for product delivery and service has been established, in which including product quality control methods and complaint handling.

The KPI of each Major Operating Enterprise relating to the number of suppliers by geographical region is roughly as follows:

		2016			**2017**		
	Indicator	Number of suppliers	Overseas proportion	Mainland China Proportion	**Number of suppliers**	**Overseas proportion**	**Mainland China Proportion**
B5.1	Number of suppliers by geographical region	650	16%	84%	**1,093**	**28%**	**72%**

Product liability

The industrial enterprises are responsible for producing different types of products, and have established a sound internal testing system. The reject rate has remained at a relatively low level and the products are in compliance with relevant product safety regulations, so as to ensure the production process does not affect the health and safety of staff and the finished products do not affect the health and safety of customers. In 2017, products of the industrial enterprises had no significant quality problems.

The products of Property Management Company are mainly provision of property management services. It frequently improves service quality in correspondence to tenants' opinion. In 2017, no significant complaints arising from health and safety were reported.

In addition, in response to the needs of different industries and the requirements of customers, the Major Operating Enterprises have respectively applied for and obtained relevant international certifications, such as Quality Management System Standard (ISO 9001), Environmental Management System Standard (ISO 14001), Occupational Health and Safety Management Standard (OHSAS 18001), Restriction of Hazardous Substances Directive (ROHS 2.0), Quality System Requirements for Automotive Products and Services (ISO/TS 16949) and Social Accountability 8000 International standard (SA8000) and so on. Certain individual industrial enterprises even established manuals for green products and technical specifications for green product management. Relevant management and staff must learn and be familiar with all provisions, and strive for compliance with various specific requirements in the production process. This also implies that the Company attaches much importance to its social responsibility and is willing to safeguard the interests of all stakeholders and to assume its social responsibility reasonably.

The Major Industrial Enterprises have established methods of product quality inspection. It will be carried out during purchase of materials, manufacturing and delivery. In case of recall of products or complaints, the enterprises will conduct sufficient communication with the counterparty and take provisional measures to avoid similar problems. In the meantime, the enterprises will analyze and verify preliminarily the cause of problem so that improvement and precautionary measures can be formed to reduce the possibility of problem recurrence, and will conclude and verify the effectiveness of such measures.

Each Major Operating Enterprise always takes appropriate measures to protect clients' information, intellectual property and privacy in accordance with laws and upon clients' reasonable request.

The KPI of each Major Operating Enterprise relating to the products subject to recalls for safety and health reasons is roughly as follows:

	Indicator	2016	**2017**
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	0%	**0%**

Anti-corruption
Each Major Operating Enterprise has established relevant anti-corruption rules. An employee who finds improper trade or operation can place a complaint in the mailbox of the general manager or a complaint box, which will be handled by a personnel designated by the general manager. If necessary, law enforcement agency may be required to intervene.

In 2017, the Major Operating Enterprises did not receive any complaint from any organization or individual against an employee's misconduct or other illegal activities.

In addition, the Company has put into place the *Arrangement for Employee's Concern on Misconduct in Financial Reporting* in accordance with the provisions of the Listing Rules. In case of a complaint lodged by an employee of the Company or its subsidiaries against any misconduct in financial reporting, it will be subject to independent investigation and handling by the Chairman of the Audit Committee.

In 2017, the Company did not receive complaints against misconduct in financial reporting. There was no significant dispute between the Company and its subsidiaries and partners of various businesses and lending banks.

The KPI of the Company and each Major Operating Enterprise relating to the number of concluded legal cases regarding corrupt practices is as follows:

	Indicator	2016	**2017**
B7.1	Number of concluded legal cases regarding corrupt practices brought against the Company and the Major Operating Enterprises or their respective employees and the outcomes of the legal actions	0	**0**

Community investment
Each Major Operating Enterprise will conduct necessary assistance to neighboring communities or people in need in accordance with different circumstances, and will use proper resources to support activities of communities.

CONCLUSION

The Company believes that the implementation of current measures on environmental protection and social responsibility is sufficient for compliance with relevant laws, regulations and the Listing Rules, but it will make necessary review and revision from time to time in response to the requirements of laws, the Listing Rules and internal management to strengthen its measures on environmental protection and social responsibility.

The Company's Board of Directors had reviewed, discussed and approved the contents of the Environmental, Social and Governance Report and its publication on 23 March 2018.

INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
A. Environmental	A1: Emissions	General Disclosure	Information on air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	25
		A1.1	The types of emissions and respective emissions data	25-26
		A1.2	Total greenhouse gas emissions and intensity	26
		A1.3	Total hazardous waste produced and intensity	26
		A1.4	Total non-hazardous waste produced and intensity	26
		A1.5	Description of measures to mitigate emissions and results achieved	25
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	25

Environmental, Social and Governance Report (continued)

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	A2: Use of Resources	General Disclosure	Policies on the effective use of resources, including energy, water and other raw materials	26
		A2.1	Total direct and/or indirect energy consumption by type and intensity	26
		A2.2	Total water consumption	26
		A2.3	Description of energy use efficiency initiatives and results achieved	25
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	25
		A2.5	Total packaging material used for finished products	26
	A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing significant impact on the environment and natural resources	25
		A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	25

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
B. Social	Employment and Labour Practices			
	B1: Employment	General Disclosure	Information on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	26–27
		B1.1	Total workforce by gender, employment type, age group and geographical region	28
		B1.2	Employee turnover rate by gender, age group and geographical region	28
	B2: Health and Safety	General Disclosure	Information on providing a safe working environment and protecting employees from occupational hazards: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	27
		B2.1	Number and rate of work-related fatalities	28
		B2.2	Lost days due to work injury	28
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	27

Environmental, Social and Governance Report (continued)

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	B3: Development and Training	**General Disclosure**	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	27
		B3.1	The percentage of employees trained by gender and employee category	29
		B3.2	The approximate training hours completed per employee by gender and employee category	29
	B4: Labour Standards	**General Disclosure**	Information on prevention of child and forced labour: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	27
		B4.1	Description of measures to review employment practices to avoid child and forced labour	27
		B4.2	Description of steps taken to eliminate such practices when discovered	27
	Operating Practices **B5: Supply Chain Management**	**General Disclosure**	Policies on managing environmental and social risks of the supply chain	29
		B5.1	Number of suppliers by geographical region	30
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	29

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	B6: Product Responsibility	**General Disclosure**	information on health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	30
		B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	31
		B6.2	Number of products and service related complaints received and how they are dealt with	30
		B6.3	Description of practices relating to observing and protecting intellectual property rights	30
		B6.4	Description of quality assurance process and recall procedures	30
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	30

Environmental, Social and Governance Report (continued)

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	B7: Anti-corruption	General Disclosure	Information on prevention of bribery, extortion, fraud and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	31
		B7.1	Number of concluded legal cases regarding corrupt practices brought against the Company and the Major Operating Enterprises or its employees during the reporting period and the outcomes of the cases	31
		B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	31
	Community B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the Company and the Major Operating Enterprises operate and to ensure its activities take into consideration the communities' interests	31
		B8.1	Focus areas of contribution	31
		B8.2	Resources contributed to the focus areas	31

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr Gong Bo, aged 52, a Research Fellow, is a Non-Executive Director and Chairman of the Company, obtained a bachelor's degree from Beijing Institute of Technology, a master's degree from Beijing Polytechnic University, and an Executive MBA from the business school of the University of Texas at Arlington. Joined the China Academy of Launch Vehicle Technology in 1987, he served as a Deputy Director General of Quality & Technology Department, then as a Deputy Director General and a Director General of Quality Assurance & Supervision Department, and a Director General of Business Investment Department of China Aerospace Science & Technology Corporation. From 2006 to 2016, he also served as an Executive Director and General Manager of Aerospace Technology Investment Holdings Limited, the Dean of Sichuan Academy of Aerospace Technology, and the Chairman of Sichuan Aerospace Industrial Group Company Limited. He was a Non-Executive Director of the Company from June 2005 to March 2008, and has been serving as the Chief Engineer of China Aerospace Science & Technology Corporation since December 2016. He was appointed as an Independent Non-Executive Director and Chairman of the Company in February 2017.

Mr Li Hongjun, aged 52, a Senior Engineer, is an Executive Director of the Company and President of the Company and its subsidiaries. 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), the shares of which are listed on 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), the shares of which are listed on 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 Company and its subsidiaries in May 2010.

Mr Jin Xuesheng, aged 55, a Senior Engineer, is an Executive Director of the Company and Executive Vice President of the Company and its subsidiaries. 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, the Vice President and Financial Controller of China Spacesat Company Limited (stock code: 600118), the shares of which are listed on 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, and 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 Company and its subsidiaries in May 2010.

Biographical Details of Directors (continued)

Mr Luo Zhenbang, aged 51, is an Independent Non-Executive Director of the Company and a director and 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 many listed companies since 1994. He has been an expert supervisor of China 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, Shengxue Company Limited and Avic Heavy Machinery Co. Ltd., as well as an internal audit expert of Northeast Securities Company Limited, shares of which are listed on Shenzhen Stock Exchange (stock code: 000686). He currently serves as independent director of Digital China Information Service Company Ltd., shares of which are listed on Shenzhen Stock Exchange (stock code: 000555), China City Railway Transportation Technology Holdings Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1522), and Xinjiang Goldwind Science & Technology Co., Ltd., shares of which are listed on Shenzhen Stock Exchange (stock code: 002202) and The Stock Exchange of Hong Kong Limited (stock code: 2208) and Guorui Properties Limited, shares of which are listed on The Stock Exchange of Hong Kong (stock code: 2329). 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 54, is an Independent Non-Executive Director of the Company. Ms Leung holds a bachelor's degree of arts in accountancy from City University of Hong Kong and had studied as an external student and passed the approved examinations and obtained a bachelor of laws degree from the University of London. Ms Leung is currently an independent non-executive director of both Poly Property Group Co., Limited (stock code: 119) and Prosper Construction Holdings Limited (stock code: 6816), shares of both are listed on The Stock Exchange of Hong Kong Limited, and is also a director of Celestial Capital Limited, a company licensed to conduct, among others, type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance. She has over 20 years of experience in company secretarial and corporate finance advisory. She was appointed as an Independent Non-Executive Director of the Company in March 2012.

Mr Wang Xiaojun, aged 63, is an Independent Non-Executive Director of the Company. Mr Wang is a practicing solicitor admitted in the Mainland China, Hong Kong and the United Kingdom. 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 Norinco International Company Limited, shares of which are listed on Shenzhen Stock Exchange (stock code: 000065), CSSC Offshore & Marine Engineering (Group) Company Limited (formerly known as Guangzhou Shipyard International Company Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 317) and Shanghai Stock Exchange (stock code: 600685), Zijin Mining Group Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 2899) and Shanghai Stock Exchange (stock code: 601899), and Yanzhou Coal Mining Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1171), Shanghai Stock Exchange (stock code: 600188) and New York Stock Exchange (stock code: YZC), and currently serves as an independent non-executive director of OP Financial Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1140), and Livzon Pharmaceutical Group Co., Ltd., shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1513) and Shenzhen Stock Exchange (stock code: 000513). Mr Wang Xiaojun is familiar with corporate listing, merger and acquisition and restructuring, 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 Mao Yijin, aged 55, graduated from the Faculty of Industrial Economics, Hubei Institute of Finance and Economics in 1985. He joined No. 1 Research Academy under China Aerospace Science & Technology Corporation shortly after graduation and held such posts as staff of the Planning Department, a Deputy Division Director and Senior Engineer of the Planning Division, a Division Director of the Finance Division, a Deputy Director General of the General Business Department; a Deputy Director General of No. 18 Research Institute, the Chief Accountant of No 11 Research Academy, and the Chief Accountant and Deputy Head of Shanghai Academy of Spaceflight Technology. Since June 2016, he has served as a Consultant of Shanghai Academy of Spaceflight Technology and a Director of both China Lucky Group Corporation and China Great Wall Industry Corporation. Mr Mao has ample experience in administration management and financial management. Mr Mao was appointed as an Non-Executive Director of the Company in August 2016.

Mr Xu Liangwei, aged 63, graduated from the Faculty of Chinese, Shanghai Television University, and obtained a Master degree in Business Administration from Fudan University. Mr Xu joined Shanghai Academy of Spaceflight Technology in 1991 and held such posts as a Deputy Director, Director of General Office and Assistant to Academy General. He served as a Vice President of Shanghai Aerospace Corporation from 1995 to 1998; as a Deputy Academy General of Shanghai Academy of Spaceflight Technology, the Chairman and President of Shanghai Aerospace Industrial Company Limited, the Chairman of both Shanghai Instrument Company Limited and Shanghai Aerospace Energy Company Limited from 2000 to 2011; and he served as Deputy Director of the preparation group of China Academy of Launch Vehicle Technology Company Limited and as a Consultant of Shanghai Academy of Spaceflight Technology from 2011 to 2015. Mr Xu has ample experience in administration management. Mr Xu was appointed as an Non-Executive Director of the Company in August 2016.

Biographical Details of Directors (continued)

Mr Zhang Jianheng, aged 56, a Senior Engineer, was a former 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., the shares of which are listed on Shanghai Stock Exchange (stock code: 600135). 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 assessed as National Labour Model in 2010 and elected as a deputy of the 12th National People's Congress in 2013. Mr Zhang has extensive experience in corporate administration. He was appointed as a Non-Executive Director and Chairman of the Company in March 2012 and resigned in February 2017.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and joint ventures are set out in notes 44, 45 and 46 to the consolidated financial statements, respectively.

BUSINESS REVIEW

The business review of the Company and its subsidiaries for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" respectively. Description of the risks and uncertainties facing the Company can be found throughout this Annual Report.

RESULTS AND APPROPRIATION

The results of the Company and its subsidiaries for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 53.

A final dividend of HK3 cents per share in respect of the year ended 31 December 2017 (2016: HK2 cents per share) had 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 Company and its subsidiaries acquired land and buildings, plant and equipment and motor vehicles, furniture and other equipment of HK$3,656,000, HK$120,918,000 and HK$20,890,000 respectively and construction in progress of HK$51,429,000 to cope with the expansion of the Company and its subsidiaries. Details of movements in property, plant and equipment 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 2017 comprised the retained profits of approximately HK$974,008,000 (2016: HK$784,571,000).

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 Company and its subsidiaries' largest customer and five largest customers were 7.4% and 27% of the Company and its subsidiaries' consolidated turnover, respectively. The aggregate purchases attributable to the Company and its subsidiaries' five largest suppliers were less than 30% of the Company and its subsidiaries' total purchases.

DIRECTORS

The Directors during 2017 and up to the date of this Report were:

Executive

Li Hongjun *(President)*
Jin Xuesheng

Non-Executive

Gong Bo *(Chairman) (appointed on 24 February 2017)*
Luo Zhenbang *(Independent)*
Leung Sau Fan, Sylvia *(Independent)*
Wang Xiaojun *(Independent)*
Mao Yijin
Xu Liangwei
Zhang Jianheng *(Chairman) (resigned on 24 February 2017)*

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.

Mr Mao Yijin and Mr Xu Liangwei, both being Non-Executive Directors, and Ms Leung Sau Fan, Sylvia, being an Independent Non-Executive Director, due to expiry of their two-year term, retire by rotation at the Annual General Meeting in accordance with Article 103(A) of the Company's Articles of Association, and Mr Li Hongjun, being an Executive Director, retires by rotation at the Annual General Meeting in accordance with Article 103(A) of the Company's Articles of Association and Code A.4.2 of Appendix 14 of the Listing Rules and, being eligible, offer themselves for re-election.

During 2017 and up to the date of this Report, the directors of subsidiary undertakings of the Company in alphabetical order were Messrs. Chan Ka Kin Ken, Chen Yongjie, Cheng Zhanheng, Chi Keung*, Chu Kam Ching, Gao Shiwen*, Gao Yuda, Gong Benning, Gu Caihua, Guo Xiaokui, Han Jinguang, Hu Min, Jin Xuesheng, Li Gang, Li Guangneng, Li Hongjun, Li Wenjie, Lin Jianming, Lin Zhijian, Liu Weixiong, Liu Xiangyang, Niu Zhanjie, Qiu Jihua, Shi Lei, Shum King Mo, Song Dasheng, Tse Wai Hong Francis*, Wang Hai, Wang Libo, Wang Muchun, Wang Mushun, Wong Siu Fong Jenny, Yang Honghui, Yin Guang, Yu Kehu, Yu Xiaomei, Zhao Jinlong, Zhen Feng, Zhen Zhiping, Zhong Shangqiong and Zhou Weibing.

* Resigned during 2017 or the period up to the date of this Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The Company had adopted *the Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules as the required standard for the Directors of the Company to trade the securities of the Company. Having made specific enquiry to all the Directors of the Company and in accordance with information provided, all the Directors have complied with the provisions under the Model Code in 2017.

As at 31 December 2017, save for Mr Gong Bo, Mr Mao Yijin and Mr Xu Liangwei, the Directors of the Company, are the officers of the substantial shareholder, China Aerospace Science & Technology Corporation, and its subsidiaries, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests or short positions in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and the Model Code for Securities Transactions by Directors of Listed Issuers of The Stock Exchange of Hong Kong Limited.

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 2017, 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
China Aerospace Science & Technology Corporation	Interests in controlled corporation	No	1,183,598,636	38.37%
Jetcote Investments Limited	Beneficial owner	Yes	131,837,011	4.27%
	Interests in controlled corporation	No	1,051,761,625	34.10%
			1,183,598,636	38.37%
Burhill Company Limited	Beneficial owner	Yes	579,834,136	18.80%
Sin King Enterprises Company Limited	Beneficial owner	Yes	471,927,489	15.30%

Notes: Jetcote Investments Limited, Burhill Company Limited and Sin King Enterprises Company Limited are subsidiaries of China Aerospace Science & Technology Corporation, the shares held by them form the total number of shares in which China Aerospace Science & Technology Corporation 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 2017.

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.

EMOLUMENT POLICY

The remuneration policy of the Company and the subsidiaries is based on the employee's qualifications, experience and performance, with reference to the current market situation. The Company and the subsidiaries will continue to strengthen the 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.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every director shall be indemnified out of funds of the Company against all liabilities incurred by them to the extent permitted by the Hong Kong Companies Ordinance. In addition, the Company has bought and maintained a director and officer liability insurance for the benefit of directors and officers of the Company and its subsidiaries against liability which may lawfully be insured by the Company.

CONNECTED TRANSACTIONS

The below continuing connected transactions entered into by the Company and its relevant subsidiaries, as confirmed by Independent Non-Executive Directors of the Company, were entered into:

1. in the ordinary course of business of the Company;

2. on normal commercial terms or on terms not less favourable to the terms offered by independent third parties; and

3. in accordance with the terms of the relevant agreements or contracts, respectively, which were fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Company's auditor was engaged to report on the Company and it subsidiaries' continuing connected transactions in accordance with *Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to *Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Company and its subsidiaries in page 47 of the Annual Report in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Save as the transactions as shown in note 41(b)(iii), (iv) and (v) to the consolidated financial statements which constituted connected transactions of the Company under Chapter 14A of the Listing Rules, the transaction as shown in note 41(a) is connected transaction exempted from announcement, reporting, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

List of Continuing Connected Transactions for the year ended 31 December 2017

The Company and/or its subsidiary(ies) involved	Connected person(s)	Continuing connected transactions	Annual cap	Amount outstanding as of 31 December 2017
CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳)有限公司) ("New Century")	China Aerospace Science & Technology Corporation ("CASC")	CASC entrusted a loan in the sum of RMB500,000,000 to New Century with maturity of 60 months through Bank of Beijing	N/A	RMB500,000,000 or equivalent to HK$599,520,000
New Century	Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace")	The provision of loan by New Century to Hainan Aerospace in the amount of RMB45,000,000	N/A	Nil
Shenzhen Aerospace Technology Investment Management Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace")	Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance")	The provision of security by Shenzhen Aerospace to Aerospace Finance for a loan in the amount of RMB1,300,000,000	N/A	RMB564,100,000 or equivalent to HK$676,379,000

* This PRC entity does not have an English name, the English name sets out here is for identification purpose only.

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, 23 March 2018

INDEPENDENT AUDITOR'S REPORT

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)

OPINION

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 53 to 130, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We have identified the valuation of investment properties as a key audit matter due to the significant judgements and assumptions in determining the fair value. As disclosed in notes 4 and 16 to the consolidated financial statements as at 31 December 2017, the fair value of investment properties is HK$9,568,215,000, with a fair value gain recorded in the consolidated statement of profit or loss of HK$405,283,000. All the Group's investment properties are stated at fair value based on valuations performed by independent qualified professional valuers. Details of the valuation techniques and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements. The valuations are dependent on certain key assumptions that require significant management judgements. The fair value of investment properties is assessed 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, comparable market rents and capitalisation rate.	Our procedures in relation to the valuation of investment properties included: • Obtaining the valuation reports and evaluating the management's process in respect of reviewing the valuation performed by independent qualified professional valuers. • Evaluating the competence, capabilities and objectivity of independent qualified professional valuers. • Evaluating the valuation techniques and assessing the reasonableness of the key inputs used in the valuations based on our knowledge of the property industry. • Checking, on a sample basis, the market transactions and market rents of similar properties and locations, and assessing the appropriateness of specific assumptions made on adjustments of the properties by reference to age, location and individual factors which affect the valuation of properties.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
We identified the impairment assessment of trade receivables as a key audit matter due to the use of judgment and estimates in assessing the recoverability of trade receivables by the management. In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables as set out in note 4 to the consolidated financial statements. As disclosed in note 24 to the consolidated financial statements, the carrying amount of trade receivables is HK$914,976,000 (net of allowance for doubtful debts of HK$31,735,000) as at 31 December 2017.	Our procedures in relation to impairment assessment of trade receivables included: • Obtaining an understanding of how allowance for trade receivables is estimated by the management. • Understanding the Group's process in preparation of aging analysis of trade receivables. • Testing the aging analysis of trade receivables, on a sample basis, to the source documents. • Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of individual trade receivables.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (continued)

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Au Mei Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Turnover	5	3,661,325	3,087,848
Cost of sales		(2,637,087)	(2,296,492)
Gross profit		1,024,238	791,356
Other income	7	68,082	53,632
Other gains and losses	7	(34,759)	(19,481)
Selling and distribution expenses		(53,482)	(57,925)
Administrative expenses		(337,674)	(312,660)
Research and development expenses		(79,192)	(63,089)
Fair value changes of investment properties	16	405,283	1,412,301
Finance costs	9	(57,217)	(53,440)
Share of results of associates		6,075	1,880
Share of results of joint ventures		(9,629)	(29,909)
Profit before taxation	10	931,725	1,722,665
Taxation	11	(264,908)	(519,413)
Profit for the year		666,817	1,203,252
Profit for the year attributable to:			
Owners of the Company		486,183	796,108
Non-controlling interests		180,634	407,144
		666,817	1,203,252
Earnings per share	12		
Basic		HK15.76 cents	HK25.81 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	666,817	1,203,252
Other comprehensive income (expense) includes:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations		
— subsidiaries	527,885	(370,195)
— associates	10,365	(7,888)
— joint ventures	50,756	(41,618)
Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation	19,564	1,138
	608,570	(418,563)
Item that will not be reclassified to profit or loss:		
Revaluation surplus on certain properties transferred to investment properties, net of tax	19,513	—
Other comprehensive income (expense) for the year	628,083	(418,563)
Total comprehensive income for the year	1,294,900	784,689
Total comprehensive income for the year attributable to:		
Owners of the Company	962,167	485,622
Non-controlling interests	332,733	299,067
	1,294,900	784,689

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	1,104,487	953,527
Prepaid lease payments	15	97,390	94,711
Investment properties	16	9,568,215	8,492,873
Interests in associates	18	142,725	126,285
Interests in joint ventures	19	753,230	712,103
Deposit paid for property, plant and equipment		56,975	22,766
Other long term assets	21	124,653	33,108
Loan to a joint venture	22	—	27,778
		11,847,675	10,463,151
Current assets			
Inventories	23	348,216	262,021
Trade and other receivables	24	1,277,204	873,050
Prepaid lease payments	15	4,176	4,234
Amount due from a related party	25	851	16
Financial assets at fair value through profit or loss	26	13,720	25,675
Pledged bank deposits	27	20,098	6,158
Bank balances and cash	27	1,063,168	1,150,271
		2,727,433	2,321,425
Current liabilities			
Trade and other payables	28	1,550,229	1,545,965
Taxation payable		81,241	58,347
Unsecured bank borrowings	29	19,185	31,111
Other loan	30	8,594	7,963
Loan from a controlling shareholder	31	599,520	—
		2,258,769	1,643,386
Net current assets		468,664	678,039
Total assets less current liabilities		12,316,339	11,141,190

Consolidated Statement of Financial Position (continued)

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Loan from a controlling shareholder	31	–	555,556
Loan from a related party	32	676,379	565,667
Deferred taxation	33	2,433,748	2,044,833
		3,110,127	3,166,056
		9,206,212	7,975,134
Capital and reserves			
Share capital	34	1,154,511	1,154,511
Reserves		5,936,114	5,035,647
Equity attributable to owners of the Company		7,090,625	6,190,158
Non-controlling interests		2,115,587	1,784,976
		9,206,212	7,975,134

The consolidated financial statements on pages 53 to 130 were approved and authorised for issue by the Board of Directors on 23 March 2018 and are signed on its behalf by:

Li Hongjun
Director

Jin Xuesheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000 *(Note b)*	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	1,154,511	14,044	23,916	18,977	11,010	14,309	4,469,003	5,705,770	1,497,492	7,203,262
Profit for the year	–	–	–	–	–	–	796,108	796,108	407,144	1,203,252
Exchange differences arising on translating foreign operations										
– subsidiaries	–	–	–	(262,118)	–	–	–	(262,118)	(108,077)	(370,195)
– associates	–	–	–	(7,888)	–	–	–	(7,888)	–	(7,888)
– joint ventures	–	–	–	(41,618)	–	–	–	(41,618)	–	(41,618)
Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation	–	–	–	1,138	–	–	–	1,138	–	1,138
Total comprehensive (expense) income for the year	–	–	–	(310,486)	–	–	796,108	485,622	299,067	784,689
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	(30,850)	(30,850)	–	(30,850)
Deemed disposal of partial interest in a subsidiary without a loss of control	–	–	–	–	–	29,616	–	29,616	–	29,616
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	(11,583)	(11,583)
	–	–	–	–	–	29,616	(30,850)	(1,234)	(11,583)	(12,817)
At 31 December 2016	1,154,511	14,044	23,916	(291,509)	11,010	43,925	5,234,261	6,190,158	1,784,976	7,975,134

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000 *(Note b)*	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	1,154,511	14,044	23,916	(291,509)	11,010	43,925	5,234,261	6,190,158	1,784,976	7,975,134
Profit for the year	–	–	–	–	–	–	486,183	486,183	180,634	666,817
Exchange differences arising on translating foreign operations										
– subsidiaries	–	–	–	375,786	–	–	–	375,786	152,099	527,885
– associates	–	–	–	10,365	–	–	–	10,365	–	10,365
– joint ventures	–	–	–	50,756	–	–	–	50,756	–	50,756
Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation	–	–	–	19,564	–	–	–	19,564	–	19,564
Revaluation surplus on certain properties transferred to investment properties	–	–	–	–	19,513	–	–	19,513	–	19,513
Total comprehensive income for the year	–	–	–	456,471	19,513	–	486,183	962,167	332,733	1,294,900
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	(61,700)	(61,700)	–	(61,700)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	(2,122)	(2,122)
Transfer to general reserve	–	–	14,878	–	–	–	(14,878)	–	–	–
	–	–	14,878	–	–	–	(76,578)	(61,700)	(2,122)	(63,822)
At 31 December 2017	1,154,511	14,044	38,794	164,962	30,523	43,925	5,643,866	7,090,625	2,115,587	9,206,212

Notes:

(a) The general reserve is non-distributable and represents reserve fund and enterprise expansion fund of the subsidiaries established 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 other reserves represent (i) capital contribution from a controlling shareholder of the Company arising from acquisition of subsidiaries, (ii) the difference between the amount of non-controlling interests and fair value of consideration paid upon acquisition of additional interests in subsidiaries, and (iii) amount arising from deemed disposal of partial interest in a subsidiary without a loss of control.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	931,725	1,722,665
Adjustments for:		
Interest income	(14,824)	(30,282)
Interest expense	57,217	53,440
Depreciation of property, plant and equipment	117,476	97,343
Amortisation of prepaid lease payments	3,521	3,085
Fair value changes of investment properties	(405,283)	(1,412,301)
Fair value changes of financial assets at fair value through profit or loss	11,955	(8,506)
Allowance for (reversal of allowance for) doubtful debts	4,127	(2,738)
Allowance for obsolete inventories	270	421
Share of results of associates	(6,075)	(1,880)
Share of results of joint ventures	9,629	29,909
Loss on deregistration of a subsidiary	19,564	1,138
Gain on disposal of an associate	—	(3)
Loss on disposal/written off of property, plant and equipment	2,669	7,491
Loss on disposal of prepaid lease payments	840	—
Operating cash flows before movements in working capital	732,811	459,782
Increase in inventories	(64,626)	(33,122)
Increase in trade and other receivables	(443,542)	(307,738)
Increase in trade and other payables	15,456	166,439
Cash generated from operations	240,099	285,361
Hong Kong Profits Tax paid	(17,903)	(15,627)
PRC Enterprise Income Tax paid	(17,579)	(12,643)
Taxation in other jurisdiction paid	(146)	—
Withholding tax paid	(405)	(2,243)
NET CASH FROM OPERATING ACTIVITIES	204,066	254,848

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES		
Payment for development costs incurred in respect of investment properties	(137,566)	(10,286)
Purchase of property, plant and equipment	(103,690)	(301,075)
Deposit paid for property, plant and equipment	(55,113)	(23,206)
Placement of pledged bank deposits	(18,940)	(62,235)
Placement of deposits with a related company	(787)	—
Repayment from a joint venture	27,778	—
Interest received	14,824	30,282
Withdrawal of pledged bank deposits	6,262	92,095
Proceeds from disposal of prepaid lease payments	3,593	—
Proceeds from disposal of property, plant and equipment	184	1,154
Loan to a joint venture	—	(29,308)
Addition of prepaid lease payments	—	(12,256)
Proceeds from disposal of an associate	—	3
NET CASH USED IN INVESTING ACTIVITIES	(263,455)	(314,832)
FINANCING ACTIVITIES		
Loan from a related party	62,147	596,835
New bank borrowings raised	20,339	76,084
Dividend paid	(61,647)	(30,834)
Interest paid	(57,217)	(86,726)
Repayment of bank and other loans	(33,898)	(1,374,091)
Dividend paid to non-controlling interests of a subsidiary	(2,122)	(5,811)
Capital contribution from a non-controlling interest	—	29,616
NET CASH USED IN FINANCING ACTIVITIES	(72,398)	(794,927)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(131,787)	(854,911)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,150,271	2,045,506
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	44,684	(40,324)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH	1,063,168	1,150,271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

China Aerospace International Holdings Limited (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 ("HK$"), 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 joint ventures are set out in notes 44, 45 and 46, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Company and its subsidiaries (the "Group") has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

Except as described below, the application of the 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 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 42. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 42, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) — Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) — Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 — 2017 cycle[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting 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; and

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial instruments: recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 "Financial instruments" (continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

- equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 20: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, no fair value gains related to these securities would be adjusted to retained profits as at 1 January 2018 as these securities have been fully impaired.

- all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39 on initial application of HKFRS 9.

- based on the assessment by the directors of the Company, if the expected credit loss model was to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets as at 1 January 2018.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 "Revenue from contracts with customers" (continued)

Currently under HKAS 18, the Group recognises revenue from sales of goods when the goods are delivered and titles have been passed to the customer and the significant risks and rewards of ownership of the goods have been transferred to the customer. Under HKFRS 15, the Group has assessed whether the revenue will be recognised overtime or at a point in time for those manufactured products with no alternative use to the Group, the revenue for such products will be recognised over time if the Group has an enforceable right to payment for performance completed to date or otherwise at a point in time upon customers obtain control of the relevant products. The directors of the Company are still in the process of assessing the full impact of the application of HKFRS 15, including the timing of recognising revenue, on the consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$119,154,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 "Leases" (continued)

In addition, the Group currently considers refundable rental deposits paid of HK$9,537,000 and refundable rental deposits received of HK$12,682,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is 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 associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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 of disposal) 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 an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised 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

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") 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.

Interest 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.

Financial assets at FVTPL

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 term; or
- on initial recognition it is a part of a portfolio of identified 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 any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 26.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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, loan to a joint venture, pledged bank deposits, amount due from a related party and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

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.

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 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).

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 considered to be impaired when 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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 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 against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, unsecured bank borrowings, loan from a controlling shareholder, loan from a related party and other loan are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

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.

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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Sale of goods

Revenue from the sale of goods is recognised when goods are delivered and titles have passed.

Rendering of services

Service income is recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividend and interest income

Interest income 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.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets 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.

If an item of properties, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties are 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.

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 property 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 terms of the relevant lease. Where the lease includes a rent-free period, the rental income foregone is allocated evenly over the lease terms.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease terms.

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 terms 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 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), 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 arrangements 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 other comprehensive income.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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 activities (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 recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 of disposal 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets other than goodwill (continued)

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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 immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a 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.

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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 taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries, associates and joint ventures, 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 each 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 assets and liabilities are measured 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 taxes 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, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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. CRITICAL ACCOUNTING JUDGEMENTS AND 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Deferred taxation on investment properties

For the purposes of measuring deferred taxes arising from investment properties that are measured using the fair value model, the management has reviewed the Group's investment properties portfolios and concluded that while the Group's investment properties located in Hong Kong and certain investment properties in the PRC are depreciable, they are being held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation arising from these investment properties located in these locations, the management determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted.

For certain other Group's investment properties located in the PRC, the management concluded that they are depreciable and 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. Therefore, in determining the Group's deferred taxation arising from these investment properties, the management determined that the presumption that these investment properties measured using the fair value model are recovered through sale is not rebutted. As a result, the Group has recognised deferred tax liabilities on changes in fair value of these investment properties on the assumption that these investment properties will be recovered through sale.

The deferred tax impact of the Group is recognised at the end of the reporting period as shown in note 33.

Key sources of estimation uncertainty

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.

(a) 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 capitalisation rate.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

(a) Investment properties (continued)

In relying on the valuation report, the directors of the Company have exercised their judgement 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 statement of profit or loss. As at 31 December 2017, the carrying amount of investment properties is HK$9,568,215,000 (2016: HK$8,492,873,000). Information about the valuation techniques and inputs used in determining the fair value of the Group's investment properties is described in note 16.

(b) Allowance for trade receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowance is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. In determining whether an allowance for doubtful debts is required, the Group takes into consideration of credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the period in which such estimate has changed.

The management closely monitors the settlement status of trade receivables and will strengthen its effort to chase the debts and thus considers that the trade receivables with carrying amount of HK$914,976,000 (2016: HK$718,121,000) are recoverable due to its good credit quality.

5. TURNOVER

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

	2017 HK$'000	2016 HK$'000
Sales of goods and services	3,248,772	2,905,469
Rental income and building management fee income	412,553	182,379
	3,661,325	3,087,848

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

6. SEGMENT INFORMATION

The Group determines its operating and reportable segments based on the internal reports reviewed by the President, the chief operating decision maker ("CODM") of the Group, that are used to make strategic decisions. In prior year, there were 10 operating and reportable segments, namely Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and industrial property investment), New Material Business (including polyimide films manufacturing) and Aerospace Service (including property investment in Shenzhen Aerospace Science & Technology Plaza, land development in Hainan Launching Site Complex Zone, Internet of Things and Cross-border e-commerce) which represent the major industries in which the Group is engaged. During the year, the CODM reassessed the current business segments by reference to future development strategy of the Group. Financial information in relation to polyimide films manufacturing and land development in Hainan Launching Site Complex Zone are not separately reported as they are no longer a operating and reportable segment of the Group. Comparative figures have been restated to conform with the current year's presentation.

Other business represents income and expenses relating to investment properties which cannot be allocated to other operating and reportable segments.

6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2017

	Turnover External sales HK$'000	Turnover Inter-segment sales HK$'000	Turnover Total HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	1,227,047	59,205	1,286,252	87,619
Liquid crystal display	623,696	930	624,626	55,162
Printed circuit boards	780,295	–	780,295	86,158
Intelligent chargers	519,636	1,874	521,510	38,109
Industrial property investment	15,953	19,256	35,209	25,053
	3,166,627	81,265	3,247,892	292,101
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	394,121	2,622	396,743	734,499
Internet of Things	46,491	–	46,491	13,395
Cross-border e-commerce	47,680	–	47,680	(4,219)
	488,292	2,622	490,914	743,675
Reportable segment total	3,654,919	83,887	3,738,806	1,035,776
Elimination	–	(83,887)	(83,887)	–
Other Business	6,406	–	6,406	10,174
	3,661,325	–	3,661,325	1,045,950
Unallocated corporate income				46,563
Unallocated corporate expenses				(80,453)
				1,012,060
Share of results of associates				6,075
Share of results of joint ventures				(9,629)
Finance costs				(57,217)
Loss on deregistration of a subsidiary				(19,564)
Profit before taxation				931,725

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2016

	Turnover			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000
				(Restated)
Hi-Tech Manufacturing Business				
Plastic products	1,111,678	56,651	1,168,329	79,375
Liquid crystal display	521,174	232	521,406	40,969
Printed circuit boards	678,919	—	678,919	133,525
Intelligent chargers	516,356	1,556	517,912	37,717
Industrial property investment	15,554	20,273	35,827	14,482
	2,843,681	78,712	2,922,393	306,068
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	163,943	—	163,943	1,523,913
Internet of Things	8,960	—	8,960	5,619
Cross-border e-commerce	66,041	—	66,041	1,515
	238,944	—	238,944	1,531,047
Reportable segment total	3,082,625	78,712	3,161,337	1,837,115
Elimination	—	(78,712)	(78,712)	—
Other Business	5,223	—	5,223	5,341
	3,087,848	—	3,087,848	1,842,456
Unallocated corporate income				46,771
Unallocated corporate expenses				(83,958)
				1,805,269
Gain on disposal of an associate				3
Share of results of associates				1,880
Share of results of joint ventures				(29,909)
Finance costs				(53,440)
Loss on deregistration of a subsidiary				(1,138)
Profit before taxation				1,722,665

6. SEGMENT INFORMATION (continued)

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by/loss from each segment without allocation of interest income, change in fair value of financial assets at fair value through profit or loss, share of results of associates, share of results of joint ventures, interest expenses, gain on disposal of an associate, loss on deregistration of a subsidiary 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 operating and reportable segments:

	2017 HK$'000	2016 HK$'000 (Restated)
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	783,195	631,631
Liquid crystal display	398,278	365,669
Printed circuit boards	1,023,911	831,211
Intelligent chargers	275,528	246,968
Industrial property investment	302,826	273,665
	2,783,738	2,349,144
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	9,648,360	8,294,693
Internet of Things	23,697	6,860
Cross-border e-commerce	10,218	4,868
	9,682,275	8,306,421
Total assets for operating and reportable segments	12,466,013	10,655,565
Other Business	104,077	66,079
Interests in joint ventures	753,230	712,103
Interests in associates	142,725	126,285
Unallocated assets	1,109,063	1,224,544
Consolidated assets	14,575,108	12,784,576

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

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

	2017 HK$'000	2016 HK$'000 (Restated)
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	236,528	213,036
Liquid crystal display	112,386	110,572
Printed circuit boards	312,859	272,795
Intelligent chargers	105,674	91,392
Industrial property investment	9,033	9,101
	776,480	696,896
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	462,823	575,309
Internet of Things	5,379	734
Cross-border e-commerce	5,935	3,222
	474,137	579,265
Total liabilities for operating and reportable segments	1,250,617	1,276,161
Other Business	—	1,172
Unallocated liabilities	4,118,279	3,532,109
Consolidated liabilities	5,368,896	4,809,442

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

- all assets are allocated to operating and reportable segments other than bank balances and cash, pledged bank deposits, amount due from a related party, financial assets at fair value through profit or loss, interests in joint ventures, interests in associates, and the other unallocated assets; and

- all liabilities are allocated to operating and reportable segments other than taxation payable, deferred taxation, other loan, unsecured bank borrowings, loan from a controlling shareholder, loan from a related party 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:

2017

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value gain on investment properties HK$'000	Loss (gain) on disposal of property, plant and equipment and prepaid lease payments HK$'000
Hi-Tech Manufacturing Business				
Plastic products	41,464	28,093	—	1,156
Liquid crystal display	16,723	11,269	—	1,055
Printed circuit boards	122,658	58,546	—	(42)
Intelligent chargers	6,855	7,191	—	162
Industrial property investment	3,471	13,404	16,704	840
	191,171	118,503	16,704	3,171
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	—	480	381,293	—
Internet of Things	—	—	—	48
Cross-border e-commerce	3,962	810	—	—
	3,962	1,290	381,293	48
Operating and reportable segment total	195,133	119,793	397,997	3,219

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

6. SEGMENT INFORMATION (continued)

(c) Other segment information (continued)

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

2016

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value gain on investment properties HK$'000	Loss (gain) on disposal of property, plant and equipment HK$'000
Hi-Tech Manufacturing Business				
Plastic products	35,780	24,131	—	2,434
Liquid crystal display	10,251	11,888	—	5,069
Printed circuit boards	265,508	39,733	—	(180)
Intelligent chargers	6,450	9,071	—	122
Industrial property investment	498	13,270	8,037	—
	318,487	98,093	8,037	7,445
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	436,634	173	1,401,850	7
Internet of Things	785	490	—	(33)
Cross-border e-commerce	1,723	618	—	—
	439,142	1,281	1,401,850	(26)
Operating and reportable segment total	757,629	99,374	1,409,887	7,419

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 (excluding loan to a joint venture) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Hong Kong	2,114,494	1,997,362	295,103	236,539
The PRC	1,546,831	1,090,486	11,552,572	10,198,740
Canada	—	—	—	94
	3,661,325	3,087,848	11,847,675	10,435,373

Information about major customers

No individual customer of the Group has contributed over 10% of the turnover of the Group for both reporting periods.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
The Group's other income mainly comprises:		
Interest income	14,824	30,282
Sales of scrap materials	9,141	6,028
Government subsidies in respect of research expenses	4,379	867
The Group's other gains and losses mainly comprise:		
Net exchange gain (loss)	4,396	(22,079)
Net (loss) gain from change in fair value of financial assets at fair value through profit or loss	(11,955)	8,506
(Allowance for) reversal of allowance for doubtful debts	(4,127)	2,738
Loss on disposal/written off of property, plant and equipment	(2,669)	(7,491)
Loss on disposal of prepaid lease payments	(840)	—
Gain on disposal of an associate	—	3
Loss on deregistration of a subsidiary *(note)*	(19,564)	(1,138)

Note: The amount represents the cumulative exchange differences included in translation reserve reclassified to profit or loss upon deregistration of a subsidiary.

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2016: 10) directors are as follows:

	Executive directors		Non-executive directors				Independent non-executive directors			
	Li Hongjun HK$'000	Jin Xuesheng HK$'000	Gong Bo^ HK$'000	Zhang Jianheng^^ HK$'000	Mao Yijin* HK$'000	Xu Liangwei* HK$'000	Luo Zhenbang HK$'000	Leung Sau Fan, Sylvia HK$'000	Wang Xiaojun HK$'000	2017 Total HK$'000
Directors' fees										
Executives	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	90	–	–	–	90
Independent non-executives	–	–	–	–	–	–	150	150	150	450
	–	–	–	–	–	90	150	150	150	540
Other emoluments										
Salaries and other benefits	1,602	1,602	–	–	–	12	80	110	60	3,466
Bonuses	398	398	–	–	–	–	–	–	–	796
	2,000	2,000	–	–	–	12	80	110	60	4,262
Total emoluments	2,000	2,000	–	–	–	102	230	260	210	4,802

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

(a) Directors' emoluments (continued)

	Executive directors		Non-executive directors					Independent non-executive directors			
	Li Hongjun HK$'000	Jin Xuesheng HK$'000	Zhang Jianheng HK$'000	Chen Xuechuan** HK$'000	Shi Weiguo** HK$'000	Mao Yijin* HK$'000	Xu Liangwei* HK$'000	Luo Zhenbang HK$'000	Leung Sau Fan, Sylvia HK$'000	Wang Xiaojun HK$'000	2016 Total HK$'000
Directors' fees											
Executives	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	33	–	–	–	33
Independent non-executives	–	–	–	–	–	–	–	150	150	150	450
	–	–	–	–	–	–	33	150	150	150	483
Other emoluments											
Salaries and other benefits	1,602	1,602	–	–	–	–	5	80	110	50	3,449
Bonuses	716	716	–	–	–	–	–	–	–	–	1,432
	2,318	2,318	–	–	–	–	5	80	110	50	4,881
Total emoluments	2,318	2,318	–	–	–	–	38	230	260	200	5,364

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

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 while Mr. Jin Xuesheng's emoluments shown above are for his services in connection with the management of the affairs of the Company and the Group.

The non-executive and independent non-executive directors' emoluments shown above are for their services as directors of the Company.

^ Appointed on 24 February 2017

^^ Resigned on 24 February 2017

* Appointed on 24 August 2016

** Resigned on 24 August 2016

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

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

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included two directors (2016: two directors), details of whose emoluments are set out above. The emoluments of the remaining three (2016: three) highest paid individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	1,510	1,510
Bonuses *(Note)*	11,197	10,796
Contributions to retirement benefits scheme	18	—
	12,725	12,306

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 and all directors were within the following band:

	Number of individuals	
Emoluments band	2017	2016
HK$5,500,001 to HK$6,000,000	—	1
HK$5,000,001 to HK$5,500,000	1	—
HK$4,000,001 to HK$4,500,000	1	—
HK$3,500,001 to HK$4,000,000	1	1
HK$2,500,001 to HK$3,000,000	—	1
HK$2,000,001 to HK$2,500,000	—	2
HK$1,500,001 to HK$2,000,000	2	—
Nil to HK$1,000,000	7	8

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, no director waived any emoluments during the year.

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses on bank and other borrowings	57,217	87,638
Less: Amount capitalised to investment properties under construction	—	(34,198)
	57,217	53,440

During the year ended 31 December 2016, interest expenses capitalised arose on the borrowings specifically in relation to the investment properties under construction in Shenzhen Aerospace Science & Technology Plaza and were calculated by applying a capitalisation rate of 4.75% per annum to expenditure on qualifying assets.

10. PROFIT BEFORE TAXATION

	2017 HK$'000	2016 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	3,521	3,085
Auditors' remuneration		
— current year	4,806	4,152
— overprovision in prior years	(6)	(368)
Cost of inventories charged to profit or loss including allowance for obsolete inventories of HK$270,000 (2016: HK$421,000)	2,583,150	2,228,608
Depreciation of property, plant and equipment	117,476	97,343
Minimum lease payments under operating leases in respect of land and buildings	21,420	21,508
Research and development expenses	79,192	63,089
Staff costs, including directors' remuneration	640,111	573,052
Gross rental income	(356,120)	(164,435)
Less: Direct operating expenses for investment properties that generated rental income during the year	7,815	3,926
	(348,305)	(160,509)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

11. TAXATION

The tax charge (credit) for the year comprises:

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong Profits Tax	**30,644**	21,600
PRC Enterprise Income Tax	**26,955**	14,530
Taxation in other jurisdiction	**146**	—
Withholding tax on distribution of profits in a Canadian subsidiary	**405**	2,034
	58,150	38,164
(Over)underprovision in prior years		
Hong Kong Profits Tax	**(100)**	(104)
PRC Enterprise Income Tax	**(2,356)**	622
	(2,456)	518
Deferred tax charge *(note 33)*	**209,214**	480,731
	264,908	519,413

11. TAXATION (continued)

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	931,725	1,722,665
Tax at Hong Kong Profits Tax of 16.5%	153,735	284,240
Tax effect of share of results of associates	(1,002)	(310)
Tax effect of share of results of joint ventures	1,589	4,935
Tax effect of expenses not deductible for tax purpose	11,038	4,418
Tax effect of income not taxable for tax purpose	(14,325)	(7,892)
Withholding tax paid in other jurisdiction	405	2,034
Land appreciation tax	86,990	150,226
Tax effect of land appreciation tax deductible for PRC Enterprise Income Tax	(21,748)	(24,787)
Tax effect of additional deduction for research and development expenses	(4,380)	(2,197)
Tax effect of tax losses not recognised	—	2,535
Utilisation of tax losses previously not recognised	(4,493)	(8,177)
Effect of different tax rates of subsidiaries operating in other jurisdictions	57,787	117,792
Effect of income tax on concessionary rates for certain subsidiaries	(129)	(3,122)
(Over)underprovision in prior years	(2,456)	518
Others	1,897	(800)
Income tax expenses for the year	264,908	519,413

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits 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%. Four subsidiaries (2016: two 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 jurisdiction and withholding tax on dividend income are calculated at the rate prevailing in the relevant jurisdiction.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

12. EARNINGS PER SHARE

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

	2017 HK$'000	2016 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	486,183	796,108

	2017 Number of shares	2016 Number of shares
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	3,085,022,000	3,085,022,000

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

13. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends recognised as distribution during the year:		
2016 final dividend of HK2 cents (2016: 2015 final dividend of HK1 cent) per ordinary share	61,700	30,850

A final dividend of HK3 cents per ordinary share in respect of the year ended 31 December 2017 (2016: HK2 cents) has been proposed by the board of directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming 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$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2016	76,875	7,740	440,030	689,668	251,468	86,766	1,552,547
Exchange realignment	–	(445)	(30,588)	(41,110)	(13,076)	(14,504)	(99,723)
Additions	–	–	478	92,642	27,473	189,833	310,426
Disposals/written off	–	–	(179)	(65,398)	(18,864)	(1,430)	(85,871)
Transfer	–	–	–	7,693	–	(7,693)	–
At 31 December 2016	76,875	7,295	409,741	683,495	247,001	252,972	1,677,379
Exchange realignment	–	563	49,071	65,023	17,918	6,181	138,756
Additions	–	–	3,656	120,918	20,890	51,429	196,893
Disposals/written off	–	–	–	(18,641)	(5,515)	–	(24,156)
Transfer	–	–	166,139	99,428	16,299	(281,866)	–
Surplus on revaluation *(note b)*	–	26,017	–	–	–	–	26,017
Transfer to completed investment properties *(note b)*	–	(33,503)	–	–	–	–	(33,503)
At 31 December 2017	76,875	372	628,607	950,223	296,593	28,716	1,981,386
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	38,835	1,577	178,560	360,921	165,932	–	745,825
Exchange realignment	–	(88)	(13,459)	(20,147)	(8,396)	–	(42,090)
Provided for the year	1,985	114	13,078	62,289	19,877	–	97,343
Eliminated on disposals/written off	–	–	(153)	(58,209)	(18,864)	–	(77,226)
At 31 December 2016	40,820	1,603	178,026	344,854	158,549	–	723,852
Exchange realignment	–	142	18,389	29,329	10,497	–	58,357
Provided for the year	1,985	110	15,720	79,077	20,584	–	117,476
Eliminated on disposals/written off	–	–	–	(16,103)	(5,200)	–	(21,303)
Eliminated on transfer to completed investment properties *(note b)*	–	(1,483)	–	–	–	–	(1,483)
At 31 December 2017	42,805	372	212,135	437,157	184,430	–	876,899
CARRYING VALUES							
At 31 December 2017	34,070	–	416,472	513,066	112,163	28,716	1,104,487
At 31 December 2016	36,055	5,692	231,715	338,641	88,452	252,972	953,527

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress 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 terms of lease, or 50 years
Plant and equipment	5% — 15%
Motor vehicles, furniture and other equipment	6% — 25%

(b) During the year, certain properties were transferred to completed investment properties with a view to earn rentals and for capital appreciation at a fair value of HK$32,020,000 at the date of transfer.

15. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'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	97,390	94,711
Current portion	4,176	4,234
	101,566	98,945

16. INVESTMENT PROPERTIES

	Completed investment properties HK$'000	Investment properties under construction HK$'000	Total HK$'000
FAIR VALUE			
At 1 January 2016	334,732	6,820,543	7,155,275
Exchange realignment	(13,421)	(497,650)	(511,071)
Construction costs incurred	—	436,368	436,368
Net increase in fair value recognised in profit or loss	10,451	1,401,850	1,412,301
Transfer upon completion	8,161,111	(8,161,111)	—
At 31 December 2016	8,492,873	—	8,492,873
Exchange realignment	638,039	—	638,039
Transfer from property, plant and equipment	32,020	—	32,020
Net increase in fair value recognised in profit or loss	405,283	—	405,283
At 31 December 2017	9,568,215	—	9,568,215
Unrealised gain on property revaluation included in profit or loss of current year	405,283	—	405,283

During the year, certain properties were transferred to completed investment properties with a view to earn rentals and for capital appreciation at a fair value of HK$32,020,000 at the date of transfer.

The fair values of the Group's investment properties at 31 December 2017 and 31 December 2016 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 and Knight Frank Petty Limited ("Knight Frank") for properties situated in the PRC. Jones Lang and Knight Frank are independent qualified professional valuers not connected with the Group.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES (continued)

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of directors of the Company.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at 31.12.2017 HK$'000	Fair value as at 31.12.2016 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
The PRC						
Industrial premises	166,135	155,521	Level 3	Direct Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 8% (2016: 8%).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB9.9/sq.m. (2016: RMB7.85/sq.m.) on average for the base level.	The higher the monthly rent, the higher the fair value.
Office premises	104,077	59,611	Level 3	Direct Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4% – 5.25% (2016: 4% – 5.25%).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB95/sq.m. – RMB210/sq.m. (2016: RMB87/sq.m. – 179/sq.m.) on average.	The higher the monthly rent, the higher the fair value.

16. INVESTMENT PROPERTIES (continued)

Fair value measurements and valuation processes (continued)

	Fair value as at 31.12.2017 HK$'000	Fair value as at 31.12.2016 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Retail and office premises	9,163,073	8,161,111	Level 3	Direct Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 7.5% (2016: 7.25%) (retail) and 3.5% (2016: 3.6%) (office).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB100 – RMB110/sq.m. (2016: RMB100 – RMB110/sq.m.) for retail and RMB150 – RMB160/sq.m. (2016: RMB155 – RMB165/sq.m.) for office.	The higher the monthly rent, the higher the fair value.
Hong Kong						
Industrial premises	110,730	98,130	Level 3	Direct comparison method based on market observable transactions of similar properties	Market unit rate, mainly taking into account the conditions and location, between the comparables, at HK$4,600 – HK$6,200 (2016: HK$3,800 – HK$5,400) per square feet.	A significant increase in the market unit rate used would result in a significant increase in the fair value of the investment properties, and vice versa.
Carparks	24,200	18,500	Level 3	Direct comparison method based on market observable transactions of similar properties	Market unit rate, mainly taking into account the conditions and location, between the comparables, at HK$1,480,000 – HK$1,500,000 (2016: HK$1,100,000 – HK$1,150,000).	A significant increase in the market unit rate used would result in a significant increase in the fair value of the investment properties, and vice versa.

Information about the valuation techniques and inputs used in determining the fair value of the Group's investment properties are disclosed above.

There were no transfers into or out of Level 3 during the year.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

17. INTANGIBLE ASSETS

	Development costs HK$'000
COST	
At 1 January 2016	52,188
Exchange realignment	(3,073)
At 31 December 2016	49,115
Exchange realignment	3,887
At 31 December 2017	53,002
AMORTISATION AND IMPAIRMENT	
At 1 January 2016	52,188
Exchange realignment	(3,073)
At 31 December 2016	49,115
Exchange realignment	3,887
At 31 December 2017	53,002
CARRYING VALUES	
At 31 December 2017	–
At 31 December 2016	–

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

Development costs	4 years

18. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Cost of unlisted investments in associates	193,586	193,586
Share of other comprehensive expense	(10,087)	(20,452)
Share of post-acquisition losses, net of dividends received	(40,774)	(46,849)
Share of net assets	142,725	126,285

As at 31 December 2017 and 2016, the directors of the Company performed impairment assessments of the carrying amounts of the interests in Shenzhen Rayitek Hi-tech Film Company Limited (深圳瑞華泰薄膜科技有限公司) ("Shenzhen Rayitek"). The recoverable amounts are determined based on share of present value of the estimated future cash flows. Based on the assessment, the recoverable amount of the Group's interests in Shenzhen Rayitek is estimated to be higher than the carrying amount and no impairment is made during the year ended 31 December 2017 and 2016.

Particulars of the associates of the Group at 31 December 2017 and 2016 are set out in note 45.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All associates are accounted for using the equity method in these consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

18. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Shenzhen Rayitek

	2017 HK$'000	2016 HK$'000
Current assets	145,491	117,996
Non-current assets	565,239	340,699
Current liabilities	(137,492)	(46,252)
Non-current liabilities	(259,670)	(143,764)
Revenue	136,689	97,073
Profit for the year	22,265	6,223
Other comprehensive income (expense) for the year	22,624	(16,765)
Total comprehensive income (expense) for the year	44,889	(10,542)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Shenzhen Rayitek recognised in the consolidated financial statements:

	2017 HK$'000	2016 HK$'000
Net assets of Shenzhen Rayitek	313,568	268,679
Proportion of the Group's ownership interest in Shenzhen Rayitek	42.75%	42.75%
Carrying amount of the Group's interest in Shenzhen Rayitek	134,050	114,860

18. INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material

	2017 HK$'000	2016 HK$'000
The Group's share of loss for the year	(3,443)	(780)
The Group's share of other comprehensive income (expense) for the year	693	(721)
The Group's share of total comprehensive expense for the year	(2,750)	(1,501)
Aggregate carrying amount of the Group's interests in these associates	8,675	11,425

19. INTERESTS IN JOINT VENTURES

	2017 HK$'000	2016 HK$'000
Cost of unlisted investments in joint ventures	849,825	849,825
Share of other comprehensive expenses	(17,066)	(67,822)
Share of post-acquisition losses	(79,529)	(69,900)
	753,230	712,103

Particulars of the joint ventures of the Group at 31 December 2017 and 2016 are set out in note 46.

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN JOINT VENTURES (continued)

Summarised financial information of material joint ventures (continued)

Hainan Aerospace Investment Management Company Limited (海南航天投資管理有限公司) ("Hainan Aerospace")

	2017 HK$'000	2016 HK$'000
Current assets	80,233	78,991
Non-current assets	1,440,038	1,823,696
Current liabilities	(147,963)	(304,675)
Non-current liabilities	–	(305,556)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	80,223	78,949

	2017 HK$'000	2016 HK$'000
Revenue	711	4,221
Loss for the year	(21,130)	(59,268)
Other comprehensive income (expense) for the year	100,982	(81,290)
Total comprehensive income (expense) for the year	79,852	(140,558)

The above loss for the year included the following:

	2017 HK$'000	2016 HK$'000
Depreciation and amortisation	(600)	(599)
Interest income	686	890
Interest expense	(5,263)	–

19. INTERESTS IN JOINT VENTURES (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Hainan Aerospace recognised in the consolidated financial statements:

	2017 HK$'000	2016 HK$'000
Net assets of Hainan Aerospace	1,372,308	1,292,456
Proportion of the Group's ownership interest in Hainan Aerospace	50%	50%
Carrying amount of the Group's interest in Hainan Aerospace	686,154	646,228

Information of a joint venture that is not individually material

	2017 HK$'000	2016 HK$'000
The Group's share of profit (loss) for the year	936	(275)
The Group's share of other comprehensive income (expense) for the year	265	(973)
The Group's share of total comprehensive income (expense) for the year	1,201	(1,248)
Aggregate carrying amount of the Group's interests in this joint venture	67,076	65,875

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Unlisted equity securities in Hong Kong, at cost	29,000	29,000
Less: Impairment loss recognised	(29,000)	(29,000)
At 31 December 2017	—	—

The unlisted equity securities represent investments in unlisted equity interests and are measured at cost less impairment because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that the fair value cannot be measured reliably.

21. OTHER LONG TERM ASSETS

The amounts represent accrued rental income taking into account of rent free periods and are recognised in profit or loss on a straight line basis over the terms of the relevant leases.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

22. LOAN TO A JOINT VENTURE

At 31 December 2016, the amount represented the loan made to Hainan Aerospace. The amount was unsecured and carried a variable interest rate at 4.75% per annum. The loan was early repaid during the year ended 31 December 2017.

23. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	116,580	78,974
Work-in-progress	88,070	73,603
Finished goods	143,566	109,444
	348,216	262,021

24. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	946,711	744,630
Less: Allowance for doubtful debts	(31,735)	(26,509)
	914,976	718,121
Other receivables, deposits and prepayments	362,228	154,929
	1,277,204	873,050

Included in the Group's trade receivables at 31 December 2017 is bills receivables of HK$158,354,000 (2016: HK$107,684,000). Included in the Group's other receivables, deposits and prepayments at 31 December 2017 is current portion of other long term assets of HK$289,116,000 (2016: HK$83,237,000) and value-added tax recoverable of HK$46,430,000 (2016: HK$35,024,000).

24. TRADE AND OTHER RECEIVABLES (continued)

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

	2017 HK$'000	2016 HK$'000
Within 90 days	840,166	687,412
Between 91 — 180 days	60,286	30,377
Between 181 — 365 days	14,524	332
	914,976	718,121

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.

No credit period was granted to tenants of rental of premises. Before accepting any new tenants, the Group will internally assess the credit quality of the potential tenant.

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$74,810,000 (2016: HK$30,709,000) 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:

	2017 HK$'000	2016 HK$'000
Overdue 1 — 90 days	60,286	30,377
Overdue 91 — 270 days	14,524	332
	74,810	30,709

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

24. TRADE AND OTHER RECEIVABLES (continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	26,509	36,165
Allowance for (reversal of allowance for) doubtful debts	4,127	(2,738)
Amount written off as uncollectible	—	(6,918)
Exchange realignment	1,099	—
At 31 December	31,735	26,509

25. AMOUNT DUE FROM A RELATED PARTY

The amount represents the deposits placed with Aerospace Science & Technology Finance Company Limited (航天科技財務有限責任公司) ("Aerospace Finance"), a subsidiary of China Aerospace Science & Technology Corporation ("CASC"). The amount is unsecured, receivable on demand and carries interests at prevailing market rate.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Financial assets at fair value through profit or loss held for trading is analysed as follows:		
Equity securities		
— listed in Hong Kong	13,720	25,675

At 31 December 2017 and 2016, 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 all the listed equity securities 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.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The Group's bank deposits amounting to HK$20,098,000 (2016: HK$6,158,000) have been pledged to secure general banking facilities of the Group and are therefore classified as current assets.

At 31 December 2017, bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.01% to 8% (2016: 0.01% to 6%) per annum.

28. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	470,925	414,874
Accrued charges	178,313	154,329
Receipt in advance	132,413	105,839
Other payables	768,578	870,923
	1,550,229	1,545,965

Other payables included an amount of HK$54,000,000 (2016: HK$54,000,000) received on behalf of CASC and payables with respect to development costs for investment properties of HK$388,294,000 (2016: HK$540,031,000).

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

	2017 HK$'000	2016 HK$'000
Within 90 days	377,785	330,524
Between 91 — 180 days	29,475	31,004
Between 181 — 365 days	57,764	47,573
Over 1 year	5,901	5,773
	470,925	414,874

29. UNSECURED BANK BORROWINGS

The unsecured bank borrowings are repayable within one year and carry a variable interest rate at 5.35% (2016: 4.59%) per annum.

30. OTHER LOAN

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

31. LOAN FROM A CONTROLLING SHAREHOLDER

The loan is unsecured, bears a fixed interest at 5% per annum and is repayable in 2018 (note 41(b)(iii)).

32. LOAN FROM A RELATED PARTY

The amount represents loan from Aerospace Finance. The amount is secured, bears a variable interest rate at 4.41% (2016: 4.41%) per annum, and is repayable in 2028 (note 41(b)(v)).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

33. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Others HK$'000 (Note)	Total HK$'000
At 1 January 2016	3,655	1,687,240	(3,212)	1,687,683
Exchange realignment	—	(122,795)	(786)	(123,581)
(Credit) charge to profit or loss for the year	(39)	465,711	15,059	480,731
At 31 December 2016	3,616	2,030,156	11,061	2,044,833
Exchange realignment	57	169,382	3,758	173,197
Charge to profit or loss for the year	956	165,407	42,851	209,214
Charge to other comprehensive income for the year	—	—	6,504	6,504
At 31 December 2017	**4,629**	**2,364,945**	**64,174**	**2,433,748**

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

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

As at 31 December 2017, the Group has unused tax losses of HK$1,224 million (2016: HK$1,248 million) available to offset against future profits. Deferred tax assets have been recognised in respect of HK$124 million (2016: HK$80 million) of such losses. No deferred tax asset has been recognised in respect of remaining tax losses of approximately HK$1,100 million (2016: HK$1,168 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses, HK$957 million (2016: HK$979 million) may be carried forward indefinitely and the remaining balance will expire at various dates up to the end of 2019 (2016: expire at various dates up to the end of 2019).

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$3,329 million (2016: HK$2,721 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.

34. SHARE CAPITAL

	HK$'000
Issued and fully paid:	
At 1 January 2016, 31 December 2016 and 31 December 2017	
— 3,085,022,000 ordinary shares with no par value	1,154,511

35. PLEDGE OF ASSETS

At 31 December 2017, bank deposits of HK$20,098,000 (2016: HK$6,158,000) and bills receivables of HK$104,626,000 (2016: nil) were pledged to banks to secure general banking facilities granted to the Group.

36. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	51,061	73,845

37. OPERATING LEASES

The Group as lessee

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

	2017 HK$'000	2016 HK$'000
Within one year	25,017	14,804
In the second to fifth year inclusive	76,036	17,336
Over five years	18,101	16,547
	119,154	48,687

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 (2016: two to thirty years).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

37. OPERATING LEASES (continued)

The Group as lessor

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

	2017 HK$'000	2016 HK$'000
Within one year	294,987	100,055
In the second to fifth year inclusive	1,437,818	1,224,059
Over five years	2,265,281	2,501,322
	3,998,086	3,825,436

The properties held have committed tenants for the next one to fourteen years (2016: one to fifteen years).

38. 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$18,000 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 PRC 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 statement of profit or loss of HK$34,383,000 (2016: HK$26,691,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

39. 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 29, 30, 31 and 32, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, 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.

40. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Fair value through profit or loss		
Held for trading	13,720	25,675
Loans and receivables (including cash and cash equivalents)	2,007,186	1,904,757
Financial liabilities		
Amortised cost	2,164,228	2,058,746

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan to a joint venture, amount due from a related party, pledged bank deposits, bank balances and cash, financial assets at fair value through profit or loss, trade and other payables, loan from a controlling shareholder, loan from a related party, unsecured bank 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.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits and loan from a controlling shareholder (see notes 27 and 31 for details of these deposits and borrowings). The Group currently does not have a policy on hedging of interest rate risks. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to loan to a joint venture, floating-rate borrowings and loan from a related party (see notes 22, 29 and 32 for details). In addition, the Group is 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 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

40. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis 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 to investment properties. For variable-rate, loan to a joint venture, loan from a related party and unsecured bank 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 2017 would have decreased/increased by HK$2,904,000 (2016: HK$2,376,000).

Equity price risk

The Group is exposed to equity price risk through its investments in listed 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 analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the financial assets at fair value through profit or loss had been 10% (2016: 10%) higher/lower, the Group's profit for the year ended 31 December 2017 would have increased/decreased by HK$1,146,000 (2016: HK$2,144,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

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.

40. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2017, the carrying amounts of financial assets as stated in the consolidated statement of financial position represent the maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

40. 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$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017							
Financial liabilities							
Non-interest bearing	–	479,519	389,625	–	–	869,144	869,144
Loan from a controlling shareholder	5.00 p.a.	–	629,496	–	–	629,496	599,520
Loan from a related party	4.41 p.a.	–	–	–	994,548	994,548	676,379
Unsecured bank borrowings – variable rate	5.35 p.a.	–	19,998	–	–	19,998	19,185
		479,519	1,039,119	–	994,548	2,513,186	2,164,228
At 31 December 2016							
Financial liabilities							
Non-interest bearing	–	422,837	483,575	–	–	906,412	906,412
Loan from a controlling shareholder	5.00 p.a.	–	–	611,112	–	611,112	555,556
Loan from a related party	4.41 p.a.	–	–	–	856,703	856,703	565,667
Unsecured bank borrowings – variable rate	4.59 p.a.	–	32,227	–	–	32,227	31,111
		422,837	515,802	611,112	856,703	2,406,454	2,058,746

40. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

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

- The fair value of financial assets with standard terms and conditions and traded in active 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 2017 and 2016 using the fair value hierarchy is Level 1 (see note 26). The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates to their carrying amounts.

41. RELATED PARTY TRANSACTIONS

Balances of related parties of 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.

(a) 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 ("新商務信息"), an associate of the Group, for an amount of RMB300,000 per year for a period of five years commencing from the date of the Agreement. CASC and its subsidiaries also have substantial interests and significant influence over 新商務信息. The Agreement was expired during the year ended 31 December 2017.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

41. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with the CASC and its subsidiaries

(i) 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 had been mortgaged in favour of the Finance Syndicate as security. The interest paid to loans drawn from the Facility during the year ended 31 December 2016 amounted to RMB43,514,000 (equivalent to approximately HK$51,013,000) (2017: nil). The pledged land use right of Aerospace Plaza had been released upon settlement of the loan. The loan was fully settled during the year ended 31 December 2016.

(ii) During the year ended 31 December 2013, the Group entered into an agreement with Aerospace Finance, pursuant to which Aerospace Finance shall provide deposit services and settlement services to the Group which allow the Group to make deposits or withdrawals through the RMB deposit accounts with Aerospace Finance, subject to the condition that the maximum daily outstanding balance of all deposits placed by the Group shall not be more than RMB100,000,000 in aggregate within three years from the date of the agreements. As at 31 December 2016, such deposits placed by the Group amounted to RMB14,500 (equivalent to approximately HK$16,000) and included in amount due from a related party.

As at 31 December 2017, deposits placed with Aerospace Finance by the Group amounted to RMB710,000 (equivalent to approximately HK$851,000) and are included in amount due from a related party.

(iii) During the year ended 31 December 2013, the Group entered into a long-term loan agreement with CASC for an amount of RMB500,000,000 for a period of five years from the first drawdown date. As at 31 December 2017, the Group has drawn down RMB500,000,000 (equivalent to approximately HK$599,520,000) (2016: RMB500,000,000 (equivalent to approximately HK$555,556,000)). Such loan carries a fixed interest rate of 5% per annum and the interest incurred to CASC for the year ended 31 December 2017 is RMB25,347,000 (equivalent to approximately HK$28,641,000) (2016: RMB25,417,000 (equivalent to approximately HK$29,797,000)).

(iv) During the year ended 31 December 2016, the Group entered into a loan agreement with Hainan Aerospace for an amount of RMB45,000,000 (equivalent to approximately HK$50,000,000) for a period of two years from the first drawn down date. As at 31 December 2016, Hainan Aerospace has drawn down RMB25,000,000 (equivalent to approximately HK$27,778,000) (2017: nil). The loan was early repaid during the year ended 31 December 2017. The interest income from Hainan Aerospace during the year ended 31 December 2017 amounted to RMB364,000 (equivalent to approximately HK$411,000 (2016: RMB573,000 (equivalent to approximately HK$671,000)).

41. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with the CASC and its subsidiaries (continued)

(v) For the year ended 31 December 2016, the Group entered into a facility ("New facility") with Aerospace Finance, for advances up to RMB1,300,000,000 for a period of 12 years from the first drawdown date. The property ownership certificate(s) of a portion of the Aerospace Plaza with a valuation amount of approximately RMB1,900,000,000 will be subsequently mortgaged in favour of Aerospace Finance after Shenzhen Aerospace Technology Investment Company Limited ("Shenzhen Aerospace") has obtained the relevant certificate(s). As at 31 December 2017, the Group has drawn down RMB564,100,000 (equivalent to approximately HK$676,379,000) (2016: RMB509,100,000 (equivalent to approximately HK$565,667,000). The interest paid to loans drawn from the New facility in the current year amounted to RMB24,127,000 (equivalent to approximately HK$27,262,000) (2016: RMB4,415,000 (equivalent to approximately HK$5,176,000)).

(c) Transactions with other government-related entities

Apart from the transactions with the 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 borrowings (note 29), the facility with these banks and sales transactions, remaining transactions with other government-related entities are individually insignificant.

(d) 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Unsecured bank borrowings HK$'000 *(Note 29)*	Other loan HK$'000 *(Note 30)*	Loan from a controlling shareholder HK$'000 *(Note 31)*	Loan from a related party HK$'000 *(Note 32)*	Interest payable HK$'000	Dividend payable HK$'000	Dividend payable to non-controlling interests of a subsidiary HK$'000	Total HK$'000
At 1 January 2017	31,111	7,963	555,556	565,667	912	125	–	1,161,334
Financing cash flows *(Note)*	(13,559)	–	–	62,147	(57,217)	(61,647)	(2,122)	(72,398)
Foreign exchange translation	1,633	631	43,964	48,565	73	–	–	94,866
Interest expenses	–	–	–	–	57,217	–	–	57,217
Dividend declared	–	–	–	–	–	61,700	–	61,700
Dividend declared to non-controlling interests of a subsidiary	–	–	–	–	–	–	2,122	2,122
At 31 December 2017	19,185	8,594	599,520	676,379	985	178	–	1,304,841

Note: The cash flows represent the withdrawal/repayment of unsecured bank borrowings, withdrawal of loan from a related party, interest expenses paid on unsecured bank borrowings, loan from a controlling shareholder and loan from a related party, and dividends paid to shareholders of the Company and non-controlling interests of a subsidiary in the consolidated statement of cash flows.

43. FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of financial position of the Company is set out below:

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	1,165	1,693
Interests in subsidiaries	1,841,371	1,782,506
Amounts due from subsidiaries	1,524,979	1,449,126
Interests in joint ventures	15,000	15,000
	3,382,515	3,248,325
Current assets		
Other receivables	2,885	2,368
Amounts due from subsidiaries	44,552	49,205
Bank balances and cash	45,196	56,747
	92,633	108,320
Current liabilities		
Other payables	69,513	64,439
Amounts due to subsidiaries	646,057	722,065
Taxation payable	82	82
	715,652	786,586
Net current liabilities	(623,019)	(678,266)
	2,759,496	2,570,059
Capital and reserves		
Share capital	1,154,511	1,154,511
Reserves *(Note 43(b))*	1,604,985	1,415,548
	2,759,496	2,570,059

Li Hongjun *Director*	**Jin Xuesheng** *Director*

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

43. FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Reserves

	Share premium HK$'000 *(note a)*	Special capital reserve HK$'000 *(note a)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	–	630,977	–	804,358	1,435,335
Profit and total comprehensive income for the year	–	–	–	11,063	11,063
Dividend recognised as distribution	–	–	–	(30,850)	(30,850)
At 31 December 2016	–	630,977	–	784,571	1,415,548
Profit and total comprehensive income for the year	–	–	–	251,137	251,137
Dividend recognised as distribution	–	–	–	(61,700)	(61,700)
At 31 December 2017	**–**	**630,977**	**–**	**974,008**	**1,604,985**

Notes:

(a) 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 until the amount of paid up 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) below 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.

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, was confirmed.

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 share 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.

43. FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Reserves (continued)

Notes: (continued)

(a) (continued)

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 Sections 290 and 298 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

(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 reserve 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.

(b) The Company's reserves available for distribution to shareholders as at 31 December 2017 comprised the retained profits of HK$974,008,000 (2016: HK$784,571,000).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2017 %	2016 %	held by subsidiaries 2017 %	2016 %	attributable to the Company 2017 %	2016 %	Principal activities
Incorporated and operating in Hong Kong:								
CASIL Clearing Limited	HK$10,000,000	100	100	–	–	100	100	Provision of treasury services
CASIL Electronic Products Limited	HK$15,000,000	100	100	–	–	100	100	Distribution of plastic and metal products and moulds
CASIL Optoelectronic Product Development Limited	HK$3,000,000	–	–	100	100	100	100	Distribution of liquid crystal display modules
CASIL Semiconductor Limited	HK$15,000,000	100	100	–	–	100	100	Distribution of liquid crystal displays
China Aerospace Industrial Limited	HK$1,000,000	100	100	–	–	100	100	Property investment
Chee Yuen Industrial Company Limited	HK$20,000,000	100	100	–	–	100	100	Distribution of plastic and metal products and moulds
Digilink Systems Limited	HK$60,000,000	100	100	–	–	100	100	Investment holding
Hong Yuen Electronics Limited	HK$5,000,000	100	100	–	–	100	100	Distribution of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	100	100	–	–	100	100	Distribution of intelligent battery chargers and electronic components
Jeckson Electronics Company Limited	HK$10,000,000	100	100	–	–	100	100	Distribution of intelligent battery chargers and electronic components

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2017 %	2016 %	Percentage of equity held by subsidiaries 2017 %	2016 %	Percentage of equity attributable to the Company 2017 %	2016 %	Principal activities
Registered and operating in the PRC:								
Chee Yuen Plastic Products (Huizhou) Company Limited #	HK$72,000,000	–	–	100	100	100	100	Manufacturing of plastic and metal products and moulds
China Aerospace (Huizhou) Industrial Garden Limited ##	US$12,000,000	90	90	–	–	90	90	Property investment
Conhui (Huizhou) Semiconductor Company Limited #	HK$90,400,000	–	–	100	100	100	100	Manufacturing and distribution of liquid crystal displays and LCD modules
東莞康源電子有限公司 #	HK$405,020,000 (2016: HK$320,020,000)	–	–	100	100	100	100	Manufacturing and distribution of printed circuit boards
Huizhou Jeckson Electric Company Limited ##	US$1,000,000	–	–	90	90	90	90	Manufacturing of intelligent battery chargers and electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited ##	US$720,000	–	–	90	90	90	90	Electroplating of metals
志源表面處理(惠州)有限公司 #	RMB60,000,000 (2016: RMB30,000,000)	–	–	100	100	100	100	Electroplating of metals
志源電子科技(惠州)有限公司 #	RMB10,500,000	–	–	100	100	100	100	Distribution of packing products
Shenzhen Chee Yuen Plastics Company Limited #	HK$25,000,000	–	–	100	100	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	–	–	100	100	Investment holding

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2017 %	held by the Company 2016 %	held by subsidiaries 2017 %	held by subsidiaries 2016 %	attributable to the Company 2017 %	attributable to the Company 2016 %	Principal activities
Registered and operating in the PRC: (continued)								
深圳市航天高科投資管理有限公司 ##	RMB700,000,000	–	–	60	60	60	60	Property investment
深圳市航天高科物業管理有限公司	RMB5,000,000	–	–	100	100	60	60	Property management
航天數聯信息技術(深圳)有限公司 ##	HK$100,340,000	–	–	72.13	72.13	72.13	72.13	Development and sale of software and related products, and warehouse and logistic services
江門航天數聯科技有限公司 ###	RMB5,000,000	–	–	100	–	72.13	–	Development and sale of software and related products, and warehouse and logistic services

Wholly foreign-owned enterprises registered in the PRC

Sino-foreign joint equity enterprises registered in the PRC

Established during the year ended 31 December 2017

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.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Shenzhen Aerospace (深圳市航天高科投資管理有限公司) and its subsidiary	PRC	40%	40%	179,007	404,864	2,089,469	1,760,218
Individually immaterial subsidiaries with non-controlling interests				1,627	2,280	26,118	24,758
				180,634	407,144	2,115,587	1,784,976

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Shenzhen Aerospace and its subsidiary	2017 HK$'000	2016 HK$'000
Current assets	440,592	120,849
Non-current assets	9,289,165	8,195,016
Current liabilities	(887,045)	(818,763)
Non-current liabilities	(3,619,041)	(3,096,557)
Equity attributable to owners of the Company	3,134,202	2,640,327
Non-controlling interests	2,089,469	1,760,218
Income	756,354	1,565,988
Expenses	(308,837)	(553,828)
Profit for the year	447,517	1,012,160
Profit attributable to owners of the Company	268,510	607,296
Profit attributable to the non-controlling interests	179,007	404,864
Profit for the year	447,517	1,012,160
Other comprehensive income (expense) attributable to owners of the Company	225,365	(160,911)
Other comprehensive income (expense) attributable to the non-controlling interests	150,244	(107,274)
Other comprehensive income (expense) for the year	375,609	(268,185)
Total comprehensive income attributable to owners of the Company	493,875	446,385
Total comprehensive income attributable to the non-controlling interests	329,251	297,590
Total comprehensive income for the year	823,126	743,975
Net cash inflow from operating activities	63,160	187,064
Net cash outflow used in investing activities	(139,142)	(236,424)
Net cash inflow from financing activities	136,662	54,781
Effect of foreign exchange rate changes	4,967	(954)
Net cash inflow	65,647	4,467

45. PARTICULARS OF ASSOCIATES

Details of the Group's associates at 31 December 2017 and 2016 are as follows:

Name of associates	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group 2017 %	2016 %	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	15.7	Provision of information service
深圳瑞華泰薄膜科技有限公司	RMB98,442,972	42.75	42.75	Manufacturing and distribution of polyimide films and related composite materials

* 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.

46. PARTICULARS OF JOINT VENTURES

Details of the Group's joint ventures at 31 December 2017 and 2016 are as follows:

Name of joint ventures	Nominal value of issued ordinary share capital/ registered 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
Registered and operating in the PRC:			
海南航天投資管理有限公司	RMB1,200,000,000	50	Land development

According to the legal form and the contractual arrangements, each of the joint ventures in the joint ventures, under the joint control arrangement, has rights to the net assets of the entities, hence it is regarded as joint venture.

APPENDIX I FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Turnover	3,661,325	3,087,848	2,765,720	2,791,175	2,611,138
Profit before taxation	931,725	1,722,665	2,647,413	727,659	957,729
Taxation	(264,908)	(519,413)	(1,021,090)	(196,478)	(214,761)
Profit for the year	666,817	1,203,252	1,626,323	531,181	742,968
Attributable to:					
Owners of the Company	486,183	796,108	984,696	415,692	617,011
Non-controlling interests	180,634	407,144	641,627	115,489	125,957
	666,817	1,203,252	1,626,323	531,181	742,968

ASSETS AND LIABILITIES

	At 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Non-current assets	11,847,675	10,463,151	8,981,919	6,561,520	5,842,135
Current assets	2,727,433	2,321,425	2,993,724	3,010,867	2,845,045
Current liabilities	(2,258,769)	(1,643,386)	(2,494,379)	(1,140,769)	(1,203,368)
Non-current liabilities	(3,110,127)	(3,166,056)	(2,278,002)	(2,500,800)	(1,917,086)
Total equity	9,206,212	7,975,134	7,203,262	5,930,818	5,566,726
Attributable to:					
Owners of the Company	7,090,625	6,190,158	5,705,770	4,992,235	4,696,014
Non-controlling interests	2,115,587	1,784,976	1,497,492	938,583	870,712
	9,206,212	7,975,134	7,203,262	5,930,818	5,566,726

APPENDIX II INVESTMENT PROPERTIES

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, P18 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 The PRC	—	Industrial	118,867	90
South of Bin Hai Avenue and the East of Hou Hai Bin Road Nanshan District Shenzhen Guangdong Province The PRC	—	Retail and office	158,991	60
LONG TERM LEASEHOLD IN THE PRC				
Level 8, Zhong Hai Building Zhong Hai Hua Ting North Zone No. 399 Fu Hua Road Futian District Shenzhen Guangdong Province The PRC	—	Office	1,043	100