天津發展控股有限公司

TIANJIN DEVELOPMENT HOLDINGS LIMITED

Stock Code : 882

Annual Report 2017

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zeng Xiaoping *(Chairman)*
Mr. Wang Zhiyong *(General Manager)*
Dr. Cui Di
Dr. Yang Chuan

Non-Executive Directors

Mr. Cheung Wing Yui, Edward
Dr. Chan Ching Har, Eliza

Independent Non-Executive Directors

Dr. Cheng Hon Kwan
Mr. Mak Kwai Wing, Alexander
Ms. Ng Yi Kum, Estella
Mr. Wong Shiu Hoi, Peter
Dr. Loke Yu

AUTHORISED REPRESENTATIVES

Mr. Zeng Xiaoping
Dr. Cui Di

COMPANY SECRETARY

Ms. Lee Su Yee, Bonnia

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

SOLICITOR

Woo Kwan Lee & Lo

REGISTERED OFFICE

Suites 7-13, 36th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Telephone : (852) 2162 8888
Facsimile : (852) 2311 0896
E-mail : ir@tianjindev.com
Website : www.tianjindev.com

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

882.HK

PRINCIPAL BANKERS

China CITIC Bank International Limited
DBS Bank Ltd., Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Limited
Wing Lung Bank, Limited

Tianjin Development Holdings Limited

Utilities

Electricity
Water
Heat and Thermal Power

Pharmaceutical

Lisheng (002393.SZ)
Research Institute
Yiyao Printing

Hotel

Courtyard by
Marriott Hong Kong

Electrical and Mechanical

Hydraulic Presses
Hydroelectric Equipment

Strategic and Other Investments

Tianjin Port (3382.HK)
Elevators and Escalators

Business Structure

UTILITIES

Company Name	Shareholding	Principal Activities
Tianjin TEDA Tsinlien Electric Power Co., Ltd.	94.36%	Distribution of electricity in TEDA
Tianjin TEDA Tsinlien Water Supply Co., Ltd.	91.41%	Distribution of water in TEDA
Tianjin TEDA Tsinlien Heat & Power Co., Ltd.	90.94%	Distribution of steam in TEDA

PHARMACEUTICAL

Company Name	Shareholding	Principal Activities
Tianjin Institute of Pharmaceutical Research Co., Ltd.	67%	Research and development of new medicine technology and new products
Tianjin Yiyao Printing Co., Ltd.	43.55%	Design, manufacture and printing for pharmaceutical packaging
Tianjin Lisheng Pharmaceutical Co., Ltd.	34.41%	Manufacture and sale of chemical drugs

HOTEL

Company Name	Shareholding	Principal Activities
Tsinlien Realty Limited	100%	Operation of Courtyard by Marriott Hong Kong

ELECTRICAL AND MECHANICAL

Company Name	Shareholding	Principal Activities
Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd.	82.74%	Manufacture and sale of hydroelectric equipment
Tianjin Tianduan Press Co., Ltd.	64.91%	Manufacture and sale of presses and mechanical equipment

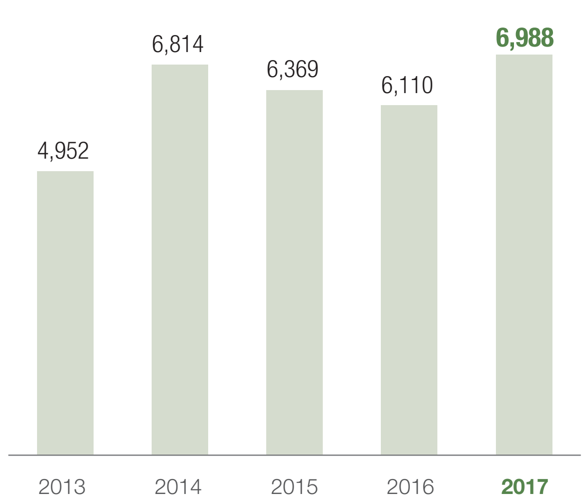
STRATEGIC AND OTHER INVESTMENTS

Company Name	Shareholding	Principal Activities
Tianjin Port Development Holdings Limited	21%	Provision of port services in Tianjin
Otis Elevator (China) Investment Company Limited	16.55%	Manufacture and sale of elevators and escalators

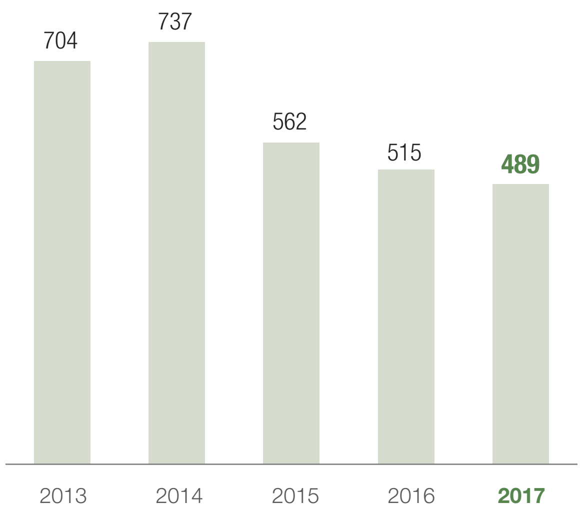
note: The above shareholding percentages represent effective equity interest in respective companies or group of companies.

Financial Highlights

Revenue HK$ million
(for the year ended 31 December)



Profit Attributable to Owners of the Company HK$ million
(for the year ended 31 December)



Financial Highlights

SEGMENTAL ANALYSIS BY OPERATIONS

For the year ended 31 December

Revenue

	2017	2016	Changes
	HK$ million	HK$ million	%
Utilities	**3,866**	3,526	9.6
Pharmaceutical	**1,878**	1,528	22.9
Hotel	**117**	108	8.3
Electrical and Mechanical	**1,127**	948	18.9
	6,988	6,110	14.4

Profit (Loss) Attributable to Owners of the Company

	2017	2016	Changes
	HK$ million	HK$ million	HK$ million
Utilities	**122**	69	53
Pharmaceutical	**130**	121	9
Hotel	**18**	15	3
Electrical and Mechanical	**(180)**	(164)	(16)
Port Services	**163**	111	52
Elevators and Escalators	**221**	328	(107)
Corporate and Others	**15**	35	(20)
	489	515	(26)

Mr. Zeng Xiaoping
Chairman

PROFIT AND DIVIDEND FOR THE YEAR 2017

The audited consolidated profit attributable to shareholders of Tianjin Development Holdings Limited for the year ended 31 December 2017 was approximately HK$488.8 million, as compared to HK$515.2 million of last year. The Board recommends payment of a final dividend of HK4.55 cents per share for the year ended 31 December 2017. This final dividend together with the interim dividend of HK4.08 cents per share already paid, will make a total of HK8.63 cents per share for the full year of 2017, representing a decrease of 10.3% over last year.

BUSINESS OVERVIEW

In 2017, the Company's various business segments have maintained steady development and attained the expected performance.

Benefiting from continuous development of transformation, upgrades and innovation in the Tianjin Economic and Technological Development Area ("TEDA"), the utility sector achieved a good performance during the year.

The pharmaceutical sector was stable and reported annual revenue of approximately HK$1,877.8 million, representing an increase of 22.9%, and profit of approximately HK$216 million. The disposal of entire equity interest in Tianjin Sega Pharmaceutical Co., Ltd. had been completed during the year and recorded a disposal gain of approximately HK$11.2 million. A right-time disposal of idle assets is in line with the business development of Lisheng Pharmaceutical and will enhance its operational efficiency. During the year, Lisheng Pharmaceutical entered into the strategic cooperation agreements with Sinopharm Holding Guoda Drugstores Co., Ltd., China Resources Pharmaceutical Commercial Group Co., Ltd. as well as Jointown Pharmaceutical Group Co., Ltd., respectively. By leveraging their strengths in marketing and distribution networks, it will enable Lisheng Pharmaceutical to further its business expansion. As for Tianjin Institute of Pharmaceutical Research, the construction of national key laboratory and industrialisation base for commercialisation of scientific achievements had been successfully topped out, with the remaining construction work to be completed in phases next year. They are expected to be ready for use by first half of 2019.

BUSINESS OVERVIEW (Continued)

The operation of Hotel Courtyard by Marriott in Hong Kong met the expected objective thanks to the growing business visitors throughout the year. The average room rates increased slightly and the average occupancy rate was approximately 87.9%, seven percentage points improvement over last year.

Electrical and mechanical business continue to face more difficulties. During the year, this segment reported a revenue of approximately HK$1,127.3 million, although an increase of 18.9% over that of last year, it was still in significant loss.

With respect to strategic investments, the profit contributions from Tianjin Port Development Holdings Limited and Otis Elevator (China) Investment Company Limited were attained our expected levels.

OUTLOOK

Looking ahead to 2018, the world's leading economies are expected a continuation of economic recovery. Nevertheless, there are uncertainties in the direction of the leading economies' policy adjustments as well as their spillover effects, and the factors such as intensifying trade protectionism and escalating geopolitical risks that could cause various instability and uncertainty. The Chinese economy is going through further restructuring and accelerating the development of both transformation and upgrading. With the steady improvement in quality and effects of economic development, the Chinese economy will maintain the momentum of stable development.

Following the further reform of state-owned enterprises, it will provide new opportunities for growth and development. The Company will continue to maintain the principle by putting dual emphasis on business development and prudence, and stick to disciplined financial management so as to enable the Company to meet any development opportunities and challenges ahead. We feel confident for the future.

I would like to take this opportunity to express my sincere gratitude to the Board members and all our staff.

Zeng Xiaoping
Chairman

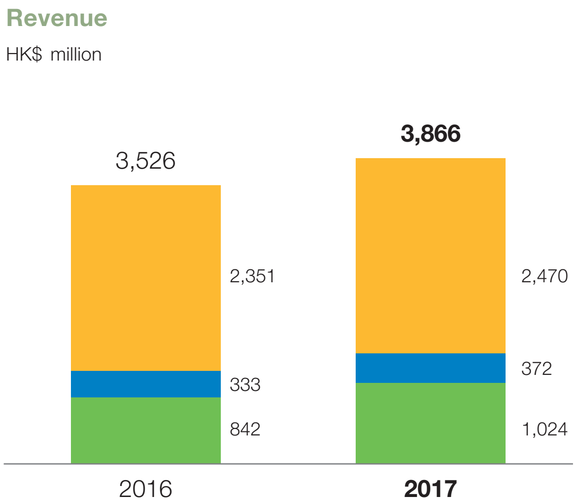
Hong Kong, 28 March 2018

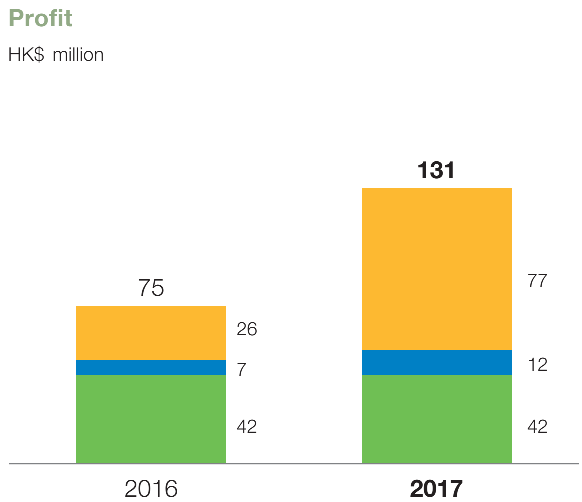
BUSINESS REVIEW

Utilities

The Group's utility businesses are mainly operated in the TEDA through supplying electricity, water, heat and thermal power to industrial, commercial and residential customers.

TEDA, located at the centre of Bohai economic rim, is a national development zone and an ideal place for manufacturing and R&D developments. TEDA plays a leading role over the past three decades in Tianjin's economic development.





Electricity Water Heat and Thermal Power

Electricity

Tianjin TEDA Tsinlien Electric Power Co., Ltd. ("Electricity Company") is principally engaged in supply of electricity in TEDA. It also provides services in relation to maintenance of power supply equipment and technical consultancy. Currently the installed transmission capacity of Electricity Company is approximately 706,000 kVA (2016: 706,000 kVA).

In 2017, revenue from the Electricity Company was approximately HK$2,470.2 million, an increase of 5.1% from HK$2,350.6 million last year. Profit increased HK$51 million to approximately HK$77.4 million from HK$26.4 million last year. This was largely due to revenue growth attributable to higher volumes of electricity sold and also the improved operating margins driven by a combination of tariff improvement and reduction in average electricity purchase cost during the year. The total quantity of electricity sold for the year was approximately 2,890,534,000 kWh, an increase of 7.5% over last year.

Management Discussion and Analysis

Water

Tianjin TEDA Tsinlien Water Supply Co., Ltd. ("Water Company") is principally engaged in supply of tap water in TEDA. It also provides services in installation and maintenance of water pipes, technical consultancy, retail and wholesale of water pipes and related parts. The daily water supply capacity of the Water Company is approximately 425,000 tonnes (2016: 425,000 tonnes).

In 2017, revenue from the Water Company was approximately HK$372.3 million, an increase of 11.9% from HK$332.6 million last year. The Water Company recorded a profit of approximately HK$12.3 million, an increase of 78.3% from HK$6.9 million in 2016. This was mainly attributable to increase in both revenue and government supplemental income, partially offset by higher operating costs during the year. The total quantity of water sold for the year was approximately 53,175,000 tonnes, representing an increase of 7.4% over last year.

Heat and Thermal Power

Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat & Power Company") is principally engaged in distribution of steam and heat for industrial, commercial and residential customers within TEDA. The Heat & Power Company has steam transmission pipelines of approximately 360 kilometres (2016: 360 kilometres) and more than 105 processing stations (2016: 105 processing stations) in TEDA. The daily distribution capacity is approximately 30,000 tonnes of steam.

In 2017, the Heat and Power Company reported revenue of approximately HK$1,023.6 million, an increase of 21.5% from HK$842.5 million last year. Profit from the Heat and Power Company was approximately HK$41.6 million, broadly maintained at the same level of the previous year. This was primarily due to lower operating margins driven by the increase in average steam purchase cost outstripped the tariff improvement during the year. Such effect on profit was substantially offset by the increase in government supplemental income. The total quantity of steam sold for the year was approximately 3,314,000 tonnes, representing a decrease of 8% over last year.

Pharmaceutical

Pharmaceutical segment is principally engaged in the production and sale of chemical drugs, and research and development of new medicine technology and new products as well as design, manufacture and printing for pharmaceutical packaging in the PRC.

In 2017, revenue from pharmaceutical segment was approximately HK$1,877.8 million, an increase of 22.9% from HK$1,528.4 million last year. Of the total segment revenue, revenue from sale of pharmaceutical products was approximately HK$1,647.7 million, an increase of 27.6% from HK$1,291.1 million in 2016. Revenue from provision of research and development services and other pharmaceutical related operations was approximately HK$129.6 million, a decrease of 4.2% over last year. Revenue from sale of packaging materials amounted to approximately HK$100.5 million, a decrease of 1.5% over last year.

During the year, pharmaceutical segment recognised a fair value gain of approximately HK$73.6 million in respect of the profit guarantee provided by Tsinlien Group Company Limited ("Tsinlien") and Tianjin Pharmaceutical Group Co. Ltd. (天津市醫藥集團有限公司) ("Tianjin Pharmaceutical") to the Group in relation to the profit target of pharmaceutical segment for two years ended 31 December 2016 and 2017.

Stripping out the fair value gain of HK$73.6 million in respect of profit guarantee and impairment charge of HK$21 million on property, plant and equipment, profit from pharmaceutical segment amounted to approximately HK$163.4 million, a decrease of HK$32.1 million from HK$195.5 million last year on a like-for-like basis. This result was largely driven by higher administrative expenses, research and development costs as well as selling and distribution expenses, partially offset by revenue growth and improved operating margins in sale of pharmaceutical products.

Management Discussion and Analysis

Hotel

Courtyard by Marriott Hong Kong ("Courtyard Hotel"), situated in a prime location on the Hong Kong Island, is a 4-star hotel with 245 guest rooms. It is positioned as an ideal lodge for business and leisure travellers.

In 2017, Courtyard Hotel reported revenue of approximately HK$116.7 million and profit of approximately HK$18.5 million, representing an increase of 8.4% and 24.2% respectively over last year. The average room rate increased slightly and the average occupancy rate was approximately 87.9%, seven percentage points improvement over last year.

Electrical and Mechanical

Electrical and mechanical segment is principally engaged in the manufacture and sale of presses, mechanical and hydroelectric equipment as well as large scale pump units in the PRC.

In 2017, revenue from electrical and mechanical segment was approximately HK$1,127.3 million, representing an increase of 18.9% over last year. Loss from electrical and mechanical segment was approximately HK$235.5 million compared to HK$210.6 million in 2016. Stripping out the impairment charge of HK$57.9 million on intangible assets, the loss would have been approximately HK$177.6 million, compared to a loss of HK$104.1 million in 2016 on a like-for-like basis. The segment loss was primarily due to higher construction contracts cost estimate adjustments incurred in hydroelectric equipment business and narrow operating margins, partially offset by the reduction in operation costs during the year.

Strategic and Other Investments

Port Services

As at 31 December 2017, the Group has 21% equity interest in Tianjin Port Development Holdings Limited ("Tianjin Port") (stock code: 3382). Tianjin Port is engaged in the provision of port services including container and cargo handling services, sales and other port ancillary services in Tianjin, the PRC.

During the year, the revenue of Tianjin Port increased by 1% to approximately HK$16,621.8 million and profit attributable to owners of Tianjin Port was approximately HK$774.6 million, representing an increase of 46% over last year.

Tianjin Port contributed to the Group a profit of approximately HK$162.7 million, representing an increase of 46.1% as compared with 2016.

Elevators and Escalators

As at 31 December 2017, the Group has 16.55% equity interest in Otis Elevator (China) Investment Company Limited ("Otis China"). Otis China is engaged in the manufacture and sale of elevators and escalators in the PRC.

During the year, the revenue of Otis China amounted to approximately HK$17,839.1 million, representing a decrease of 6.7% over last year.

Otis China contributed to the Group a profit (after non-controlling interests) of approximately HK$220.7 million, representing a decline of 32.8% over 2016.

Investment in Binhai Investment Company Limited

As at 31 December 2017, the Group has 4.23% interest in Binhai Investment Company Limited ("Binhai Investment") (stock code: 2886) and on that date, the market value of the Group's interest in Binhai Investment was approximately HK$85.8 million (2016: approximately HK$99.2 million) and the unrealised fair value loss of approximately HK$13.4 million (2016: a loss of approximately HK$22.3 million) was recognised in other comprehensive expense.

PROSPECT

Looking ahead to 2018, the world's leading economies are expected a continuation of economic recovery. Nevertheless, there are uncertainties in the direction of the leading economies' policy adjustments as well as their spillover effects, and the factors such as intensifying trade protectionism and escalating geopolitical risks that could cause various instability and uncertainty. The Chinese economy is going through further restructuring and accelerating the development of both transformation and upgrading. With the steady improvement in quality and effects of economic development, the Chinese economy will maintain the momentum of stable development.

Following the further reform of state-owned enterprises, it will provide new opportunities for growth and development. The Company will continue to maintain the principle by putting dual emphasis on business development and prudence, and stick to disciplined financial management so as to enable the Company to meet any development opportunities and challenges ahead.

LIQUIDITY, CAPITAL RESOURCES AND PRINCIPAL RISK

As at 31 December 2017, the Group's total cash on hand and total bank borrowings stood at approximately HK$7,396.1 million and HK$2,348.5 million respectively (2016: approximately HK$5,917.2 million and HK$2,266.2 million respectively).

The Group's sources of funding comprise cash flow generated from operations and loan facilities. The bank borrowings of HK$491.9 million (2016: approximately HK$407 million) will mature within one year.

The gearing ratio as measured by total borrowings to shareholders' funds was at approximately 21% as at 31 December 2017 (2016: approximately 23%).

Of the total HK$2,348.5 million bank borrowings outstanding as at 31 December 2017, HK$1,791.4 million were subject to floating rates with a spread of 1.7% over HIBOR of relevant interest periods, RMB385 million (equivalent to approximately HK$460.5 million) were fixed-rate debts with annual interest rates at 4.35% to 5.61%, and RMB80.8 million (equivalent to approximately HK$96.6 million) were floating-rate debts with annual interest rates at 4.75% to 6.55%.

As at 31 December 2017, 76.3% (2016: 78.8%) of the Group's total bank borrowings was denominated in Hong Kong dollar, 23.7% (2016: 21.2%) was denominated in Renminbi.

The Group's activities expose it to a variety of financial risks. The major financial assets and financial liabilities of the Group include cash and cash equivalents, entrusted deposits, other financial assets and bank borrowings. The Group's financial risk management is aimed at mitigating the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's interest rate, foreign currency and credit risk exposures. The Group regularly reviews its liquidity and financing requirements to ensure that sufficient financial resources are maintained to cover the funding needs.

During the year, the Group has not entered into any derivative contracts or hedging transactions. The Group manages its foreign currency risk by closely reviewing the movement of the foreign currency rate and shall consider hedging foreign currency exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had a total of approximately 5,264 employees (2016: 5,560) of which approximately 516 (2016: 619) were management personnel and 1,816 (2016: 1,472) were technical staff, with the balance being production workers.

The Group contributes to an employee pension scheme established by the PRC government which undertakes to assume the retirement benefit obligations of all existing and future retired employees and also paid supplementary retirement benefits for certain retired employees of the Group in the PRC. The Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. The contributions are based on a fixed percentage of the employees' salaries.

CHARGE ON ASSETS

As at 31 December 2017, restricted bank balances, land use rights and buildings of HK$94.5 million (2016: HK$149.1 million), HK$149.9 million (2016: HK$141.4 million) and HK$450.9 million (2016: HK$460.6 million) were respectively pledged to financial institutions by the Group to secure general banking facilities.

FINAL DIVIDENDS

The Board recommends the payment of a final dividend of HK4.55 cents per share for the year ended 31 December 2017 (2016: HK5.09 cents per share) to the shareholders whose names appear on the Company's register of members on 15 June 2018. Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 7 June 2018, the final dividend will be paid on or about 13 July 2018.

This final dividend together with the interim dividend of HK4.08 cents per share paid on 30 October 2017 makes a total of HK8.63 cents per share for the year (2016: HK9.62 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 June 2018 (Monday) to 7 June 2018 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to determine the entitlement to attend and vote at the annual general meeting of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 1 June 2018 (Friday).

The register of members of the Company will be closed from 13 June 2018 (Wednesday) to 15 June 2018 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 12 June 2018 (Tuesday).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZENG Xiaoping, aged 60, was appointed as the Chairman and Executive Director of the Company on 16 July 2014. He is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Zeng is a chief senior engineer, graduated from Jiangxi Institute of Metallurgy (now known as Jiangxi University of Science and Technology) with a Bachelor's Degree in Metallurgical Engineering in 1982 and a Master of Business Administration Degree from Tianjin University in 1998. Prior to joining the Company, he had served various executive roles in Tianjin Tiangang Group Co., Ltd. (天津天鋼集團有限公司), Tianjin Metallurgical Industry General Corporation (天津市冶金工業總公司) and Tianjin Metallurgy Group (Holdings) Co., Ltd. (天津市冶金集團(控股)有限公司). He had been the Deputy General Manager of Tianjin Iron & Steel Group Co., Ltd. from 2003 to 2009; Chairman and General Manager of Tianjin Metallurgy Group (Holdings) Co., Ltd. (天津市冶金集團(控股)有限公司) from 2009 to 2013. Besides, he was also the Deputy General Manager of Bohai Steel Group Co., Ltd. (渤海鋼鐵集團有限公司) and Chairman of Tianjin Metallurgy Group (Holdings) Co., Ltd. (天津市冶金集團(控股)有限公司) during the period from 2013 to 2014. Mr. Zeng is currently the Chairman of Tsinlien Group Company Limited (津聯集團有限公司) and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司), both being controlling shareholders of the Company. He has extensive experience in corporate management and strategic planning.

Mr. WANG Zhiyong, aged 46, was appointed as an Executive Director of the Company on 27 October 2009 and the General Manager of the Company on 16 July 2014. He is also a member of the Nomination Committee and the Investment Committee of the Company. Mr. Wang is currently a director and general manager of Tsinlien Group Company Limited (津聯集團有限公司) ("Tsinlien") and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司). He was formerly the manager of the Finance Department, deputy general manager and general manager of Tsinlien Group (Tianjin) Asset Management Company Limited (津聯集團(天津)資產管理有限公司) ("Tsinlien Group (Tianjin) Asset"), a wholly-owned subsidiary of Tsinlien. Prior to joining Tsinlien Group (Tianjin) Asset in 1998, he was the head of operations of the International Department of Northern International Trust and Investment Company Limited (北方國際信托投資股份有限公司). Mr. Wang graduated from Nankai University in 1994 with a Bachelor's Degree of International Finance, he passed the examination for on-the-job Postgraduate Master's Programme for Currency and Banking of Nankai University in 2000 and he also obtained a Master's Degree in Global Economy from Nankai University in 2009. In 2006, Mr. Wang was awarded the title of Outstanding Section Cadre Leader of Work Committee of Developing Area and Bonded Area. Tsinlien Group (Tianjin) Asset was also awarded the titles of Civilized Unit at Municipal Level as well as Outstanding Section Leaders of Developing Area and Bonded Area. He also served as a non-executive director of Tianjin Jinran Public Utilities Company Limited (Stock Code: 1265) until 3 November 2014, a company whose shares are listed on the Stock Exchange.

Dr. CUI Di, aged 51, was appointed as an Executive Director of the Company on 1 December 2013 and Deputy General Manager of the Company on 18 February 2014. Dr. Cui graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1988, and obtained a Master's Degree in Economics in 2002 and a Doctoral Degree in Economics from Nankai University in 2009. She joined the Company since July 2009 and has served as deputy general manager of Tianjin Development Assets Management Co., Ltd. (天津發展資產管理有限公司), a wholly-owned subsidiary of the Company, and later concurrently as general manager of Tsinlien Group (Tianjin) Asset Management Company Limited (津聯集團(天津)資產管理有限公司). Prior to joining the Company, she has worked in various roles including deputy general manager of 天津立達(集團)進出口有限公司 (Tianjin Leadar (Group) Import & Export Co., Ltd.), deputy commissioner for treasury of 天津立達(集團)有限公司 (Tianjin Leadar (Group) Co., Ltd.) and was with Tianjin Liho Group as assistant to general manager. Dr. Cui is currently a director of Tsinlien Group Company Limited (津聯集團有限公司) and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司). She has extensive experience in corporate management, finance and trading.

EXECUTIVE DIRECTORS (Continued)

Dr. YANG Chuan, aged 49, was appointed as an Executive Director of the Company on 26 March 2015. Dr. Yang is a chief senior economist, graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1990, and obtained a Master's Degree in Economics in 1996 and a Doctoral Degree in Economics from Nankai University in 2001. Dr. Yang is currently the general manager of Tianjin Tai Kang Investment Co., Ltd. (天津泰康投資有限公司) ("Tai Kang"), a non-wholly owned subsidiary of the Company, the chairman of Benefo Financial Leasing Co., Ltd. (百利融資租賃有限公司), an associate of the Company, and concurrently assistant to general manager of Tianjin BENEFO Machinery Equipment Group Co., Ltd. (天津百利機械裝備集團有限公司). He was also the chairman of Tai Kang during the period from May 2013 to November 2015. Prior to joining Tai Kang, he had served in various executive roles including the chairman and general manager of Zowee Department Stores Group Stock Co., Ltd. (中原百貨集團股份有限公司), the chairman and general manager of Tianjin Hi-Tech Development Co., Ltd. (天津海泰科技發展股份有限公司) (Stock Code: 600082), a company whose shares are listed on the Shanghai Stock Exchange, as well as the general manager of Maigou (Tianjin) Group Co., Ltd. (麥購(天津)集團有限公司). Dr. Yang has extensive experience in capital operation and corporate management.

NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Wing Yui, Edward, *BBS*, aged 68, was appointed as an independent non-executive director of the Company in November 1997 and re-designated as Non-Executive Director of the Company in September 2004. Mr. Cheung received a Bachelor of Commerce Degree in Accountancy from the University of New South Wales, Australia and is a member of CPA Australia. He has been a practicing solicitor in Hong Kong since 1979 and is a consultant of the law firm Woo Kwan Lee & Lo. He was admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. Mr. Cheung is a director of a number of companies listed on the Stock Exchange, namely being a deputy chairman and a non-executive director of SmarTone Telecommunications Holdings Limited (Stock Code: 315) and SUNeVision Holdings Ltd. (Stock Code: 8008), a non-executive director of Tai Sang Land Development Limited (Stock Code: 89) and Transport International Holdings Limited (Stock Code: 62), and being an independent non-executive director of Agile Property Holdings Limited (Stock Code: 3383). In addition, he is currently a board member of The Community Chest of Hong Kong, a court member of The Open University of Hong Kong and the Honorary Council Member of the Hong Kong Institute of Directors Limited. He has held the position of the deputy member of The Open University of Hong Kong, a member of the Labour and Welfare Department's Lump Sum Grant Steering Committee, a member of the Appeal Board established under the Accreditation of Academic and Vocational Qualifications Ordinance, a member of the Board of Review (Inland Revenue Ordinance), the deputy chairman of the Hong Kong Institute of Directors Limited, a director of Po Leung Kuk, the vice chairman of the Mainland Legal Affairs Committee of the Law Society of Hong Kong. He also served as a non-executive director of SRE Group Limited (Stock Code: 1207) until 4 December 2015 and an independent non-executive director of Hop Hing Group Holdings Limited (Stock Code: 47) until 25 August 2017. Mr. Cheung was awarded the Bronze Bauhinia Star (BBS) in 2013. He was awarded an honorary degree of Doctor of Business Administration from the Open University of Hong Kong in 2016.

NON-EXECUTIVE DIRECTORS (Continued)

Dr. CHAN Ching Har, Eliza, *JP, BBS, LL.D. (Hon)*, aged 61, was appointed as Non-Executive Director of the Company on 27 October 2009. She is also a member of the Investment Committee of the Company. Dr. Chan is a Senior Consultant of Zhong Lun Law Firm. She is a Member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a Standing Member of the CPPCC Tianjin Committee, Foreign Economic Affairs Legal Counsel to the Tianjin Municipal People's Government, an arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC), and a China-Appointed Attesting Officer appointed by the Ministry of Justice. She serves as Chairman of Tseung Kwan O Hospital. Dr. Chan is the Chairman of the Hong Kong CPPCC (Provincial) Members Association Ltd., Chairman of the Hong Kong CPPCC (Provincial) Members Association Foundation Ltd., Honorary President of The Hong Kong China Chamber of Commerce and a Governor of The Canadian Chamber of Commerce in Hong Kong. She was also formerly a Member of the Hong Kong Hospital Authority, Chairman of Kowloon Hospital, Chairman of Hong Kong Eye Hospital, Member of the Hong Kong Public Service Commission, Member of the Board of Education, Member of the Hong Kong Examination and Assessment Authority, Member of The Medical Council of Hong Kong, Chairman of Pensions Appeal Panel, Member of the Administrative Appeals Board, Member of Hospital Governing Committee of Queen Elizabeth Hospital, Member of the Hong Kong Immigration Tribunal, Council Member of The Hong Kong University of Science and Technology and Member of the Board of the Hong Kong Science and Technology Park Corporation. Dr. Chan is also an independent non-executive director of Cathay International Holdings Limited, a company whose shares are listed on the London Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. CHENG Hon Kwan, *GBS, JP*, aged 90, was appointed as an Independent Non-Executive Director of the Company in June 2001. Dr. Cheng has also been serving as the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Dr. Cheng obtained his Bachelor's Degree in Civil Engineering from Tianjin University and a postgraduate diploma from Imperial College of Science and Technology, London. He has been awarded Honorary Doctoral Degrees from Hong Kong University of Science and Technology, City University of Hong Kong, Open University of Hong Kong, and Open University, UK. He is a Fellow of Imperial College and City and Guilds London Institute. He is a past President, Honorary Fellow and Gold Medallist of the Hong Kong Institution of Engineers; past Vice President, Fellow and Gold Medallist of the Institution of Structural Engineers, Fellow of the Institution of Civil Engineers, United Kingdom and the American Society of Civil Engineers and Honorary Fellow of Engineers Australia. He is also an Honorary Member of the Hong Kong Institute of Planners and the Hong Kong Institute of Architects; State Class I Registered Structural Engineer Qualification. He is also an authorized person and registered structural engineer. Dr. Cheng is a former Chairman of Hong Kong Housing Authority and Transport Advisory Committee. He was a Standing Member of the Tianjin Committee of the Chinese People's Political Consultative Conference (CPPCC) and is a permanent Honorary Chairman of the Hong Kong Tianjin Friendship Association and Chairman of the Tianjin CPPCC Former Hong Kong and Macau Members Friendship Association. Dr. Cheng is currently an independent non-executive director of Agile Property Holdings Limited (Stock Code: 3383), a company whose shares are listed on the Stock Exchange. He served as an independent non-executive director of Hang Lung Group Limited (Stock Code: 10) and Hang Lung Properties Limited (Stock Code: 101) until 29 April 2015, both companies are listed on the Stock Exchange. He also served as an independent non-executive director of Wing Hang Bank, Limited until 1 August 2014, a company whose shares were previously listed on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. MAK Kwai Wing, Alexander, *BSoc.Sc., ATIHK, FCPA (Aust.)*, aged 68, was appointed as an Independent Non-Executive Director of the Company on 27 October 2009. He is also the Chairman of the Investment Committee, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Mak graduated from The University of Hong Kong with a degree of Bachelor of Social Science. He is also a Fellow of CPA Australia and a Certified Tax Advisor of The Taxation Institute of Hong Kong. Mr. Mak has over 40 years of experience in the taxation field. He has extensive experience in Hong Kong corporate and individual tax planning and has assisted a vast number of clients in South East Asia in developing effective tax strategies to minimize their tax exposure in the region. Mr. Mak was formerly an assessor with the Inland Revenue Department. In July 2006, he joined Mazars Tax Services Limited ("Mazars") as an executive director, became its managing director in January 2008 and then Senior Advisor from September 2014 to June 2017. Before joining Mazars, Mr. Mak was a tax principal in Ernst & Young and took an early retirement in January 2004 to pursue his governorship of Rotary International District 3450 and also his own consulting business. Currently, Mr. Mak is a member of Hong Kong Professional Consultants Association, the Treasurer of Senior Citizen Home Safety Association and an independent non-executive director of K & P International Holdings Limited (Stock Code: 675), a company whose shares are listed on the Stock Exchange. Previously, Mr. Mak had served as the chairman of Tax Specialization Development Working Group of Hong Kong Institute of Certified Public Accountants, the president of The Taxation Institute of Hong Kong; the vice chairman of Steering Committee of Hong Kong Network of Virtual Enterprises; the governor of Rotary International District 3450; the chairman of Practice Firm Steering Committee of Hong Kong Institute of Vocational Education (Tsing Yi) and District Rotary Foundation Committee of Rotary International District 3450; a treasurer of The Hong Kong Road Safety Association, H5N1 Concern Group and The Hong Kong International Film Festival Society Limited; a member of taxation committee of Hong Kong Institute of Certified Public Accountants; a member of the Road Safety Council, Joint Liaison Committee on Taxation, Hospital Authority Public Complaints Committee, Hospital Governing Committee of Hong Kong Eye Hospital and Kowloon Hospital; and a part-time member of Hong Kong Government's Central Policy Unit.

Ms. NG Yi Kum, Estella, aged 60, was appointed as an Independent Non-Executive Director of the Company on 28 July 2010. She is also the Chairman of the Audit Committee and a member of the Nomination Committee of the Company. Ms. Ng is the Deputy Chairman and Executive Director, Chief Strategy Officer & Chief Financial Officer and Company Secretary of Tse Sui Luen Jewellery (International) Limited (Stock Code: 417), a company whose shares are listed on the Stock Exchange. From January 2008 to April 2014, Ms. Ng was the Chief Financial Officer of Country Garden Holdings Company Limited (Stock Code: 2007), a company whose shares are listed on the Stock Exchange. From September 2005 to November 2007, she was an executive director of Hang Lung Properties Limited ("Hang Lung"), a company whose shares are listed on the Stock Exchange. Prior to her joining in Hang Lung in 2003, she was employed by the Stock Exchange in a number of senior positions, most recently as senior vice president of the Listing Division. Prior to that, she gained valuable auditing experience with Deloitte Touche Tohmatsu. Ms. Ng is a qualified accountant and holds a Master of Business Administration degree from the Hong Kong University of Science and Technology. She is an associate of The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Secretaries and Administrators, a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. She has also contributed her time to various public service appointments, including being a co-opted member of the audit committee of the Hospital Authority until November 2013. Ms. Ng is currently an independent non-executive director of China Power New Energy Development Company Limited (Stock Code: 735), a company whose shares are listed on the Stock Exchange. She served as an independent director of DS Healthcare Group, Inc. until 16 May 2017, a company whose shares were previously listed on the Nasdaq Capital Market in the United States until 23 December 2016, and an independent non-executive director of China Mobile Games and Entertainment Group Limited until 10 August 2015, a company whose shares are listed by way of American Depositary Shares on the Nasdaq Global Market in the United States. Ms. Ng also served as an independent non-executive director of Hong Kong Resources Holdings Company Limited (Stock Code: 2882) until 31 July 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. WONG Shiu Hoi, Peter, aged 77, was appointed as an Independent Non-Executive Director of the Company on 21 December 2012. He is also a member of the Audit Committee of the Company. Mr. Wong holds a Master of Business Administration Degree from the University of East Asia, Macau (now known as the University of Macau). He possesses over 40 years of experience in the financial services industry. Mr. Wong is the past chairman of The Hong Kong Institute of Directors and was a director of the Hong Kong Securities and Investment Institute, an executive director, deputy chairman and chief executive of Haitong International Securities Group Limited as well as an overseas business advisor of Haitong Securities Company Limited. He is currently a consultant of Halcyon Holdings Limited and an advisor of Our Hong Kong Foundation. Mr. Wong is also an independent non-executive director of High Fashion International Limited (Stock Code: 608), Agile Property Holdings Limited (Stock Code: 3383) and Target Insurance (Holdings) Limited (Stock Code: 6161), all companies are listed on the Stock Exchange.

Dr. LOKE Yu, alias LOKE Hoi Lam, aged 68, was appointed as an Independent Non-Executive Director of the Company on 21 December 2012. He is also a member of the Audit Committee of the Company. Dr. Loke holds a Master of Business Administration Degree from the Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. He is a Fellow member of The Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Hong Kong Institute of Chartered Secretaries. Dr. Loke has over 39 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He serves as an independent non-executive director of Matrix Holdings Limited (Stock Code: 1005), V1 Group Limited (Stock Code: 82), China Beidahuang Industry Group Holdings Limited (Stock Code: 39), China Fire Safety Enterprise Group Limited (Stock Code: 445), Winfair Investment Company Limited (Stock Code: 287), SCUD Group Limited (Stock Code: 1399), Zhong An Real Estate Limited (Stock Code: 672), Chiho-Tiande Group Limited (Stock Code: 976), China Household Holdings Limited (Stock Code: 692), Tianhe Chemicals Group Limited (Stock Code: 1619), Lamtex Holdings Limited (Stock Code: 1041), Forebase International Holdings Limited (Stock Code: 2310), Hang Sang (Siu Po) International Holding Company Limited (Stock Code: 3626), Hong Kong Resources Holdings Company Limited (Stock Code: 2882) and Zhenro Properties Group Limited (Stock Code: 6158), all of these companies are listed on the Stock Exchange. He also served as an independent non-executive director of Mega Medical Technology Limited (Stock Code: 876) until 11 January 2017.

SENIOR MANAGEMENT

Mr. JIN Baoxin, aged 52, Deputy General Manager of the Company. Mr. Jin is a senior economist, graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics major in International Finance in 1988 and a Master's Degree in Economics from Nankai University in 2001. Prior to joining the Company, he has worked in various role including deputy manager of treasury department of Tianjin International Trust and Investment Corporation (天津市國際信託投資公司), assistant to president and concurrently manager of strategic planning department of Tianjin International Investment Co., Ltd. (天津國際投資有限公司) as well as assistant to president and concurrently manager of direct finance department of Tianjin Financial Investment and Services Group Co., Ltd. (天津津融投資服務集團有限公司). Mr. Jin has extensive experience in capital market. He is currently a director of Tsinlien Group Company Limited (津聯集團有限公司) and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司).

Mr. TUEN Kong, Simon, aged 55, Deputy General Manager and Chief Financial Officer of the Company. He also served as an Executive Director and Company Secretary of the Company from 27 March 2013 to 6 June 2017. Mr. Tuen graduated from the Hong Kong Polytechnic University with a Master Degree in Business Management. Before joining the Company, he had held various positions in a number of listed companies and is experienced in corporate finance and treasury management. Starting with Ernst & Young in 1989 and then Deloitte Touche Tohmatsu in 1991 as a tax consultant, he spent 10 years afterwards in corporate banking, direct investment, merger and acquisition and company secretarial related works and held executive positions as vice president and director of finance and treasury. From 2001 to 2006, he served as Deputy General Manager of the Company. Prior to re-joining the Company in October 2009, he worked as a consultant for China investment with MTR Corporation Limited.

Ms. SHI Jing, aged 47, Assistant to General Manager of the Company. Ms. Shi graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1992 and a Master's Degree in Economics in 1995. She has been in corporate finance (domestic and foreign) and financial management for many years. Ms. Shi joined the Company since 2005 and has served in various roles including manager of finance department of Tianjin Development Assets Management Co., Ltd. (天津發展資產管理有限公司) and general manager of audit and legal affairs department of the Company. Prior to joining the Company, she was a commissioner of finance of Ting Hsin International Group (頂新國際集團), vice president of Fengyuan Consulting (Shanghai) Co., Ltd. (豐元諮詢(上海)有限公司) and senior associate of finance department of Tingyi (Cayman Islands) Holding Corp. Ms. Shi is currently a director of Tsinlien Group Company Limited (津聯集團有限公司) and the assistant to general manager of Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司). She is also an executive director of Tianjin Port Development Holdings Limited (Stock Code: 3382), a non-executive director of Dynasty Fine Wines Group Limited (Stock Code: 828) and Binhai Investment Company Limited (Stock Code: 2886), as well as a director of Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) (Stock Code: 002393.SZ).

Mr. CHONG Ching Hei, aged 45, Financial Controller of the Company. Mr. Chong graduated from the Hong Kong Polytechnic University with a Master's Degree in Professional Accounting. He was admitted as a member of the Hong Kong Institute of Certified Public Accountants in October 1999 and has extensive experience in auditing and corporate finance. Mr. Chong previously worked for Deloitte Touche Tohmatsu for over seven years. During the period from 2004 to 2006, he served as a financial controller and company secretary of Coastal Rapid Transit Company Limited, a wholly-owned subsidiary of the Company. Prior to re-joining the Company in July 2013, Mr. Chong was the financial controller and company secretary of Jianhua Concrete Pile Holdings Limited.

Ms. LEE Su Yee, Bonnia, aged 40, Company Secretary of the Company. Ms. Lee graduated from the City University of Hong Kong with a Master of Science Degree in Professional Accounting and Corporate Governance. She is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators of the United Kingdom. She is also a holder of the Practitioner's Endorsement from The Hong Kong Institute of Chartered Secretaries. Ms. Lee joined the Company since October 2010 as an assistant company secretary and has extensive experience in company secretarial practice.

Environmental, Social and Governance Report

This Environmental, Social, and Governance ("ESG") Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "HKEx ESG Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and aims to provide stakeholders a comprehensive overview on our ESG policies, initiatives as well as performance.

This ESG report covers our principal operating segments of utilities, pharmaceutical and electrical and mechanical for the period from 1 January to 31 December 2017 (the "Reporting Period", "FY 2017"). We have engaged our management and staff across our key subsidiaries and functions to review their operations, identify relevant ESG issues, and assess their materiality to our business as well as to the stakeholders. The table below highlights the ESG issues which were determined to be material to the Group covered in this report:

HKEx ESG Guide Reference	Material ESG issues
A. Environmental	
A1. Emissions	• Air emissions and water discharge • Greenhouse gas emissions • Waste management
A2. Use of resources	• Energy consumption • Water usage • Packaging materials
A3. The environment and natural resources	• Environmental impact management
B. Social	
B1. Employment	• Labour practices
B2. Health & safety	• Workplace health and safety
B3. Development and training	• Employee development and training
B4. Labour standards	• Prevention of child and forced labour
B5. Supply chain management	• Responsible procurement
B6. Product responsibility	• Product and service quality
B7. Anti-corruption	• Anti-corruption and money laundering
B8. Community investment	• Community programmes, donation and award

Note: The principal subsidiaries of the Group covered in this report are Tianjin TEDA Tsinlien Electric Power Co., Ltd. ("Electricity Company"), Tianjin TEDA Tsinlien Water Supply Co., Ltd. ("Water Company"), Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat & Power Company"), Tianjin Tianduan Press Co., Ltd. ("Tianduan Press"), Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. ("Tianfa Equipment"), Tianjin Lisheng Pharmaceutical Co. Ltd and its subsidiaries ("Lisheng") as well as Tianjin Institute of Pharmaceutical Research Co., Ltd and its subsidiaries ("Research Institute").

A. ENVIRONMENTAL

A1 Emissions

In order to protect the environment, the Group takes an active role to manage our air and greenhouse gas emissions, discharges into water and land, and hazardous and non-hazardous waste from our business operations. We are committed to meet the requirements as set out in the local environmental laws and regulations, including but not limited to the "Environmental Protection Law of the People's Republic of China" (中華人民共和國環境保護法), the "Law of the People's Republic of China on Prevention and Control of Water Pollution" (中華人民共和國水污染防治法), the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" (中華人民共和國大氣污染防治法) and the "Law of the People's Republic of China on the Prevention and Control of Solid Waste" (中華人民共和國固體廢物污染環境防治法). We have taken into consideration the environmental sustainability into our business processes, and have dedicated teams to monitor our environmental performance regularly.

There were no material non-compliance cases noted in relation to environmental laws and regulations during the Reporting Period.

Air emissions and water discharge

Statistics of our air emissions and water discharge during the Reporting Period together with the comparative figures for the corresponding year in 2016 ("FY 2016") are summarised as follows:

Type of emissions	**2017 Total (Tonnes)**	2016 Total (Tonnes)
Chemical Oxygen Demand (COD)	**30.11**	25.35
Ammoniacal Nitrogen (NH3-N)	**3.74**	5.36
Sulphur Dioxide (SO_2)	**1.31**	1.07
Nitrogen Dioxide (NO_2)	**6.26**	5.03
Non-methane Hydrocarbon (NMHC)	**0.30**	0.30
Dust	**1.67**	1.07
Petroleum	**0.05**	0.05
Xylene	**0.08**	0.19
Toluene	**0.02**	0.02
Suspended Solids (SS)	**2.29**	0.66
Biochemical Oxygen Demand (BOD)	**3.09**	0.49
Volatile Organic Compounds (VOCs)	**0.01**	N/A
Wastewater	**593,547.80**	433,030.80

Note: The above statistics cover the air emissions and water discharge from Water Company, Tianduan Press and Tianfa Equipment, Lisheng and Research Institute in FY 2017 and FY 2016. The increases in air emissions and wastewater were mainly due to the increase in production of Lisheng in FY2017.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Air emissions and water discharge (Continued)

To ensure the Group meets relevant standards, in addition to regular assessments and controls of air emissions and water discharge, we have also adopted various initiatives to reduce our emission levels, including:

- Enclosed shot-blasting equipment (噴丸密閉設備) and fiberglass filter cotton (玻璃纖維過濾棉) with activated carbon have been installed to filter emissions generated from our operations.
- Welding fumes generated from factories have been collected by gas-collecting hood (集氣罩) to reduce the amount of dust emissions in the air.
- Fume purification facilities have been installed in the canteen.
- Water treatment facilities have been put in place and licensed contractors have been engaged to collect and handle the sewage from operations.
- COD online monitoring system has been established to ensure that the COD discharged met the regulatory standards before discharging. The system was interconnected with the government environmental monitoring platform to facilitate real-time data transmission and monitoring.
- Environmental friendly coal-fired boilers has been deployed to replace the old ones for reducing the level of both air emission and industrial wastewater discharged.
- VOC treatment system has been installed to reduce the air emission of Research Institute.

Greenhouse gas emissions

The major source of our carbon emissions is from the energy consumption. There were 676,524 Tonnes (2016: 710,555 Tonnes) of the energy-related carbon dioxide equivalent (CO2e) generated from our operations during the Reporting Period and we have implemented various energy-saving initiatives to help reduce our carbon footprint. Please refer to the "Energy Consumption" section below for our energy consumption data and reduction initiatives.

Note: The carbon emissions are calculated with reference to the "Greenhouse Gas Protocol" published by the World Business Council for Sustainable Development and the World Resources Institute, the "Environmental Key Performance Indicators Reporting Guide" of HKEx, "Baseline Emission Factors for Regional Power Grids of China" published by the Department of Climate Change under the National Development and Reform Commission and "The UK Government Conversion Factors for greenhouse gas reporting" published by the Department for Environment, Food & Rural Affairs.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Waste management

The major types of industrial waste for the Group are scrap metals and commercial waste produced from the manufacturing processes of our electrical and mechanical segment and solid waste (including construction waste, commercial waste and industrial waste) generated from our pharmaceutical segment. During the Reporting Period, the total amount of non-hazardous waste produced by the above-mentioned segments was 1,560 tonnes (2016: 1,286.25 tonnes).

Both the electrical and mechanical and pharmaceutical segment also generate hazardous waste during their operation, which includes used oil, scrap mica, oily waste, waste acid, alkali waste, organic waste, thionyl chloride, methanol liquor, toxic waste carbon, scraped drugs, nimesulide waste and desiccant waste. During the Reporting Period, the total amount of hazardous waste produced by the above-mentioned segments was 261.59 tonnes (2016: 30.66 tonnes). The increase in the hazardous waste was mainly due to the large increase in organic waste disposal from Lisheng's operations during the Reporting Period.

In terms of general commercial and industrial waste management, wastes have been disposed in accordance with the "Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes" (一般工業固體廢物貯存、處置場污染控制標準). In addition, solid waste collection points have been established to centralise the storage of solid waste so as to avoid pollution. Recyclable solid wastes have been collected and recycled by designated department.

All hazardous wastes have been collected and handled by licensed service provider during the Reporting Period. The storage of hazardous waste has fulfilled the "Standard for Pollution Control on Hazardous Waste Storage" (危險廢物貯存污染控制標準) and trainings have been provided to our employees on hazardous waste management. For hazardous waste generated during the experiment by Research Institute, harmful substances will be removed before collecting by external service provider. The group has no significant hazardous chemicals used in our operations.

A2 Use of Resources

The Group conserves resources for environmental and operating efficiency purposes. We closely monitor the utilisation of various resources and regularly report the related performance, as well as timely consider the appropriate remedial actions where necessary. The Group complies with the requirements set out in the "Law of the People's Republic of China on Energy Conservation" (中華人民共和國節約能源法) and encourages reuse and recycling practices in our operations.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

Energy consumption

Statistics of our consumption of the direct and indirect energy during the Reporting Period together with the comparative figures for FY 2016 are shown as below:

	Consumption		Intensity (per employee)	
Type	**2017**	2016	**2017**	2016
Petrol (Tonnes)	**70.13**	30	**0.04**	0.02
Diesel (Tonnes)	**261.63**	1,758	**0.09**	0.90
Natural gas (m^3)	**5,122,431**	6,633,691	**1,176.49**	1,395.69
Electricity (kWh)	**94,446,928**	97,874,399	**19,130.44**	18,649.85
Heat (GJ)	**11,907**	11,354	**59.54**	61.71
Steam (Tonnes)	**3,908,219**	3,911,650	**1,341.30**	1,494.71

Note: The above statistics cover the major types of energy consumed by Electricity Company, Water Company, Heat & Power Company, Tianduan Press and Tianfa Equipment, Lisheng and Research Institute in FY 2017 and FY 2016.

The Group has implemented certain energy reduction initiatives during the Reporting Period:

- Establishing energy management systems to monitor and control the use of energy.
- Deploying high-efficiency machines and equipment.
- Replacing halogen light bulbs with LED lighting in the warehouse.
- Implementing solar water heating systems and automated temperature control systems.
- Switching off non-essential lighting and reducing the use of air-conditioning.
- Controlling the use of corporate vehicles and performing regular maintenance to reduce the fuel consumption.
- Replacing coal-fired boiler with steam boiler.
- Engaging our staff through trainings and various activities to raise the awareness of energy saving.

During the Reporting Period, our Research Institute has reduced 1,490 tonnes diesel consumption as compared with that in FY 2016.

Use of water

During the Reporting Period, the aggregate amount of water consumed by Electricity Company, Water Company, Heat & Power Company, Tianduan Press, Tianfa Equipment, Lisheng and Research Institutes was 4,174,875 tonnes, with an intensity of 845.63 tonnes per employee (2016 Consumption: 6,323,641 tonnes; 2016 Intensity: 1,204.96 tonnes per employee).

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

Use of water (Continued)

We have implemented water saving measures, which include the following:

- Recycling and reusing the wastewater for lawn irrigation and flushing water.
- Implementing water circulation systems across the manufacturing process to reduce the consumption of steam, which is expected to save up to 2,500 tonnes of steam annually.
- Installing water efficient devices.
- Carrying out periodic inspection and replacement on water pipes to prevent leakages.

Use of Packaging Materials

Our pharmaceutical segment consumes packaging materials for containing and protecting our pharmaceutical products while Tianfa Equipment also consumes a small amount of packaging materials. Despite the fact that using packaging materials is inevitable, we strive to minimise the packaging materials by adopting simple design, as well as using recycled and recyclable materials as possible. During the Reporting Period, our total packaging materials used for protecting our pharmaceutical products and used by Tianfa Equipment was 6,161.37 tonnes.

A3 The Environment and Natural Resources

Environmental impact management

The Group is devoted to minimise our environmental impact through performing regular assessments and continuous monitoring of the environmental risks in our operations.

Apart from the emissions and use of resources described above, we are actively managing other key areas of impacts, including the noise generated from our transformers and construction works during the Reporting Period.

To better control and mitigate our environmental impact, we have developed environmental systems that meet the ISO14000 Environmental Management System Standard with key features including:

- Developing operating procedures and maintenance schedules in relation to environmental facilities, in order to ensure that the facilities are in good working condition throughout the operations.
- Providing induction orientation and trainings to technicians to enhance their environmental knowledge and ensure the smooth operations of all environmental protection facilities.
- Engaging qualified consultants to conduct environmental assessment on development or renovating projects.
- Informing local environmental authorities regularly of the progress against environmental protection and pollution control and the respective results.
- Integrating environmental protection elements into performance evaluation to ensure that the environmental targets can be effectively implemented as appropriate.

B. SOCIAL

B1 Employment

Labour practices

The Group promotes ethical and fair labour policies. Our operating segments have established comprehensive guidelines to govern the employee compensation and dismissal, recruitment and promotion, working hours and leaves policy, equal opportunity and other welfares, which have been clearly communicated to relevant employees and are regularly reviewed where necessary. The Group will consider hiring disabled persons where appropriate. The Group consistently follows the requirements as set out in the related law and regulations, including the "Labour Law of the People's Republic of China" (中華人民共和國勞動法) and the "Trade Union Law of the People's Republic of China" (中華人民共和國工會法).

There were no material non-compliance issues noted regarding our labour practices during the Reporting Period.

B2 Health and Safety

Workplace health and safety

We strictly follow the "State Administration of Work Safety Act" (國家安全生產法) and have obtained the "The National Standard of Occupational Health and Safety Management Systems" (職業健康安全管理體系認證) to provide a safe and healthy working environment to our employees.

We have established employees' handbooks and safety guidelines for productions to clearly set out working procedures and specify the responsibilities of employees regarding workplace health and safety. Monitoring and management mechanism are in place for operations with related risks identified. We also provide safe equipment which are in conformity with the required standards and body check-up to our employees. We have also set safety targets and contingency plans, as well as performed evaluation of historical safety records.

There were no material non-compliance cases noted in relation to health and safety laws and regulations during the Reporting Period.

B3 Development and Training

Employee development and training

We value the development of our employees and aim at assisting employees to achieve their career goals while meeting our business objectives. Training initiatives have been established to cater our employees' development needs according to their roles and responsibilities as well as our operational requirements. To equip our employees with technical knowledge and skills as well as personal development, we offer both internal and external training opportunities for various levels of employees.

B. SOCIAL (Continued)

B4 Labour Standards

Prevention of child and forced labour

The Group strictly prohibits the use of child and forced labour, by adopting a comprehensive screening and recruiting process, as well as by conducting regular reviews and inspections to detect the employment of any child or forced labour situation in our operations.

There were no material non-compliance issues noted regarding labour standards as required by related laws and regulations during the Reporting Period.

B5 Supply Chain Management

Responsible procurement

In the supplier selection process, the Group takes suppliers' social and environmental protection responsibilities into consideration, in addition to product or service quality and commercial factors. Our suppliers must comply with the national requirements and acquire relevant licenses and qualifications. We also regularly review the status of selected suppliers so as to ensure they meet the requirements.

B6 Product Responsibility

Product and service quality

We embrace the philosophy of "Safety First, Customer Foremost" (安全第一、用戶至上). We strive to provide quality products and services and make continuous improvement to achieve a higher standard. We benchmark our services quality for electricity supplies against the "Tianjin Economic and Technological Development Zone Administrative Measures for the Supply and Use of Electricity" (天津經濟技術開發區供用電管理辦法). The supply of water also meets the national standards including but not limited to the "Sanitary Standard for Drinking Water" (生活飲用水衛生標準), the "Water Quality Standards for Urban Water Supply" (城市供水水質標準), the "Technical Specification for Operation, Maintenance and Safety of City and Town Waterworks" (城鎮供水廠運行、維護及安全技術規程) to ensure the provision of a reliable and clean water supply.

For supply of Heat & Power, we govern our services in accordance with policies such as the "Tianjin Heat Supply Standard, Regulations and Specification" (天津市供熱規範、規章、文件及技術標準彙編), the "Regulations on Supply and Use of Heat in Tianjin" (天津市供熱用熱條例), and the "Tianjin Administrative Measures on Pricing for Heat Supply" (天津市供熱採暖收費管理辦法).

Our electrical and mechanical segment has developed a comprehensive quality control system in accordance with the ISO9000 Quality Management Standard which set out the required procedures addressing including but not limited to product design and development, procurement, production, quality controls.

B. SOCIAL (Continued)

B6 Product Responsibility (Continued)

Product and service quality (Continued)

For our pharmaceutical segment, we are in strict compliance with the "Good Manufacturing Practice" ("GMP") (藥品生產和質量管理規範), "Pharmaceutical Administration Law" (藥品管理法), "Provisions on the Administration of Pharmaceutical Directions and Labels" (藥品説明書和標籤管理規定), "Advertising Law of the People's Republic of China" (中華人民共和國廣告法), "Measures for the Administration on Report and Monitoring of the Side Effect of Pharmaceuticals" (藥品不良反應報告和監測管理辦法), "Administrative Measures for Drug Recalls" (藥品召回辦法) and other relevant laws and regulations. To promote better quality control, Lisheng and Research Institute have established quality management systems comprised of regular self-inspection and quality audit by independent quality control team, for its production as well as sales and marketing functions. In additional to the formulation of quality risk management organization structure to minimise the risk through various measures, Research Institute has also established a Scientific Committee to ensure the data integrity and reliability throughout the pharmaceutical research and development process.

B7 Anti-corruption

Anti-corruption and money laundering

The Group is committed to comply with laws regarding anti-corruption and anti-money laundering including but not limited to the "Criminal Law of The People's Republic of China" (中華人民共和國刑法) and the "Law of the People's Republic of China on Anti-money Laundering" (中華人民共和國反洗錢法). We have a number of policies addressing anti-corruption and anti-money laundering as well as employee code of conducts in place. On the other hand, the Group strives to promote business ethics and raise awareness through regular trainings and communications to our management and employees. Moreover, whistleblowing channels are provided to stakeholders to report issues identified to us.

During the Reporting Period, there were no material non-compliance issues noted regarding corruption and money laundering.

B8 Community Investment

Community programmes, donation and award

Besides providing quality products and services to meet the needs of our users and development of the society, we also care for the community through various volunteer activities and monetary donation to the underserved. The Group encourages our employees to participate in various internal and external community programmes.

The Group has been always caring for the poor and the youth. In addition to providing construction funds to the poor in Baodi district, Research Institute has collaborated with prestigious universities (such as Shenyang Pharmaceutical University, Tianjin Medical University, Tianjin University of Traditional Chinese Medicine, Henan University, Shandong University, etc.) to carry out pharmaceutical graduate training programme for nearly 2 decades. Research Institute partnered with those universities, so as to cultivate a group of knowledgeable, innovative and professional pharmaceutical talents through both academic and practical training. Apart from the graduate training program, Research Institute, being a learning centre in Tianjin, also cooperated with both Tianjin Medical College and Tianjin Vocational College of Bioengineering to provide internship opportunities.

In August 2017, Lisheng was awarded the 2016 Golden Bull Investment Award (2016年度金牛投資價值150強企業獎), which demonstrated that its efforts in the fields of corporate governance and investor relations have been highly recognized.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance in the interests of shareholders and devotes considerable efforts to formalizing the best practices. This Corporate Governance Report describes the way the Company has applied the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules. Throughout the year, the Company has complied with the code provisions as set out in the CG Code.

The Board will continue to monitor and review the Company's corporate governance practices and procedures and make necessary changes when it considers appropriate.

BOARD OF DIRECTORS

The overall management of the Company is vested in the Board. The executive directors are responsible for the day-to-day management of the Company's businesses and to conduct regular meetings with the senior management of the Company. The Board focuses its attention on matters affecting the Company's strategic policies which include future growth and development, financial statements, dividend policy, annual budget, significant changes in accounting policy, major financing arrangements and investments, risk management strategies and treasury policies. The abovementioned matters are monitored and approved by the Board and decisions relating to such matters are subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the Board.

The Company has a formal schedule of matters specifically reserved to the Board for its decision, which include the matters referred to in the above paragraph. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the scope of powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company has formalized the functions reserved to the Board and those delegated to management. It reviews those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

Board Composition

As at 31 December 2017, the Board consists of eleven members, comprising four executive directors, being Mr. Zeng Xiaoping *(Chairman)*, Mr. Wang Zhiyong *(General Manager)*, Dr. Cui Di and Dr. Yang Chuan, two non-executive directors, being Mr. Cheung Wing Yui, Edward and Dr. Chan Ching Har, Eliza and five independent non-executive directors, being Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander, Ms. Ng Yi Kum, Estella, Mr. Wong Shiu Hoi, Peter and Dr. Loke Yu.

On 17 February 2017, Ms. Zhang Lili was removed as an executive director of the Company pursuant to article 99(a)(vi) of the articles of association of the Company (the "Articles of Association") as she has not attended Board meetings of the Company since her resignation from 22 April 2016 as executive director and chairman of Tianjin Port Development Holdings Limited, an associated company of the Company and whose shares are listed on the Stock Exchange. The Board considers that the removal of Ms. Zhang will not have any adverse effect on the operation of the Group.

On 6 June 2017, Mr. Tuen Kong, Simon has resigned as executive director and company secretary of the Company but remained as deputy general manager and chief financial officer of the Company.

Board Composition (Continued)

Coming from different professional backgrounds, all directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity. The non-executive directors have brought their valuable experience to the Board for promoting the best interests of the Company and its shareholders. The independent non-executive directors contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board. The biographical details of each director are disclosed on pages 16 to 21 of this Annual Report.

The Company has received from each independent non-executive director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company continues to consider each of them independent.

Non-executive directors are appointed for a specific term of three years and subject to retirement by rotation and re-election at the general meeting in accordance with the Articles of Association. A letter of appointment has been entered into between the Company and each of the non-executive directors and independent non-executive directors.

According to the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. In addition, any Director appointed by the Board during the year shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the existing Board) immediately following his or her appointment, and shall then be eligible for re-election at such relevant meetings.

To the best knowledge of the Company and save for the directorships as disclosed in the section headed "*Biographical Details of Directors and Senior Management*" of this Annual Report, there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between members of the Board and in particular, between the Chairman and the General Manager.

The Company has arranged appropriate insurance cover in respect of directors' and officers' liabilities for members of the Board.

Chairman and General Manager

The code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Zeng Xiaoping, Chairman of the Company, is responsible for deciding the agenda of Board meetings, taking into account where appropriate matters proposed by other directors for inclusion in the agenda, and has an overall responsibility for providing leadership, vision and direction in the development of the business of the Company. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, he also ensures that the non-executive directors make contribution at the Board meetings.

Mr. Wang Zhiyong, General Manager of the Company, assisted by other executive directors, is responsible to the Board for the day-to-day management of the Company, and attends to formulation and successful implementation of policies. Working with the executive management team of each core business division, he ensures smooth operations and development of the Company and keeps all other directors fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective team to support him in managing the business of the Company.

Such division of responsibilities allows a balance of power between the Board and the management of the Company and ensures their independence and accountability. Their responsibilities are clearly segregated and have been set out in writing.

Board Responsibilities

The Company views well-developed and timely reporting systems and internal controls as essential, and the Board plays a key role in the implementation and monitoring of internal financial controls.

The Board is responsible for performing the corporate governance duties and has adopted a set of corporate governance guidelines with reference to the CG Code.

In the course of discharging their duties, the directors act in good faith with due diligence and care and in the best interests of the Company and its shareholders. Their responsibilities include:

— regular board meetings focusing on business strategy, operational issues and financial performance;

— active participation on the boards of subsidiaries and associates;

— monitoring the quality, punctuality, relevance and reliability of internal and external reporting;

— monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in connected transaction; and

— ensuring the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all relevant laws and professional ethics.

Board Proceedings

All members of the Board meet in person regularly and have full and timely access to relevant information. Moreover, the Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense, if necessary. All directors are required to declare their interests, if any, in any transaction, or proposal to be considered at Board meetings and to abstain from voting on any related resolutions.

The Articles of Association contain description of responsibilities and operation procedures of the Board. Board meetings include regular meetings and other meetings.

In 2017, the Company held five Board meetings. Due notice and board papers were given to all directors prior to the Board meetings in accordance with the Articles of Association and the CG Code. The attendance records of each member of the Board are set out below:

Name of Director		**Attended/Eligible to Attend**
Executive Directors		
Mr. Zeng Xiaoping *(Chairman)*		5/5
Mr. Wang Zhiyong *(General Manager)*		3/5
Dr. Cui Di		4/4
Dr. Yang Chuan		3/4
Ms. Zhang Lili	(removed on 17 February 2017)	0/1
Mr. Tuen Kong, Simon	(resigned on 6 June 2017)	3/3
Non-Executive Directors		
Mr. Cheung Wing Yui, Edward		4/5
Dr. Chan Ching Har, Eliza		3/5
Independent Non-Executive Directors		
Dr. Cheng Hon Kwan		4/5
Mr. Mak Kwai Wing, Alexander		3/5
Ms. Ng Yi Kum, Estella		5/5
Mr. Wong Shiu Hoi, Peter		4/5
Dr. Loke Yu		5/5

The minutes of the Board meetings are prepared by the Company Secretary with details of the matters considered by the Board and decisions reached, including any concerns raised by the members of the Board or views expressed.

Continuous Professional Development

Directors are encouraged to participate in continuous professional development to refresh their knowledge and skills. In December 2017, the Company has invited Dr. Zhou Lisha of the Research Centre of the State-owned Assets Supervision and Administration Commission to conduct an in-house training session for directors on the topic of state-owned enterprise reform guidance. Further, monthly updates on the Company's performance, position and prospects are also provided. The types of continuous professional development activities undertaken by the directors during the year are summarized as below:

Name of Director		Types of Continuous Professional Development Activities
Executive Directors		
Mr. Zeng Xiaoping *(Chairman)*		A
Mr. Wang Zhiyong *(General Manager)*		A
Dr. Cui Di		C
Dr. Yang Chuan		A
Ms. Zhang Lili	(removed on 17 February 2017)	Not applicable
Mr. Tuen Kong, Simon	(resigned on 6 June 2017)	Not applicable
Non-Executive Directors		
Mr. Cheung Wing Yui, Edward		A & B
Dr. Chan Ching Har, Eliza		A & B
Independent Non-Executive Directors		
Dr. Cheng Hon Kwan		A & B
Mr. Mak Kwai Wing, Alexander		B
Ms. Ng Yi Kum, Estella		B
Mr. Wong Shiu Hoi, Peter		A & B
Dr. Loke Yu		B

notes:

A: attending in-house training session
B: attending relevant conferences/seminars/workshops
C: reading relevant materials

BOARD COMMITTEES

As a part of good corporate governance, the Board has established the Remuneration Committee, Audit Committee, Investment Committee and Nomination Committee to oversee the particular aspect of the Company's affairs. These committees have been formed with specific written terms of reference which deal clearly with the committees' authority and duties. Copies of these revised terms of reference are available at the websites of the Company and the Stock Exchange.

Remuneration Committee

The Remuneration Committee was established in 2005 and currently consists of two independent non-executive directors, Dr. Cheng Hon Kwan and Mr. Mak Kwai Wing, Alexander and one executive director, Mr. Zeng Xiaoping. It is chaired by Dr. Cheng Hon Kwan. A written terms of reference of the Remuneration Committee, which describes the authority and duties of the Remuneration Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

The principal responsibilities of the Remuneration Committee are to review and consider the Company's policy for the remuneration of directors and senior management and make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The Remuneration Committee considers several factors such as time commitment, experience and responsibilities of the individual and the prevailing market condition before determining the remuneration packages including benefits in kind, pension rights and compensation payments. It also recommends to the Board on the remuneration of non-executive directors.

During the year, the Remuneration Committee held two meetings and also dealt with matters by way of written resolutions. The attendance of committee members is recorded below:

Name of Director	Attended/Eligible to Attend
Dr. Cheng Hon Kwan *(Chairman)*	2/2
Mr. Mak Kwai Wing, Alexander	2/2
Mr. Zeng Xiaoping	2/2

In 2017, the Remuneration Committee reviewed and made recommendation to the Board on remuneration matters including the existing remuneration policy, bonus for the year 2016 and the remuneration packages for the year 2017 of the Company's directors and senior management. It also discussed the extension of exercise periods of all the outstanding share options granted under the Company's share option scheme. In February 2018, the Remuneration Committee reviewed and made recommendation to the Board on the bonus for the year 2017 of the Company's directors and senior management.

Details of the emoluments of the directors and the interests of the directors in the share options of the Company during the year ended 31 December 2017 are set out in Notes 10 and 31 to the consolidated financial statements.

Audit Committee

The Audit Committee currently consists of five independent non-executive directors, namely Ms. Ng Yi Kum, Estella, Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander, Mr. Wong Shiu Hoi, Peter and Dr. Loke Yu. It is chaired by Ms. Ng Yi Kum, Estella. The Audit Committee reports directly to the Board and reviews matters relating to the work of the external auditor, financial statements, risk management and internal control systems. The Audit Committee meets with the Company's external auditor to discuss the audit process and the accounting and internal control issues. A written terms of reference, which describes the authority and duties of the Audit Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

Set out below is a summary of work performed by the Audit Committee in 2017:

— reviewed the financial statements for the year ended 31 December 2016 and for the six months ended 30 June 2017;

— reviewed the Group's continuing connected transactions;

— reviewed risk management and internal control matters with external consultant;

— reviewed the external auditor's statutory audit plan and letters to the management; and

— considered 2017 audit fees and audit work.

The Audit Committee held two meetings in 2017. At the meetings, the members of the Audit Committee have executed the major duties and responsibilities described above. They also discussed material uncertainties which may be brought about by the global economic crisis, reviewed the internal audit function of the Company, and reported a summary of their work to the Board for discussion. The attendance of committee members is recorded below:

Name of Director	Attended/Eligible to Attend
Ms. Ng Yi Kum, Estella *(Chairman)*	2/2
Dr. Cheng Hon Kwan	2/2
Mr. Mak Kwai Wing, Alexander	2/2
Mr. Wong Shiu Hoi, Peter	1/2
Dr. Loke Yu	1/2

Investment Committee

The Investment Committee was established in April 2010 and currently comprises of three members, Mr. Mak Kwai Wing, Alexander, independent non-executive director, Dr. Chan Ching Har, Eliza, non-executive director and Mr. Wang Zhiyong, executive director. It is chaired by Mr. Mak Kwai Wing, Alexander.

The Investment Committee reports directly to the Board and reviews matters in relation to evaluation of business plans, formulation of proper procedures for investment projects as well as the adequacy of controls and monitoring ongoing risk factors. A written terms of reference, which describes the authority and duties of the Investment Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

No meeting has been held by the Investment Committee during the year. The members of the Investment Committee will meet as, and when required.

Nomination Committee and Appointment of Directors

The Nomination Committee was established in December 2011 and currently consists of three independent non-executive directors, Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander and Ms. Ng Yi Kum, Estella and two executive directors, Mr. Zeng Xiaoping and Mr. Wang Zhiyong. It is chaired by Mr. Zeng Xiaoping.

The principal responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis, identify individuals suitably qualified to become Board members, assess the independence of independent non-executive directors, make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors and review the board diversity policy as appropriate. A written terms of reference, which describes the authority and duties of the Nomination Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

During the year, the Nomination Committee held one meeting. At the meeting, the eligibility of the directors seeking for re-election at the annual general meeting and the independence of the independent non-executive directors had been reviewed and assessed. The existing size and composition of the Board has also been reviewed. The attendance of committee members is recorded below:

Name of Director	Attended/Eligible to Attend
Mr. Zeng Xiaoping *(Chairman)*	1/1
Dr. Cheng Hon Kwan	1/1
Mr. Mak Kwai Wing, Alexander	0/1
Ms. Ng Yi Kum, Estella	1/1
Mr. Wang Zhiyong	1/1

According to the Articles of Association, the Board has the power at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing the nomination of a new director, the Nomination Committee and the Board will take into consideration the nominee's qualification, ability and potential contributions to the Company. Besides, the Board has adopted a board diversity policy, all Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

No new director was appointed during the year. Directors who are appointed by the Board shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next annual general meeting of the Company (in the case of an addition to the existing Board), and shall then be eligible for re-election. At each annual general meeting, one-third of the directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years.

Each of the directors on appointment to the Board is provided with a package of orientation materials setting out the duties and responsibilities of directors under the Listing Rules and other applicable statutory and regulatory requirements. The orientation meeting with newly appointed director(s) will be held for briefing on business and operations of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for directors' securities transactions. Having made specific enquiry, all the directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year 2017.

The Company has also established written guidelines regarding securities transactions on no less exacting terms of the Model Code for senior management and specific individuals who may have access to price-sensitive information in relation to the securities of the Company.

EXTERNAL AUDITOR

Deloitte Touche Tohmatsu ("Deloitte") has been appointed as independent auditors of the Group. The Audit Committee has reviewed Deloitte's proposal in respect of their scope of work and fees for the audit of 2017. Deloitte has carried out statutory audit in relation to the Company's financial statements prepared under the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and the Hong Kong Companies Ordinance for the year 2017 and also reviewed the 2017 unaudited interim financial statements of the Company in accordance with the HKFRSs.

During the year, the fees paid to Deloitte in respect of audit services amounted to approximately HK$5,350,000 and non-audit services in relation to consultancy and review services amounted to approximately HK$1,878,000.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of risk management and internal control of the Group and constantly reviewing its effectiveness while the Audit Committee is assisting the Board in fulfilling its supervision responsibility through annual review and evaluation. The system of risk management and internal control is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has established a clear risk management framework with defined levels of responsibility and reporting lines to identify, evaluate and manage significant risks. Operating units of the Group identify potential risks during their day-to-day operations and initiate actions to mitigate. In addition, management of the operating units perform risk assessment exercise periodically by conducting questionnaire and interviews, significant findings and associated action plans are recorded to the Group's risk register for monitoring and to ensure appropriate controls and mitigation actions are in place.

The Company appoints external consultant to perform internal audit function. External consultant conducts independent review twice a year on the adequacy and effectiveness of the Group's risk management and internal control systems and submits internal audit report to the Audit Committee half-yearly with findings and recommendations. The Audit Committee, will by taking into consideration the control issues identified by the external auditor in the course of statutory audit, formulate their opinion and report to the Board at the regular meetings.

The Group conducts its affairs with regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. The Group has also established business ethics guidelines for all employees which includes prohibition on using or disseminating of inside information.

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

During the year, the Board has engaged RSM Nelson Wheeler Consulting Limited ("RSM Nelson Wheeler") to perform two internal audit reviews to assess on the effectiveness of the Group's risk management and internal control systems. The assessments cover all material controls, including financial, operational and compliance controls of the Company and its major subsidiaries on a rotation basis.

The internal audit reports prepared by RSM Nelson Wheeler in accordance with the risk-based internal audit plan for the year of 2017 have been reviewed and discussed at the Audit Committee meetings held on 24 August 2017 and 19 March 2018, respectively. The Board together with the senior management have respectively on 30 August 2017 and 28 March 2018, reviewed, considered and discussed all the findings in relation to the internal control system and recommendations thereto, and have concluded that the overall internal control system of the Group has effectively exercised and no material control failure or significant areas of concern which might affect shareholders' interest were identified during the reviews.

GOING CONCERN

The directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

COMMUNICATION WITH SHAREHOLDERS

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure that shareholders are being kept well informed of business development. These include general meetings, annual reports, various notices, announcements and circulars. The Company has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. Shareholders may make enquiries to the Board in writing for the attention of the Company Secretary at Suites 7–13, 36th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong or via email at ir@tianjindev.com.

COMMUNICATION WITH SHAREHOLDERS (Continued)

The general meetings provide a useful forum for the shareholders of the Company to express their views and comments and the shareholders are encouraged to attend the general meetings of the Company to exchange views with the Board. The Chairman, directors, board committees' members and external auditor, where appropriate, are available to answer questions at the meetings. An extraordinary general meeting and an annual general meeting of the Company were held on 19 May 2017 and 15 June 2017 respectively, and detailed procedures for conducting a poll have been explained by the Chairman during the meetings. The attendance of each Board member is recorded below:

		Attended/Eligible to Attend	
Name of Director		**Annual General Meeting**	**Extraordinary General Meeting**
Executive Directors			
Mr. Zeng Xiaoping *(Chairman)*		1/1	1/1
Mr. Wang Zhiyong *(General Manager)*		1/1	1/1
Dr. Cui Di		1/1	1/1
Dr. Yang Chuan		0/1	0/1
Ms. Zhang Lili	(removed on 17 February 2017)	0/0	0/0
Mr. Tuen Kong, Simon	(resigned on 6 June 2017)	0/0	1/1
Non-Executive Directors			
Mr. Cheung Wing Yui, Edward		1/1	1/1
Dr. Chan Ching Har, Eliza		1/1	1/1
Independent Non-Executive Directors			
Dr. Cheng Hon Kwan		1/1	1/1
Mr. Mak Kwai Wing, Alexander		1/1	1/1
Ms. Ng Yi Kum, Estella		1/1	0/1
Mr. Wong Shiu Hoi, Peter		0/1	1/1
Dr. Loke Yu		1/1	1/1

Procedures for Convening of Extraordinary General Meeting on Requisition

Pursuant to section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders holding at the date of the deposit of the requisition at least 5% of the total voting rights of all shareholders having a right to vote at general meetings, may request the Company to convene an extraordinary general meeting ("EGM"). The request: (i) must state the general nature of the business to be dealt with at the EGM; (ii) may include the text of a resolution that may properly be moved and is intended to be moved at the EGM; (iii) may consist of several documents in like form; (iv) may be sent to the Company in hard copy form at the registered office of the Company, or in electronic form via email at ir@tianjindev.com; and (v) must be authenticated by the person or persons making it.

If the directors of the Company do not within 21 days after the date on which they become subject to the requirement proceed duly to convene an EGM for a day not more than 28 days after the date of the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall be held not more than 3 months after the date on which the directors of the Company become subject to the requirement.

Procedures for Putting Forward Proposals at General Meetings

Pursuant to sections 580 and 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders may request the Company to circulate a resolution that may properly be moved and is intended to be moved at an annual general meeting, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution. The request must be made by: (a) shareholders representing at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the annual general meeting to which the request relates; or (b) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the request relates.

The request: (i) may be sent to the Company in hard copy form at the registered office of the Company, or in electronic form via email at ir@tianjindev.com; (ii) must identify the resolution of which notice is to be given; (iii) must be authenticated by the person or persons making it; and (iv) must be received by the Company no later than 6 weeks before the annual general meeting to which the request relates, or if later, the time at which notice is given of that annual general meeting.

CONSTITUTIONAL DOCUMENT

During the year, there was no change in the constitutional document of the Company. Such document is available on the websites of the Company and the Stock Exchange.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibility in preparing the financial statements. The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report on pages 55 to 59 of this Annual Report.

The board of directors of the Company (the "Board") herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in Notes 46, 48 and 49 to the consolidated financial statements respectively.

BUSINESS REVIEW

A review of the business of the Group for the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of this financial year and indication of likely future development in the Group's business are set out in the sections headed "*Chairman's Statement*", "*Management Discussion and Analysis*", "*Environmental, Social and Governance Report*" and "*Corporate Governance Report*" of this Annual Report, which form part of this report of the directors.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 60.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 4 to the consolidated financial statements.

An interim dividend of HK4.08 cents per share (2016: HK4.53 cents per share) was paid on 30 October 2017. The Board recommends the payment of a final dividend of HK4.55 cents per share (2016: HK5.09 cents per share). Details are set out in Note 11 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 152.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 32 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 30 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as set out on pages 47 to 49, no equity-linked agreements were entered into by the Group during the year.

BORROWINGS

Particulars of the borrowings of the Group as at 31 December 2017 are set out in Note 35 to the consolidated financial statements.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Save as disclosed below, during the year and up to the date of this report, the directors of the Company are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules.

On 23 November 2016, the Company entered into a facility agreement (the "Facility Agreement") with a syndicate of banks as lenders (the "Lenders") in respect of a HK$1,800 million term loan facility for a period of 36 months commencing from the date of utilisation.

Pursuant to the Facility Agreement, it will be an event of default, inter alia, if: (i) the Tianjin Municipal People's Government ceases to maintain a shareholding ownership directly or indirectly in the Company of more than 50%, or (ii) the Company ceases to be under the direct or indirect management control of Tsinlien Group Company Limited (津聯集團有限公司) ("Tsinlien").

If any of the abovementioned events of default occurs, the Lenders may by notice to the Company: (a) cancel the total commitments or any part thereof; (b) declare that the loan or any part thereof together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable; and/or (c) declare that the loan or any part thereof be payable on demand.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2017.

DIRECTORS

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

Executive Directors

Mr. Zeng Xiaoping *(Chairman)*
Mr. Wang Zhiyong *(General Manager)*
Dr. Cui Di
Dr. Yang Chuan
Ms. Zhang Lili (removed on 17 February 2017)
Mr. Tuen Kong, Simon (resigned on 6 June 2017)

Non-Executive Directors

Mr. Cheung Wing Yui, Edward
Dr. Chan Ching Har, Eliza

Independent Non-Executive Directors

Dr. Cheng Hon Kwan
Mr. Mak Kwai Wing, Alexander
Ms. Ng Yi Kum, Estella
Mr. Wong Shiu Hoi, Peter
Dr. Loke Yu

In accordance with Article 101 of the Company's Articles of Association, Mr. Zeng Xiaoping, Dr. Yang Chuan, Dr. Cheng Hon Kwan and Mr. Wong Shiu Hoi, Peter will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The biographical details of the directors who will offer themselves for re-election are set out in the section headed "*Biographical Details of Directors and Senior Management*" on pages 16 to 21.

A list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website (www.tianjindev.com).

DIRECTORS' SERVICE CONTRACT

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INDEMNITIES

Pursuant to the Company's Articles of Association, subject to the provisions of the Companies Ordinance and so far as may be permitted by the Companies Ordinance, every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate insurance cover in respect of directors' and officers' liabilities for the directors of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Zeng Xiaoping, Mr. Wang Zhiyong and Dr. Cui Di are directors of Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) ("Tsinlien Investment Holdings") which, through certain of its subsidiaries, is partly engaged in the businesses of pharmaceutical including manufacture and sale of medicinal raw materials, food additive and medical disinfecting products. As these businesses are of different types and/or different sales regions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Tsinlien Investment Holdings.

Save as disclosed above, during the year and up to the date of this report, none of the directors was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, its subsidiaries, or its holding company was a party and in which a director of the Company or an entity connected with him had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2017, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of director	Number of underlying shares held	Approximate percentage of total issued shares
Mr. Wang Zhiyong	8,600,000	0.80%
Dr. Cui Di	2,900,000	0.27%
Mr. Cheung Wing Yui, Edward	600,000	0.06%
Dr. Chan Ching Har, Eliza	600,000	0.06%
Dr. Cheng Hon Kwan	600,000	0.06%
Mr. Mak Kwai Wing, Alexander	600,000	0.06%
Ms. Ng Yi Kum, Estella	600,000	0.06%
Mr. Wong Shiu Hoi, Peter	100,000	0.01%

notes:

1. All interests are held in the capacity as a beneficial owner.
2. All interests stated above represent long positions.
3. As at 31 December 2017, the total number of shares of the Company in issue was 1,072,770,125.
4. Details of the interests of directors in share options are set out in the paragraph headed "*Share Option Scheme*" in this section below.

DIRECTORS' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at 31 December 2017, none of the directors or chief executive or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 25 May 2007, a share option scheme (the "Share Option Scheme") of the Company was approved by shareholders of the Company. The Share Option Scheme was effective for a period of ten years from the date of adoption and had expired on 24 May 2017, after which no further options could be granted. All the outstanding share options granted under the Share Option Scheme will continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. The principal terms of the Share Option Scheme are summarised as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants.

(b) Participants of the Share Option Scheme

The Board may offer to grant options to the participants which shall refer to (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any substantial shareholders of the Company or any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professionals and other advisers to each member of the Group; (iv) any chief executives or substantial shareholders of each member of the Group; (v) any associates of director, chief executive or substantial shareholder of each member of the Group; (vi) any employees (whether full-time or part-time) of substantial shareholder of each member of the Group; (vii) any suppliers of goods or services to any member of the Group; and (viii) any customers of any member of the Group, provided that the Board shall have absolute discretion to determine whether one falls within the aforesaid categories.

(c) Total number of shares available for issue under the Share Option Scheme

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares of the Company in issue from time to time.

SHARE OPTION SCHEME (Continued)

(d) Maximum entitlement of each participant

Except with the approval of the Company's shareholders at general meeting, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue as at the date of grant.

(e) Minimum period for options to be held

No minimum period for which an option must be held before it can be exercised unless otherwise determined by the Board.

(f) Period and payment on acceptance of options

An offer of grant of an option may be accepted by a grantee within the date as specified in the offer letter issued by the Company, being a date not later than 30 days after the date on which the offer letter was issued. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

(g) Basis of determining the exercise price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to the participants and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

At the extraordinary general meeting of the Company held on 19 May 2017, shareholders of the Company passed an ordinary resolution to extend the exercise periods of all the outstanding options granted on 16 December 2009, 3 December 2010, 7 November 2011, 19 December 2012 and 20 December 2013 by the Company under the Share Option Scheme for two years from 24 May 2017 to 24 May 2019.

As at the date of this report, a total of 20,800,000 shares of the Company (representing approximately 1.94% of the existing total number of issued shares of the Company) may be issued upon exercise of all outstanding options granted under the Share Option Scheme.

SHARE OPTION SCHEME (Continued)

Details of options granted, exercised, lapsed or cancelled and outstanding under the Share Option Scheme during the year are as follows:

	Date of grant	Exercise price per share *HK$*	Number of share options: As at 1 January 2017	During the year: Granted	During the year: Exercised	During the year: Reclassified	During the year: Lapsed	During the year: Cancelled	As at 31 December 2017	Exercise period
Directors										
Wang Zhiyong	16/12/2009	5.750	900,000	–	–	–	–	–	900,000	16/12/2009 – 24/05/2019 [1]
	07/11/2011	3.560	2,800,000	–	–	–	–	–	2,800,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	2,800,000	–	–	–	–	–	2,800,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	2,100,000	–	–	–	–	–	2,100,000	20/12/2013 – 24/05/2019 [1]
Cui Di	07/11/2011	3.560	300,000	–	–	–	–	–	300,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	800,000	–	–	–	–	–	800,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	1,800,000	–	–	–	–	–	1,800,000	20/12/2013 – 24/05/2019 [1]
Cheung Wing Yui, Edward	19/12/2007	8.040	500,000	–	–	–	(500,000)	–	–	17/01/2008 – 24/05/2017
	16/12/2009	5.750	300,000	–	–	–	–	–	300,000	16/12/2009 – 24/05/2019 [1]
	07/11/2011	3.560	100,000	–	–	–	–	–	100,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	100,000	–	–	–	–	–	100,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	100,000	–	–	–	–	–	100,000	20/12/2013 – 24/05/2019 [1]
Chan Ching Har, Eliza	16/12/2009	5.750	300,000	–	–	–	–	–	300,000	16/12/2009 – 24/05/2019 [1]
	07/11/2011	3.560	100,000	–	–	–	–	–	100,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	100,000	–	–	–	–	–	100,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	100,000	–	–	–	–	–	100,000	20/12/2013 – 24/05/2019 [1]
Cheng Hon Kwan	19/12/2007	8.040	500,000	–	–	–	(500,000)	–	–	17/01/2008 – 24/05/2017
	16/12/2009	5.750	300,000	–	–	–	–	–	300,000	16/12/2009 – 24/05/2019 [1]
	07/11/2011	3.560	100,000	–	–	–	–	–	100,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	100,000	–	–	–	–	–	100,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	100,000	–	–	–	–	–	100,000	20/12/2013 – 24/05/2019 [1]
Mak Kwai Wing, Alexander	16/12/2009	5.750	300,000	–	–	–	–	–	300,000	16/12/2009 – 24/05/2019 [1]
	07/11/2011	3.560	100,000	–	–	–	–	–	100,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	100,000	–	–	–	–	–	100,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	100,000	–	–	–	–	–	100,000	20/12/2013 – 24/05/2019 [1]
Ng Yi Kum, Estella	03/12/2010	6.070	300,000	–	–	–	–	–	300,000	03/12/2010 – 24/05/2019 [1]
	07/11/2011	3.560	100,000	–	–	–	–	–	100,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	100,000	–	–	–	–	–	100,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	100,000	–	–	–	–	–	100,000	20/12/2013 – 24/05/2019 [1]
Wong Shiu Hoi, Peter	20/12/2013	5.532	100,000	–	–	–	–	–	100,000	20/12/2013 – 24/05/2019 [1]
Tuen Kong, Simon	16/12/2009	5.750	900,000	–	–	(900,000) [2]	–	–	–	16/12/2009 – 24/05/2019 [1]
	20/12/2013	5.532	2,000,000	–	–	(2,000,000) [2]	–	–	–	20/12/2013 – 24/05/2019 [1]
Continuous contract employees	16/12/2009	5.750	–	–	–	900,000 [2]	–	–	900,000	16/12/0009 – 24/05/2019 [1]
	07/11/2011	3.560	900,000	–	–	–	–	–	900,000	11/11/2011 – 24/05/2019 [1]
	19/12/2012	4.060	900,000	–	–	–	–	–	900,000	19/12/2012 – 24/05/2019 [1]
	20/12/2013	5.532	1,500,000	–	–	2,000,000 [2]	–	–	3,500,000	20/12/2013 – 24/05/2019 [1]
Total			21,800,000	–	–	–	(1,000,000)	–	20,800,000	

notes:

1. The extension of exercise period for two years from 24 May 2017 to 24 May 2019 was approved by the shareholders of the Company at the extraordinary general meeting held on 19 May 2017.

2. The share options of Mr. Tuen Kong, Simon were reclassified as continuous contract employees upon his resignation as director of the Company on 6 June 2017.

3. No share options were granted during the period from 1 January 2017 to 24 May 2017.

Details of the accounting policy adopted for the share options are set out in Notes 2(q) and 31 to the consolidated financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme of the Company, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2017, the following persons or corporations, other than the directors or chief executive of the Company as disclosed above, had interests or short positions, in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	notes	**Capacity**	**Number of shares held**	**Approximate percentage of total issued shares**
Tsinlien Investment Holdings	1&2	Interest of controlled corporation	673,755,143	62.80%
Tianjin Bohai State-owned Assets Management Co., Ltd. (天津渤海國有資產經營管理有限公司) ("Bohai")	1&2	Interest of controlled corporation	673,755,143	62.80%
Tianjin Pharmaceutical Group Co., Ltd. (天津市醫藥集團有限公司) ("Tianjin Pharmaceutical")	1&2	Interest of controlled corporation	673,755,143	62.80%
Tsinlien	1&3	Directly beneficially interest and Interest of controlled corporation	673,755,143	62.80%
Central Huijin Investment Ltd. (中央匯金投資有限責任公司)	1&4	Interest of controlled corporation	54,746,000	5.10%
China Reinsurance (Group) Corporation (中國再保險(集團)股份有限公司)	1&4	Directly beneficially interest	54,746,000	5.10%

notes:

1. All interests stated above represent long positions.

2. Tsinlien is a direct wholly-owned subsidiary of Tianjin Pharmaceutical, which in turn is a direct wholly-owned subsidiary of Bohai and an indirect wholly-owned subsidiary of Tsinlien Investment Holdings. By virtue of the SFO, Tsinlien Investment Holdings, Bohai and Tianjin Pharmaceutical are deemed to be interested in the same parcel of shares of the Company in which Tsinlien is interested.

3. As at 31 December 2017, Tsinlien directly held 22,956,000 shares of the Company and its wholly-owned subsidiaries, namely Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited held 568,017,143 shares, 2,022,000 shares and 80,760,000 shares of the Company respectively. By virtue of the SFO, Tsinlien is deemed to have an interest in the shares of the Company in which Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited are interested.

4. Based on a corporate substantial shareholder notice, Central Huijin Investment Ltd. holds 71.56% equity interest in China Reinsurance (Group) Corporation. By virtue of the SFO, Central Huijin Investment Ltd. is deemed to have an interest in the shares of the Company in which China Reinsurance (Group) Corporation is interested.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any person or corporation, other than the directors or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following continuing connected transactions, details of these transactions are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules:

(i) Master Sales Agreement

On 14 March 2016, the Company entered into a master sales agreement (the "Master Sales Agreement") with Tianjin Pharmaceutical in relation to the sales of various chemical drug products and pharmaceutical printing and packaging products (the "Products") by members of the Group to members of Tianjin Pharmaceutical and its subsidiaries (other than members of the Group, the "Tianjin Pharmaceutical Group") for a term from 1 May 2016 to 31 December 2018. The price of the products shall be determined in accordance with the following principles:

(a) the price shall be that which members of the Group charge their independent third party customers in respect of the same Products under the same conditions;

(b) where there is no reference price available (e.g. in the case of the launch of new Products), the costs incurred by members of the Group in producing the new Products plus a profit margin ranging from 5% to 90%, and taking into account, among others, market conditions and the price of similar products offered by independent third party suppliers in the same region; or

(c) the Group may, based on the transaction quantity and payment terms, offer to the Tianjin Pharmaceutical Group the same discount which the Group offers to its independent third party customers.

For the year ended 31 December 2017, the total amount received by the Group from the Tianjin Pharmaceutical Group under the Master Sales Agreement was RMB87,250,000 (equivalent to HK$100,751,000), which is within the annual cap of RMB234,000,000 (equivalent to HK$270,208,000).

CONTINUING CONNECTED TRANSACTIONS (Continued)

(ii) Master R&D Services Agreement

On 14 March 2016, the Company entered into a master R&D services agreement (the "Master R&D Services Agreement") with Tianjin Pharmaceutical in relation to the provision of research and development of biomedical products, technology and related services (the "R&D Services") by members of the Group to members of the Tianjin Pharmaceutical Group for a term from 14 March 2016 to 31 December 2018. The service fee shall be determined in accordance with the following principles:

(a) the costs incurred by members of the Group in the process of providing the R&D Services (including but not limited to material costs, test processing costs, staff costs, cost for use of equipment and relevant management fees); and

(b) adding a profit margin of not less than 30% after taking into account the complexity and difficulty of the R&D Services to be provided, the estimated time required and the possible risks to be borne at different stages.

For the year ended 31 December 2017, the total amount received by the Group from the Tianjin Pharmaceutical Group under the Master R&D Services Agreement was RMB15,814,000 (equivalent to HK$18,261,000), which is within the annual cap of RMB80,000,000 (equivalent to HK$92,379,000).

As Tianjin Pharmaceutical is an intermediate controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules, therefore the entering into of the Master Sales Agreement, the Master R&D Services Agreement and the respective transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

Details of the above transactions were disclosed in the Company's announcements dated 14 March 2016 and the circular dated 7 April 2016.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "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 above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions disclosed above have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DISCLOSURE PURSUANT TO RULE 14A.63 OF THE LISTING RULES

On 22 July 2015, Century Promise Limited ("Century Promise"), a wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Golden Tripod Holdings Limited, a wholly-owned subsidiary of Tsinlien, as vendor, and Tsinlien and Tianjin Pharmaceutical, as vendor's guarantors, in relation to the acquisition of 67% of the issued share capital of Thrive Leap Limited ("Thrive Leap", together with its subsidiaries, the "Thrive Leap Group") at a consideration of RMB2,315,855,000 (the "Acquisition"). The Acquisition was completed on 21 December 2015.

Pursuant to the Sale and Purchase Agreement, Tsinlien and Tianjin Pharmaceutical unconditionally and irrevocably guaranteed to Century Promise, among others, that the audited consolidated net profit attributable to owners of Thrive Leap (the "Actual Profit") according to the audited consolidated accounts of Thrive Leap Group prepared in accordance with the HKFRSs (the "Thrive Leap Audited Accounts") for the two financial years ending 31 December 2016 and 2017 shall in aggregate be not less than RMB313,000,000 (the "2016 and 2017 Profit Target").

Tsinlien and Tianjin Pharmaceutical undertook to Century Promise, among others, that if the Actual Profit for the two financial years ending 31 December 2016 and 2017 in aggregate falls short of the 2016 and 2017 Profit Target, Tsinlien and Tianjin Pharmaceutical shall within 10 business days from the date of issue of the Thrive Leap Audited Accounts for the financial year ending 31 December 2017 pay to Century Promise in cash an amount equal to 67% of the HK$ Equivalent (as defined in the circular of the Company dated 21 August 2015 (the "Circular")) of the amount of such shortfall.

Based on the Thrive Leap Audited Accounts for each of the two financial years ended 31 December 2016 and 2017, the Actual Profit for the two financial years ended 31 December 2016 and 2017 in aggregate was approximately RMB170,848,000, which falls short of the 2016 and 2017 Profit Target by approximately RMB142,152,000 (the "Profit Shortfall"). Accordingly, Tsinlien and Tianjin Pharmaceutical are obliged to compensate an amount of HK$118,287,000 (being 67% of the HK$ Equivalent of the Profit Shortfall) to Century Promise. Such compensation was paid by Tsinlien and Tianjin Pharmaceutical on 16 April 2018. The independent non-executive directors of the Company are of the opinion that the obligations of Tsinlien and Tianjin Pharmaceutical for the two financial years ended 31 December 2016 and 2017 under the profit guarantee have been fulfilled.

Details of the above were disclosed in the Company's announcements dated 22 July 2015, 17 August 2015, 30 March 2016, 13 April 2016, 28 March 2018 and 16 April 2018 and the Circular.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for less than 13% of the total sales for the year.

The percentage of the Group's purchases for the year attributable to the Group's major suppliers are as follows:

—	the largest supplier	39%
—	five largest suppliers in aggregation	59%

None of the directors, or any of their associates or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's share capital) had any interest in the Group's major suppliers noted above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public at all times during the year.

INDEPENDENT AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Zeng Xiaoping
Chairman

Hong Kong, 28 March 2018

Deloitte.

德勤

TO THE MEMBERS OF TIANJIN DEVELOPMENT HOLDINGS LIMITED
天津發展控股有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Tianjin Development Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 151, 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current reporting 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 MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of non-current assets relating to electrical and mechanical segment We identified the valuation of non-current assets relating to electrical and mechanical segment as a key audit matter due to the fact that the electrical and mechanical segment incurred losses for the year ended 31 December 2017. The Group's management exercised significant judgement on the impairment testing, which requires the estimation of key assumptions in the preparation of cash flow projections and the discounted cash flow model. An impairment loss was recognised on patents relating to electrical and mechanical segment for the current year and further details are set out in Note 21 to the consolidated financial statements.	Our procedures in relation to the impairment assessment of non-current assets relating to electrical and mechanical segment included: • Evaluating the appropriateness of the key assumptions in the cash flow projections and the discounted cash flow model, including the discount rate, growth rate, budgeted sales and gross margin, by discussing with the management and with reference to our understanding of the industry; and • Evaluating the historical accuracy of management's budgeting process by comparing historical financial performance of the electrical and mechanical segment with the original forecasts.
Machine construction contract revenue and costs We identified the machine construction contract revenue and costs as a key audit matter as there is a high degree of judgement involved in estimating and determining the final total outcome of the contracts as well as the percentage of completion of construction works, with reference to the proportion of construction costs incurred to the reporting period compared to the estimated costs of the contract at completion. The machine construction contract revenue and costs are significant for the year ended 31 December 2017 and further details are set out in Note 3(g) to the consolidated financial statements.	Our procedures in relation to the machine construction contract revenue and costs included: • Discussing with project managers and management of the Group in respect of material machine construction projects and checking the supporting documents to evaluate the reasonableness of their basis of estimation of the latest budgeted costs, taking into account the profit margin, the duration and complexity of similar projects; and • Assessing the reasonableness of management's percentage of completion calculations by comparing the costs incurred and recorded to the payment certificates and invoices.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of interest in an associate — Tianjin Port Development Holdings Limited ("Tianjin Port")	
We identified the valuation of interest in a listed associate — Tianjin Port as a key audit matter due to the fact that the carrying value of the Group's interest therein, including goodwill, exceeded the market value at the end of the reporting period. In estimating the value in use of the Group's interest, significant judgement has been exercised in the preparation of the discounted cash flows which require the estimation of key assumptions and inputs including terminal value, discount rates, growth rates and expected dividend income. Further details are set out in Note 3(d) to the consolidated financial statements.	Our procedures in relation to the valuation of interest in a listed associate — Tianjin Port included: • Evaluating the appropriateness of the key assumptions in the discounted cash flows including the expected dividend income and basis of calculation of terminal value by discussing with management about Tianjin Port's business prospects and with reference to the future outlook and relevant industry growth forecast and historical dividend pay-out pattern of Tianjin Port; and • Evaluating the historical accuracy of the cash flow forecast by comparing historical financial performance of Tianjin Port to the actual result and obtaining explanation from management for any significant exceptions.

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 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.

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 judgement 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 Chan Tsz Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	4	**6,987,845**	6,110,176
Cost of sales		**(5,374,104)**	(4,799,058)
Gross profit		**1,613,741**	1,311,118
Other income	5	**310,544**	389,065
Other gains (losses), net	6	**110,055**	(99,959)
Selling and distribution expenses		**(665,659)**	(429,349)
General and administrative expenses		**(725,655)**	(643,197)
Other operating expenses		**(350,379)**	(253,907)
Finance costs	7	**(63,434)**	(68,067)
Share of profit (loss) of			
Associates	16	**433,100**	516,742
Joint ventures	17	**(8,040)**	(8,715)
Profit before tax		**654,273**	713,731
Tax expense	8	**(75,782)**	(49,989)
Profit for the year	9	**578,491**	663,742
Attributable to:			
Owners of the Company		**488,837**	515,214
Non-controlling interests		**89,654**	148,528
		578,491	663,742
		HK cents	HK cents
Earnings per share	12		
Basic		**45.57**	48.03
Diluted		**45.53**	48.02

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Profit for the year		**578,491**	663,742
Other comprehensive income (expense)			
Item that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit obligations	33	**(8,209)**	(10,885)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences			
— the Group		**622,419**	(651,027)
— associates		**252,165**	(242,001)
— joint ventures		**2,798**	(3,162)
Change in fair value of available-for-sale financial assets	19	**(19,517)**	(27,495)
Deferred taxation on fair value change of available-for-sale financial assets		**1,530**	776
Share of other comprehensive income (expense) of an associate			
— available-for-sale financial assets revaluation reserve		**21,244**	(1,171)
Other comprehensive income (expense) for the year		**872,430**	(934,965)
Total comprehensive income (expense) for the year		**1,450,921**	(271,223)
Attributable to:			
Owners of the Company		**1,119,158**	(179,281)
Non-controlling interests		**331,763**	(91,942)
		1,450,921	(271,223)

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**4,729,552**	4,953,521
Land use rights	14	**496,571**	434,697
Investment properties	15	**177,698**	155,515
Interests in associates	16	**5,013,540**	4,693,887
Interests in joint ventures	17	**38,492**	43,734
Intangible assets	18	**78,717**	83,899
Deposits paid for acquisition of property, plant and equipment		**21,182**	35,721
Deferred tax assets	36	**93,409**	91,185
Available-for-sale financial assets	19	**415,646**	413,223
Goodwill	20	**1,495**	1,397
		11,066,302	10,906,779
Current assets			
Inventories	22	**586,705**	484,524
Amounts due from joint ventures	23	**54,634**	50,589
Amount due from ultimate holding company	23	**260**	237
Amounts due from related companies	24	**48,038**	47,740
Amounts due from customers for contract work	25	**572,533**	714,573
Trade receivables	26	**921,465**	764,729
Notes receivables	26	**334,108**	279,033
Other receivables, deposits and prepayments	26	**590,998**	463,841
Financial assets at fair value through profit or loss	27	**388,603**	647,628
Entrusted deposits	28	**645,933**	442,402
Restricted bank balances	29	**94,496**	149,135
Time deposits with maturity over three months	29	**1,403,018**	1,436,927
Cash and cash equivalents	29	**5,898,551**	4,331,164
		11,539,342	9,812,522
Total assets		**22,605,644**	20,719,301
EQUITY			
Owners of the Company			
Share capital	30	**5,136,285**	5,136,285
Reserves	32	**5,840,170**	4,767,889
		10,976,455	9,904,174
Non-controlling interests		**3,770,735**	3,473,189
Total equity		**14,747,190**	13,377,363

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Defined benefit obligations	33	**53,650**	44,320
Deferred income	34	**107,826**	93,560
Bank borrowings	35	**1,856,616**	1,859,190
Deferred tax liabilities	36	**37,772**	38,634
		2,055,864	2,035,704
Current liabilities			
Trade payables	37	**1,243,866**	1,078,438
Notes payables	37	**77,031**	153,384
Other payables and accruals	38	**2,775,699**	2,467,337
Amounts due to related companies	24	**824,228**	875,471
Amounts due to customers for contract work	25	**230,432**	170,042
Bank borrowings	35	**491,879**	406,990
Current tax liabilities		**159,455**	154,572
		5,802,590	5,306,234
Total liabilities		**7,858,454**	7,341,938
Total equity and liabilities		**22,605,644**	20,719,301
Net current assets		**5,736,752**	4,506,288
Total assets less current liabilities		**16,803,054**	15,413,067

The consolidated financial statements on pages 60 to 151 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

Zeng Xiaoping	**Wang Zhiyong**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Owners of the Company				Non-controlling interests HK$'000	Total HK$'000
		Share capital HK$'000	Other reserves HK$'000 (Note 32)	Retained earnings HK$'000	Sub-total HK$'000		
At 1 January 2016		5,136,285	224,637	4,817,971	10,178,893	3,603,307	13,782,200
Profit for the year		–	–	515,214	515,214	148,528	663,742
Other comprehensive expense for the year		–	(694,495)	–	(694,495)	(240,470)	(934,965)
Total comprehensive (expense) income for the year		–	(694,495)	515,214	(179,281)	(91,942)	(271,223)
Dividends	11	–	–	(109,208)	(109,208)	(41,582)	(150,790)
Capital contribution by non-controlling interests		–	–	–	–	1,428	1,428
Share-based payment expense of an associate		–	424	–	424	–	424
Transfer between reserves		–	47,903	(47,903)	–	–	–
Others		–	13,346	–	13,346	1,978	15,324
		–	61,673	(157,111)	(95,438)	(38,176)	(133,614)
At 31 December 2016		5,136,285	(408,185)	5,176,074	9,904,174	3,473,189	13,377,363
Profit for the year		**–**	**–**	**488,837**	**488,837**	**89,654**	**578,491**
Other comprehensive income for the year		**–**	**630,321**	**–**	**630,321**	**242,109**	**872,430**
Total comprehensive income for the year		**–**	**630,321**	**488,837**	**1,119,158**	**331,763**	**1,450,921**
Dividends	11	**–**	**–**	**(98,373)**	**(98,373)**	**(36,012)**	**(134,385)**
Share-based payment expense	31	**–**	**19,362**	**–**	**19,362**	**–**	**19,362**
Transfer upon lapse of share options		**–**	**(26,616)**	**26,616**	**–**	**–**	**–**
Assets restructuring of an associate		**–**	**25,374**	**–**	**25,374**	**–**	**25,374**
Transfer between reserves		**–**	**77,054**	**(77,054)**	**–**	**–**	**–**
Others		**–**	**6,760**	**–**	**6,760**	**1,795**	**8,555**
		–	**101,934**	**(148,811)**	**(46,877)**	**(34,217)**	**(81,094)**
At 31 December 2017		**5,136,285**	**324,070**	**5,516,100**	**10,976,455**	**3,770,735**	**14,747,190**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Cash generated from operations	42	**597,579**	127,506
PRC income tax paid		**(82,402)**	(47,068)
Interest paid		**(65,866)**	(71,628)
NET CASH FROM OPERATING ACTIVITIES		**449,311**	8,810
INVESTING ACTIVITIES			
Proceeds from redemption of entrusted deposits		**1,046,131**	2,203,738
Disposal of subsidiaries		**620,845**	—
Dividends received from associates		**351,713**	530,082
Interest received		**143,827**	273,073
Decrease (increase) in time deposits with maturity over three months		**134,832**	(57,890)
Release (addition) of restricted bank balances		**63,203**	(33,084)
Proceeds from redemption of an entrusted loan		**34,642**	23,364
Proceeds from disposal of property, plant and equipment/land use rights		**27,150**	50,053
Dividends received from available-for-sale financial assets		**23,531**	19,006
Addition of available-for-sale financial assets	19	**—**	(87,617)
Addition of entrusted deposits		**(1,212,471)**	(815,829)
Purchase of property, plant and equipment/land use rights		**(321,492)**	(356,428)
Addition of entrusted loans		**(34,642)**	(35,047)
(Advance to) repayment from joint ventures		**(458)**	1,926
NET CASH FROM INVESTING ACTIVITIES		**876,811**	1,715,347
FINANCING ACTIVITIES			
Drawdown of bank borrowings		**461,930**	2,242,002
Repayment of bank borrowings		**(419,465)**	(3,011,327)
Dividends paid		**(134,385)**	(150,790)
Acquisition of subsidiaries under common control		**—**	(1,112,055)
Repayment of obligations under finance leases		**—**	(17,503)
Contribution from non-controlling interests of subsidiary		**—**	1,428
NET CASH USED IN FINANCING ACTIVITIES		**(91,920)**	(2,048,245)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,234,202**	(324,088)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**4,331,164**	4,997,450
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**333,185**	(342,198)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**5,898,551**	4,331,164

1. GENERAL INFORMATION

Tianjin Development Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in (i) utilities including supply of electricity, water and heat and thermal power; (ii) pharmaceutical including manufacture and sale of chemical drugs, and research and development of new medicine technology and new products, as well as design, manufacture and printing for pharmaceutical packaging and sale of other paper-based packaging materials; (iii) hotel; (iv) electrical and mechanical including the manufacture and sale of presses, mechanical and hydroelectric equipment and large scale pump units; and (v) strategic and other investments including investments in associates which are principally engaged in the manufacture and sale of elevators and escalators and provision of port services in Tianjin, the People's Republic of China (the "PRC").

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suites 7–13, 36/F, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 882). The directors of the Company consider Tsinlien Group Company Limited ("Tsinlien"), a company incorporated in Hong Kong, as the Company's ultimate holding company. Further details of Tsinlien are set out in Note 45(b).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets at fair value through profit or loss and investment properties, which are carried at fair value. The consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "Companies Ordinance").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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".

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

For investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by 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 44. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosures in Note 44, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied 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[3]
HK(IFRIC)—Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)—Int 23	Uncertainty over Income Tax Treatments[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[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle except for Amendments to HKFRS 12[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, 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. 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.

- 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.

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:

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Classification and measurement

- Debt instruments classified as loans and receivables carried at amortised cost as disclosed in Notes 23, 24, 26 and 29, respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 19: these securities qualified for designation as measured at fair value through other comprehensive income under HKFRS 9, however, the fair value gains or losses accumulated in the available-for-sale financial assets revaluation reserve amounting to HK$99,171,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 19: these securities qualified for designation as measured at fair value through other comprehensive income under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in reserve. Upon initial application of HKFRS 9, the directors of the Company anticipate a fair value gain relating to these securities would be adjusted to available-for-sale financial assets revaluation reserve as at 1 January 2018;

- Entrusted deposits as disclosed in Note 28 will be classified as financial assets at fair value through profit or loss as contractual right to cash flows do not represent contractual cash flows that are solely payments of principal and interest on the principal outstanding. Upon initial application of HKFRS 9, the directors of the Company anticipate that the adjustment for a fair value gain or loss relating to the entrusted deposits to the retained earnings as at 1 January 2018 would not be significant; and

- Except for financial assets that are subject to expected credit loss model upon application of HKFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were 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 slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January 2018 but will not have a material adverse impact on the Group's financial performance in the foreseeable future.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

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.

Except as described below, the directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of other revenue streams recognised in the respective reporting periods.

In respect of the revenue from manufacture and sale of presses, mechanical and hydroelectric equipment derived from the electrical and mechanical segment to customers, certain contracts may not meet the HKFRS 15 criteria for recognising revenue over time. Currently, the Group recognised the revenue and costs over time by reference to the stage of completion in accordance with HKAS 11. In addition, the receipt of progress payment from certain customers in the electrical and mechanical segment may be considered as having a significant financing component and the transaction price would need to be adjusted for the purposes of recognising the revenue. Any adjustment to the transaction price under HKFRS 15 would result in interest expense being recognised.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of retained earnings at 1 January 2018.

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 and operating cash flows respectively by the Group.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 16 "Leases" (Continued)

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group had non-cancellable operating lease commitments of HK$5,843,000 as disclosed in Note 39. 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. In addition, the application of new requirement may result changes in measurement and presentation as indicated above but will not have a material adverse impact on the Group's financial performance in the foreseeable future.

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

Significant accounting policies

The principal accounting policies are set out below.

(a) Group accounting

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries made up to 31 December.

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. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

(i) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(ii) Acquisition method of accounting for non-common control combination

Acquisitions of businesses that are not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits", respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(ii) Acquisition method of accounting for non-common control combination (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(iii) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(iii) Subsidiaries (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(iv) 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(iv) Associates and joint ventures (Continued)

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. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(iv) Associates and joint ventures (Continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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.

(v) Non-controlling interests

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

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.

(vi) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of CGUs).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(b) Segment reporting

It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker has been identified as the executive directors who makes strategic decisions.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's presentation currency. The functional currency of the Company and the Group's principal subsidiaries in the PRC is Renminbi.

The directors consider that presentation of the consolidated financial statements in Hong Kong dollar will facilitate analysis of the financial information of the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or revaluation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Translation differences on non-monetary financial assets held at fair value through profit or loss is reported as part of the fair value gain or loss. Translation differences on non-monetary available-for-sale financial assets are included in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(c) Foreign currency translation (Continued)

(iii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is disposed of that resulted in loss of control, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates at the end of each reporting period.

(d) Property, plant and equipment

Buildings comprise mainly hotel and office premises. All property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at historical cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

If an item of property, 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 reserves. On the subsequent sale or retirement of the asset, the relevant reserve will be transferred directly to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance expenses are recognised in profit or loss during the financial period in which they are incurred.

No depreciation is provided for construction in progress until construction is completed and ready for intended use.

The assets' depreciation method, residual values and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(e) Land use rights

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 "land use rights" in the consolidated statement of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(f) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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 properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (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.

(g) Intangible assets

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

Subsequent to initial recognition, intangible assets with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(h) Impairment losses on tangible and intangible assets

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 relevant asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 (or CGU) 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 (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial assets

The Group's financial assets are classified into the following three categories:

(i) Financial assets at fair value through profit or loss;

(ii) Loans and receivables; and

(iii) Available-for-sale financial assets.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised on trade date when the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for a debt instrument.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is (i) held for trading or (ii) contingent consideration that may be received by an acquirer as part of a business combination.

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.

Assets in these categories are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the consolidated statement of profit or loss in the period in which they arise.

Dividend income and interest income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial assets (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with expected or actual maturities greater than twelve months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, loans and receivables (including trade receivables, notes receivables, other receivables, amounts due from joint ventures, amount due from ultimate holding company, amounts due from related companies, entrusted deposits, restricted bank balances, time deposits with maturity over three months and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the end of the reporting period. They are measured at fair value at the end of each reporting period. Gains and losses arising from changes in the fair value are recognised in equity.

Changes in the carrying amount of available-for-sale equity securities relating to dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale financial assets revaluation reserve.

When the investment is disposed of or is determined to be impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of profit or loss as gains and losses from available-for-sale financial assets, included in other gains (losses), net.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive dividends is established.

Available-for-sale 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 each reporting period.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate portion of production overheads determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(k) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each 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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a 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 receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised in profit or loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(k) Impairment of financial assets (Continued)

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 receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

In respect of available-for-sale equity investments carried at fair values, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in available-for-sale financial assets revaluation reserve.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(o) Trade payables, notes payables, other payables, amounts due to related companies

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method (as disclosed above).

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.

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(q) Employee benefits

(i) Retirement scheme obligations

Employees of the Group's subsidiaries in the PRC are members of state-managed employee pension scheme operated by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the scheme. In addition, the Group also contributes to a mandatory provident fund scheme for all its employees in Hong Kong. Both schemes are defined contribution plans. All these contributions are based on a certain percentage of the staff's salary and are recognised in profit or loss as incurred.

The Group also provides supplementary pension benefits to certain retired PRC employees in the pharmaceutical segment, which are considered as defined benefit plans. For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in other reserves and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

Defined benefit costs are categorised as follows:

- service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);

- net interest expense or income; and

- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss as employee benefits expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligations recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(q) Employee benefits (Continued)

(i) Retirement scheme obligations (Continued)

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability.

- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost by attributing contributions to the employees' periods of service in accordance with HKAS 19 paragraph 70.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

(ii) Share-based compensation

The Group operates an equity-settled share-based compensation plan, under which the Group receives services from employees as considerations for equity instruments (options) of the Company. The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). The total amount expensed is recognised in full when vested immediately on grant date or over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on the assessment of all relevant non-market vesting condition. It recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity over the vesting period.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained earnings.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(r) Revenue and income recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for value-added tax, business tax, returns and discounts. Revenue and other income are recognised as follows:

(i) Sales of goods are recognised when goods are delivered and titles have passed to customers.

(ii) Sales of electricity, water, heat and thermal power are recognised based on meter readings of actual utilisation.

(iii) Government supplemental income is recognised on accrual basis in accordance with the amounts agreed with the relevant government authority when there is reasonable assurance that the Group will comply with the conditions attaching to them.

(iv) Revenue from provision of research and development services are recognised when services are rendered and it is probable that the economic benefits will flow to the Group.

(v) Revenue from transfer of technical know-how to customers, whereby the Group provides the customers with the right to the technical know-how together with further research and development services subsequently required and associated with the technical know-how. Under such multiple element arrangement, the consideration of each element is determined based on the amounts for each element stated in the customer contracts, which approximate to their relative fair values. The payment of the consideration is based on the milestones as defined in each customer contract. Revenue in respect of the transfer of technical know-how is recognised when titles have been passed to customers and revenue in respect of the services rendered by the Group for the associated research and development services subsequently provided is recognised in accordance with the accounting policy mentioned in (iv) above.

(vi) Hotel revenue from room rentals, food and beverage sales and other ancillary services is recognised upon provision of services.

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

(viii) Interest income is accrued on a time-proportion basis using the effective interest method.

(ix) Dividend income is recognised when the right to receive payment is established.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for machine construction contracts below.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(s) Machine construction contracts

Where the outcome of a machine construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

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

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

(t) Borrowing costs

Borrowing costs directly attributable to the construction of qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(u) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(v) Dividend distribution

Dividend distribution to the Company's owners is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's directors/shareholders, as appropriate.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(w) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(x) 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. Government grants related to depreciable 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(y) Research and development expenditure

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 reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are discussed below.

Key sources of estimation uncertainty

(a) Property, plant and equipment

Management determines the estimated useful lives and residual values for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write off or write down technically obsolete or non-strategically assets that have been abandoned or disposed of.

(b) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position as at 31 December 2017 at their fair values, details of which are disclosed in Note 15. The fair values of the investment properties were determined by reference to valuations conducted on these properties by independent firms of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair values of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the consolidated statement of profit or loss and the carrying amounts of these properties included in the consolidated statement of financial position.

(c) Estimated impairment of non-current assets of the electrical and mechanical segment

Determining whether property, plant and equipment, land use rights, intangible assets (where there are indicators of impairment) and goodwill are impaired which requires an estimation of the recoverable amount, which is the higher of value in use and fair value less costs of disposal, of the respective CGU in particular those relating to the electrical and mechanical segment, and to which intangible assets and goodwill have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the respective CGU and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. Further details are set out in Note 21.

(d) Interests in associates

The Group's interests in associates are carried at its share of net assets of the associates together with premium on their acquisition less impairment loss.

As at 31 December 2017, the carrying value of the Group's interest in a major listed associate, including goodwill of approximately HK$1,121 million (2016: approximately HK$1,121 million), Tianjin Port (as defined in Note 48), exceeded the market value (based on bid price quoted in an active market at 31 December 2017) of the Group's attributable holding therein by approximately HK$2,304 million (2016: approximately HK$1,919 million). Management has assessed the value in use of the Group's interest based on discounted cash flows and the assumption of a terminal value. This assessment involves significant assumptions about future events and market conditions which may not realise as projected if and when the Group is to dispose of this interest.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

(e) Recoverability of deferred tax assets

As at 31 December 2017, deferred tax assets of HK$93,409,000 (2016: HK$91,185,000) in relation to tax losses and other deductible temporary differences were recognised in the consolidated statement of financial position after offsetting certain deferred tax liabilities as set out in Note 36. The recoverability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the expectation for future profit streams changes, a reversal of the deferred tax assets may arise, which will be charged to profit or loss for the period in which such a reversal takes place.

(f) Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each customer. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Impairment is made based on the estimation of the future cash flow discounted at the original effective rate to calculate the present value.

(g) Machine construction contracts

The Group recognises contract revenue and profit of machine construction contracts according to the management's estimation of the final outcome of the projects as well as the percentage of completion of machine construction works. Notwithstanding that the management closely reviews and revises the estimates of both contract revenue and costs for the machine construction contracts according to the contract progress, the actual outcome of the contracts in terms of their total revenue and/or costs may be higher or lower than the estimates and this will affect the amount of revenue and profit recognised in subsequent periods. During both years, no material construction contracts cost estimated adjustments which were charged to profit or loss for the corresponding year is identified.

(h) Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. Management of the Group is responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 15 and 43 respectively provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

4. SEGMENT INFORMATION

The Group determines its operating segments based on the reports that are used to make strategic decisions and reviewed by the chief operating decision-makers (the "CODM"). The CODM assess the performance of the operating segments based on a measure of profit after tax.

The Group has six reportable segments. The segments are managed separately as each business offers different products and services. The accounting policies of the reportable segments are the same as those described in the basis of preparation and accounting policies. The following summary describes the operation in each of the Group's reportable segments.

(a) Utilities

This segment derives revenue from distribution of electricity, water, heat and thermal power to industrial, commercial and residential customers in the Tianjin Economic and Technological Development Area, the PRC.

(b) Pharmaceutical

This segment derives revenue from manufacture and sale of pharmaceutical products and the provision of pharmaceutical research and development services as well as design, manufacture and printing for pharmaceutical packaging in the PRC.

(c) Hotel

This segment derives revenue from operation of a hotel in Hong Kong.

(d) Electrical and mechanical

This segment derives revenue from manufacture and sale of presses, mechanical and hydroelectric equipment as well as large scale pump units.

(e) Port services

The result of this segment is contributed by a listed associate of the Group, Tianjin Port, which provides port services in Tianjin.

(f) Elevators and escalators

The result of this segment is contributed by an associate of the Group, Otis China (as defined in Note 48), which manufactures and sells elevators and escalators.

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

For the year ended 31 December 2017

	Utilities HK$'000 (note i)	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Total HK$'000
Segment revenue	3,866,082	1,877,771	116,724	1,127,268	–	–	6,987,845
Operating profit (loss) before interest	157,350	168,529	22,175	(181,881)	–	–	166,173
Interest income	24,757	25,599	7	12,608	–	–	62,971
Gain on fair value change of a financial asset at fair value through profit or loss	–	73,561	–	–	–	–	73,561
Impairment loss on property, plant and equipment	–	(21,029)	–	–	–	–	(21,029)
Impairment loss on intangible assets	–	–	–	(57,919)	–	–	(57,919)
Finance costs	–	(11,613)	–	(11,532)	–	–	(23,145)
Share of profit (loss) of associates	–	(2,729)	–	–	162,665	266,739	426,675
Profit (loss) before tax	182,107	232,318	22,182	(238,724)	162,665	266,739	627,287
Tax (expense) credit	(50,795)	(16,295)	(3,659)	3,253	–	–	(67,496)
Segment results — profit (loss) for the year	131,312	216,023	18,523	(235,471)	162,665	266,739	559,791
Non-controlling interests	(9,191)	(85,926)	–	54,966	–	(46,039)	(86,190)
Profit (loss) attributable to owners of the Company	122,121	130,097	18,523	(180,505)	162,665	220,700	473,601
Segment results — profit (loss) for the year includes:							
Depreciation and amortisation	79,181	123,293	17,256	72,923	–	–	292,653

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2016

	Utilities HK$'000 (note i)	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Total HK$'000
Segment revenue	3,525,712	1,528,448	107,690	948,326	—	—	6,110,176
Operating profit (loss) before interest	70,075	195,065	17,806	(133,179)	—	—	149,767
Interest income	28,821	41,980	12	23,463	—	—	94,276
Gain on fair value change of a financial asset at fair value through profit or loss	—	44,726	—	—	—	—	44,726
Impairment loss on intangible assets	—	—	—	(106,477)	—	—	(106,477)
Finance costs	—	(10,358)	—	(5,366)	—	—	(15,724)
Share of profit of associates	—	2,806	—	—	111,402	396,609	510,817
Profit (loss) before tax	98,896	274,219	17,818	(221,559)	111,402	396,609	677,385
Tax (expense) credit	(23,909)	(33,971)	(2,934)	10,915	—	—	(49,899)
Segment results — profit (loss) for the year	74,987	240,248	14,884	(210,644)	111,402	396,609	627,486
Non-controlling interests	(5,858)	(119,332)	—	46,984	—	(68,455)	(146,661)
Profit (loss) attributable to owners of the Company	69,129	120,916	14,884	(163,660)	111,402	328,154	480,825
Segment results — profit (loss) for the year includes:							
Depreciation and amortisation	55,710	90,370	17,045	81,408	—	—	244,533

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

	2017 HK$'000	2016 HK$'000
Reconciliation of profit for the year		
Total reportable segments	**559,791**	627,486
Corporate and others (note ii)	**18,700**	36,256
Profit for the year	**578,491**	663,742

notes:

(i) Revenue from supply of electricity, water, and heat and thermal power amounted to HK$2,470,238,000, HK$372,253,000 and HK$1,023,591,000 respectively (2016: HK$2,350,633,000, HK$332,584,000 and HK$842,495,000 respectively).

The above revenue included government supplemental income of HK$185,566,000 (2016: HK$51,568,000).

(ii) These principally include (a) results of the Group's other non-core businesses which are not categorised as reportable segments; and (b) corporate level activities including central treasury management, administrative function and exchange gain or loss.

Segment assets and liabilities

	Utilities HK$'000	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Total reportable segments HK$'000	Corporate and others HK$'000 (note)	Total HK$'000
As at 31 December 2017									
Segment assets	**4,014,891**	**6,390,381**	**561,495**	**2,963,813**	**3,791,018**	**854,587**	**18,576,185**	**4,029,459**	**22,605,644**
Segment liabilities	**2,356,381**	**1,571,938**	**14,324**	**1,980,328**	**—**	**—**	**5,922,971**	**1,935,483**	**7,858,454**
As at 31 December 2016									
Segment assets	3,839,488	5,491,413	561,383	2,949,502	3,457,589	834,827	17,134,202	3,585,099	20,719,301
Segment liabilities	2,423,096	1,155,861	10,294	1,803,487	—	—	5,392,738	1,949,200	7,341,938

note: The balances represent assets and liabilities relating to corporate and other non-core businesses which are not categorised as reportable segments and principally include the attributable cash and cash equivalents, time deposits with maturity over three months, entrusted deposits, financial assets at fair value through profit or loss, property, plant and equipment, investment properties, available-for-sale financial assets, interests in certain associates and bank borrowings.

4. SEGMENT INFORMATION (Continued)

Other segment information

An analysis of the Group's revenue by geographical location of the operations of the relevant subsidiaries is as follows:

	2017 HK$'000	2016 HK$'000
The PRC	**6,871,121**	6,002,486
Hong Kong	**116,724**	107,690
	6,987,845	6,110,176

The Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location of the assets are detailed below:

	2017 HK$'000	2016 HK$'000
The PRC	**10,085,261**	9,917,704
Hong Kong	**471,986**	484,667
	10,557,247	10,402,371

5. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income	**143,827**	273,073
Government grants	**92,992**	46,519
Dividend income from available-for-sale financial assets	**23,531**	19,006
Rental income under operating leases, net of negligible outgoings	**4,643**	3,976
Sale of scrap materials	**2,075**	2,871
Sundries	**43,476**	43,620
	310,544	389,065

6. OTHER GAINS (LOSSES), NET

	2017 HK$'000	2016 HK$'000
Impairment loss on intangible assets (Note 18)	**(57,919)**	(106,477)
Impairment loss on property, plant and equipment (Note 13)	**(21,029)**	—
Net gain (loss) on disposal/written off of property, plant and equipment	**8,150**	(191)
Net exchange gain (loss)	**82,412**	(55,179)
Allowance for trade receivables	**(6,688)**	(3,942)
Allowance for inventories	**(2,380)**	(3,800)
Gain on disposal of subsidiaries (Note 47)	**11,392**	—
Gain on fair value change of a financial asset at fair value through profit or loss	**73,561**	44,726
Net fair value gain on financial assets held for trading		
— listed	**734**	8,312
— unlisted	**22,074**	4,353
(Allowance) reversal of allowance for other receivables	**(252)**	12,239
	110,055	(99,959)

7. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses on bank borrowings	**63,691**	71,022
Interest expenses on amount due to a related company	**2,175**	258
Interest on obligations under finance leases	**—**	348
	65,866	71,628
Less: Amounts capitalised on construction in progress (included in property, plant and equipment)	**(2,432)**	(3,561)
	63,434	68,067

8. TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current taxation		
PRC Enterprise Income Tax ("EIT")	**76,585**	49,174
Deferred taxation (Note 36)	**(803)**	815
	75,782	49,989

No provision for Hong Kong profits tax has been made as there was no estimated assessable profit derived from Hong Kong during the year (2016: Nil).

The Group's PRC subsidiaries are subject to EIT at a rate of 25% except for certain PRC subsidiaries which are subject to a preferential EIT rate of 15% as they are qualified as High and New Technology Enterprises.

The tax expense on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group's principal subsidiaries operate, as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**654,273**	713,731
Less: share of results of associates and joint ventures	**(425,060)**	(508,027)
	229,213	205,704
Calculated at applicable tax rates	**60,560**	44,632
Income not subject to taxation	**(57,050)**	(46,101)
Expenses not deductible for taxation purposes	**51,665**	43,719
Under(over)provision in prior years	**194**	(13,209)
Utilisation of tax losses previously not recognised	**(4,112)**	—
Tax losses not recognised	**24,525**	20,948
Tax expense	**75,782**	49,989

The weighted average applicable tax rate is 26.42% (2016: 21.70%).

9. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year is arrived at after charging:		
Employees' benefits expense (including directors' emoluments) (Note 10)	**985,910**	940,586
Cost of inventories recognised as an expense	**3,729,453**	3,487,928
Depreciation		
— charged to cost of sales	**198,324**	148,038
— charged to administrative expenses	**64,576**	58,005
— charged to selling expenses	**1,395**	988
— charged to other operating expenses	**17,256**	17,045
Amortisation of land use rights	**12,056**	11,103
Amortisation of intangible assets	**13,316**	24,983
Operating lease expenses on		
— plants, pipelines and networks	**134,824**	140,838
— land and buildings	**16,612**	11,967
Auditor's remuneration	**11,063**	10,544
Share-based payment expense (Note 31)	**19,362**	—
Research and development costs charged to other operating expenses	**283,257**	223,485

10. EMPLOYEES' BENEFITS EXPENSE

	2017 HK$'000	2016 HK$'000
Wages, salaries, bonus and social security costs	**985,910**	940,586

10. EMPLOYEES' BENEFITS EXPENSE (Continued)

(a) Emoluments of directors and chief executive

The emoluments paid or payable to each of the directors (including the chief executive) disclosed pursuant to the Listing Rules and the Companies Ordinance are as follows:

For the year ended 31 December 2017

Name of director	Fees HK$'000	Salaries and other benefits[i] HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Share-based payment expense HK$'000	Total HK$'000
Executive Directors:						
Zeng Xiaoping[ii]	–	1,923	–	62	–	1,985
Wang Zhiyong[ii]	–	919	–	62	9,211	10,192
Cui Di[ii]	–	750	–	62	2,565	3,377
Yang Chuan	–	812	–	–	–	812
Zhang Lili[iii]	–	–	–	–	–	–
Tuen Kong, Simon[iv]	–	2,094	320	18	1,886	4,318
Non-Executive Directors:						
Cheung Wing Yui, Edward	318	60	–	–	510	888
Chan Ching Har, Eliza	318	60	–	–	510	888
Independent Non-Executive Directors:						
Cheng Hon Kwan	382	60	–	–	510	952
Mak Kwai Wing, Alexander	382	60	–	–	510	952
Ng Yi Kum, Estella	382	60	–	–	489	931
Wong Shiu Hoi, Peter	382	60	–	–	66	508
Loke Yu	382	60	–	–	–	442
	2,546	6,918	320	204	16,257	26,245

10. EMPLOYEES' BENEFITS EXPENSE (Continued)

(a) Emoluments of directors and chief executive (Continued)

For the year ended 31 December 2016

Name of director	Fees HK$'000	Salaries and other benefits[i] HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors:					
Zeng Xiaoping	—	2,035	600	60	2,695
Wang Zhiyong	—	1,678	500	60	2,238
Cui Di	—	1,084	450	60	1,594
Yang Chuan	—	834	—	—	834
Zhang Lili[iii]	—	—	—	—	—
Tuen Kong, Simon[iv]	—	2,066	500	18	2,584
Non-Executive Directors:					
Cheung Wing Yui, Edward	318	60	—	—	378
Chan Ching Har, Eliza	318	60	—	—	378
Independent Non-Executive Directors:					
Cheng Hon Kwan	382	60	—	—	442
Mak Kwai Wing, Alexander	382	60	—	—	442
Ng Yi Kum, Estella	382	60	—	—	442
Wong Shiu Hoi, Peter	382	60	—	—	442
Loke Yu	382	60	—	—	442
	2,546	8,117	2,050	198	12,911

(i) Other benefits include allowance, insurance premium, club membership, leave pay and gratuity on retirement.

(ii) The total compensation package for these directors for the year ended 31 December 2017 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's 2017 consolidated financial statements.

(iii) Removed on 17 February 2017.

(iv) Resigned on 6 June 2017.

(v) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company, except for Dr. Yang Chuan who receives his emolument from a subsidiary of the Company.

(vi) The emoluments of non-executive directors and independent non-executive directors shown above were for their services as directors of the Company.

(vii) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the directors of the Company in respect of the years ended 31 December 2017 and 2016.

10. EMPLOYEES' BENEFITS EXPENSE (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group include one former director and three directors (2016: three directors (including the chief executive)), and their emoluments are shown in Note 10(a) above. The emoluments of the five individuals with the highest emoluments for the years ended 31 December 2017 and 2016 were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**7,047**	8,562
Discretionary bonuses	**700**	2,287
Share-based payment expense	**15,516**	—
Retirement scheme contributions	**268**	216
	23,531	11,065

The emoluments of the five highest paid individuals fell within the following bands:

	2017	2016
Emolument bands (HK$)		
1,500,001–2,000,000	**1**	2
2,000,001–2,500,000	**—**	1
2,500,001–3,000,000	**—**	2
3,000,001–3,500,000	**1**	—
3,500,001–4,000,000	**1**	—
4,000,001–4,500,000	**1**	—
10,000,001–10,500,000	**1**	—
	5	5

(c) Emoluments of senior management

Other than the emoluments of directors disclosed in Note 10(a), the aggregate emoluments of senior management of the Group are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**2,883**	2,462
Discretionary bonuses	**475**	807
Share-based payment expense	**1,251**	—
Retirement scheme contributions	**99**	78
	4,708	3,347

10. EMPLOYEES' BENEFITS EXPENSE (Continued)

(c) Emoluments of senior management (Continued)

The emoluments of the senior management fell within the following bands:

	2017	2016
Emolument bands (HK$)		
500,001–1,000,000	2	—
1,000,001–1,500,000	1	—
1,500,001–2,000,000	1	2
	4	2

11. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends recognised as distribution during the year		
— 2017 interim dividend, paid — HK4.08 cents per share (2016: HK4.53 cents per share)	43,769	48,596
— 2016 final dividend, paid — HK5.09 cents per share (2015: HK5.65 cents per share)	54,604	60,612
	98,373	109,208

A final dividend of HK4.55 cents per share for the year ended 31 December 2017, amounting to HK$48,811,000, has been proposed by the board of directors of the Company and will be subject to the approval by the shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

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

	2017 HK$'000	2016 HK$'000
Profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	488,837	515,214
Number of shares	Thousand	Thousand
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,072,770	1,072,770
Effect of dilutive potential ordinary shares: Share options	855	234
Weighted average number of ordinary shares taking account of the share options for the purpose of diluted earnings per share	1,073,625	1,073,004

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold land HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Others HK$'000	Total HK$'000
COST								
At 1 January 2017	**3,015,979**	**326,622**	**2,711,196**	**201,989**	**52,327**	**1,061,756**	**8,676**	**7,378,545**
Exchange differences	**207,588**	**—**	**191,763**	**11,796**	**3,114**	**57,429**	**478**	**472,168**
Additions	**27,855**	**—**	**58,899**	**14,609**	**1,632**	**250,663**	**5,832**	**359,490**
Transfers	**250,497**	**—**	**141,197**	**1,676**	**94**	**(394,684)**	**1,220**	**—**
Disposals/written off	**(3,929)**	**—**	**(28,129)**	**(9,131)**	**(7,010)**	**—**	**(1,867)**	**(50,066)**
Disposal of subsidiaries (Note 47)	**(31,647)**	**—**	**—**	**—**	**—**	**(554,443)**	**—**	**(586,090)**
Transferred to investment properties (Note 15)	**(14,997)**	**—**	**—**	**—**	**—**	**—**	**—**	**(14,997)**
At 31 December 2017	**3,451,346**	**326,622**	**3,074,926**	**220,939**	**50,157**	**420,721**	**14,339**	**7,559,050**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	**666,314**	**64,113**	**1,490,027**	**138,903**	**34,435**	**23,139**	**8,093**	**2,425,024**
Exchange differences	**44,895**	**—**	**107,186**	**7,644**	**2,126**	**1,633**	**492**	**163,976**
Charge for the year	**112,636**	**297**	**140,528**	**21,959**	**4,684**	**—**	**1,447**	**281,551**
Impairment loss recognised (Note 6)	**21,029**	**—**	**—**	**—**	**—**	**—**	**—**	**21,029**
Disposals/written off	**(2,810)**	**—**	**(13,122)**	**(8,552)**	**(6,114)**	**—**	**(468)**	**(31,066)**
Disposal of subsidiaries (Note 47)	**(27,227)**	**—**	**—**	**—**	**—**	**—**	**—**	**(27,227)**
Transferred to investment properties (Note 15)	**(3,789)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,789)**
At 31 December 2017	**811,048**	**64,410**	**1,724,619**	**159,954**	**35,131**	**24,772**	**9,564**	**2,829,498**
CARRYING VALUE								
At 31 December 2017	**2,640,298**	**262,212**	**1,350,307**	**60,985**	**15,026**	**395,949**	**4,775**	**4,729,552**
COST								
At 1 January 2016	2,366,966	326,622	2,373,449	173,923	54,238	2,183,170	7,348	7,485,716
Exchange differences	(170,511)	—	(168,513)	(10,220)	(3,153)	(94,174)	(238)	(446,809)
Additions	6,884	—	122,581	20,014	1,644	257,988	1,566	410,677
Transfers	815,004	—	448,670	20,494	1,060	(1,285,228)	—	—
Disposals/written off	(2,364)	—	(64,991)	(2,222)	(1,462)	—	—	(71,039)
At 31 December 2016	3,015,979	326,622	2,711,196	201,989	52,327	1,061,756	8,676	7,378,545
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2016	639,931	63,816	1,474,751	129,430	30,424	24,713	4,198	2,367,263
Exchange differences	(38,424)	—	(96,701)	(6,504)	(1,972)	(1,574)	(345)	(145,520)
Charge for the year	65,980	297	128,389	17,888	7,282	—	4,240	224,076
Disposals/written off	(1,173)	—	(16,412)	(1,911)	(1,299)	—	—	(20,795)
At 31 December 2016	666,314	64,113	1,490,027	138,903	34,435	23,139	8,093	2,425,024
CARRYING VALUE								
At 31 December 2016	2,349,665	262,509	1,221,169	63,086	17,892	1,038,617	583	4,953,521

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

notes:

(a) The leasehold land of the Group is situated in Hong Kong.

(b) Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10–40 years
Leasehold land	Over the lease term
Plant and machinery	3–25 years
Leasehold improvements, furniture and equipment	3–10 years
Motor vehicles	5–12 years
Others	5–10 years

(c) Buildings with a carrying amount of approximately HK$451 million (2016: HK$461 million) have been pledged to secure banking borrowings.

14. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments related to leases of between 10 to 50 years in the PRC.

As at 31 December 2017, Land use rights with a carrying amount of approximately HK$150 million (2016: HK$141 million) have been pledged to secure banking borrowings granted to the Group.

Land ownership certificates have not been obtained for leasehold land located in Tianjin with a carrying value of HK$35,834,000 (2016: HK$79,316,000). In the opinion of the directors of the Company, the absence of formal title to these land interests does not impair their carrying value and the probability of being evicted on the ground of an absence of formal title is remote.

During the year ended 31 December 2017, the Group acquired land use rights with a carrying value of HK$102,543,000 (2016: Nil) and disposed of land use rights with a carrying value of HK$41,178,000 (2016: Nil) upon disposal of a subsidiary. Further details are set out in Note 47.

During the year ended 31 December 2017, the Group received one-off and unconditional government grants of RMB17,000,000 (equivalent to HK$19,630,000) (2016: Nil) from the local government authority, which are recognised as a deduction from the cost of the relevant land use rights.

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2016	166,093
Exchange differences	(10,578)
At 31 December 2016	155,515
Transfer from property, plant and equipment (note (c))	11,208
Exchange differences	10,975
At 31 December 2017	**177,698**

There was no unrealised gain on property revaluation included in profit or loss for both years.

notes:

(a) The investment properties represent land and buildings in the PRC.

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

(c) During the year ended 31 December 2017, certain properties in Tianjin with an aggregate fair value amount of HK$11,208,000 (2016: Nil) were transferred from property, plant and equipment to investment properties due to change in management intention for generating rental income and/or for capital appreciation and the commencement of the related leasing arrangements. There was no material difference between the carrying amount and the fair value of such properties as at the date of transfer.

(d) The fair value as at 31 December 2017 and 2016 has been arrived at based on a valuation carried out by Vigers Appraisal and Consulting Limited ("Vigers"), an independent valuer not connected with the Group. The valuation was determined either on the basis of capitalisation of net rental income derived from existing tenancies or by reference to comparable market transactions. There has been no change from the valuation technique used in the prior year.

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

(f) Following are the key inputs used in valuing the investment properties:

Description	Fair value hierarchy	Fair value at 31 December 2017 HK$'000	2016 HK$'000	Valuation techniques	Key unobservable inputs	Range	Relationship of unobservable input to fair value
Property 1 in Tianjin	Level 3	**106,681**	99,649	Income method – Direct capitalisation approach	Capitalisation rate; annual unit rent in RMB and selling price per square meter in RMB	4.3%–5.3%; 340.6–367.9; and 9,000 (2016: 4.3%–5.3%; 340.6–367.9; and 8,600)	The higher the capitalisation rate, the lower the fair value; the higher the annual unit rent, the higher the fair value; and the higher the selling price per square meter, the higher the fair value
Property 2 in Tianjin	Level 3	**59,809**	55,866	Market comparable approach	Selling price per square meter in RMB	5,901–7,143 (2016: 5,667–6,517)	The higher the selling price per square meter, the higher the fair value
Property 3 in Tianjin	Level 3	**6,347**	N/A	Income method – Direct capitalisation approach	Capitalisation rate; annual unit rent in RMB and selling price per square meter in RMB	8.5%–9%; 620.5–646.1; and 3,000 (2016: N/A)	The higher the capitalisation rate, the lower the fair value; the higher the annual unit rent, the higher the fair value; and the higher the selling price per square meter, the higher the fair value
Property 4 in Tianjin	Level 3	**4,861**	N/A	Income method – Direct capitalisation approach	Capitalisation rate; annual unit rent in RMB and selling price per square meter in RMB	4%–4.5%; 440.6–532.9; and 5,000 (2016: N/A)	The higher the capitalisation rate, the lower the fair value; the higher the annual unit rent, the higher the fair value; and the higher the selling price per square meter, the higher the fair value
		177,698	155,515				

There were no transfers into or out of Level 3 in both years.

16. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
The Group's interests in associates		
— Listed shares in Hong Kong		
— Tianjin Port	**3,791,018**	3,457,589
— Unlisted shares in the PRC		
— Otis China	**854,587**	834,827
— Others	**367,935**	401,471
	5,013,540	4,693,887
Market value of listed shares		
— Tianjin Port	**1,487,157**	1,538,884

Interests in associates as at 31 December 2017 included goodwill of HK$1,120,729,000 (2016: HK$1,120,729,000) arising from acquisition of Tianjin Port. Share of associates' taxation for the year ended 31 December 2017 of HK$190,218,000 (2016: HK$214,655,000) is included in the consolidated statement of profit or loss as share of profit of associates.

Details of principal associates which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2017 are set out in Note 48.

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 of associates are prepared in accordance with HKFRSs.

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

	Tianjin Port		Otis China	
	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Current assets	**14,213,586**	11,594,094	**11,018,511**	9,899,101
Non-current assets	**33,233,838**	30,742,413	**2,388,482**	1,972,847
Current liabilities	**(11,153,448)**	(6,449,191)	**(8,930,000)**	(7,450,545)
Non-current liabilities	**(9,331,139)**	(11,770,923)	**(24,641)**	(23,668)

16. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of material associates (Continued)

	Tianjin Port		Otis China	
	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000	**Year ended 31 December 2017 HK$'000**	Year ended 31 December 2016 HK$'000
Revenue	**16,621,811**	16,456,982	**17,839,090**	19,117,709
Profit for the year, attributable to owners of the associate	**774,592**	530,479	**1,333,695**	1,983,043
Other comprehensive income (expense) for the year, attributable to owners of the associate	**904,150**	(750,256)	**287,804**	(292,221)
Total comprehensive income (expense) for the year, attributable to owners of the associate	**1,678,742**	(219,777)	**1,621,499**	1,690,822
Dividends received from the associate during the year	**44,480**	53,661	**304,539**	473,889

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

	Tianjin Port		Otis China	
	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000	**At 31 December 2017 HK$'000**	At 31 December 2016 HK$'000
Equity attributable to owners of the associate	**12,725,138**	11,137,402	**4,258,355**	4,174,110
Proportion of the Group's ownership interest in the associate	**2,672,279**	2,338,854	**851,671**	834,822
Goodwill	**1,120,729**	1,120,729	**—**	—
Other adjustments	**(1,990)**	(1,994)	**2,916**	5
Carrying amount of the Group's interest in the associate	**3,791,018**	3,457,589	**854,587**	834,827

16. INTERESTS IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
The Group's share of profit	**3,697**	8,731
The Group's share of other comprehensive income (expense)	**25,978**	(27,175)
The Group's share of total comprehensive income (expense)	**29,675**	(18,444)
Aggregate carrying amount of the Group's interests in these associates	**367,935**	401,471

17. INTERESTS IN JOINT VENTURES

The Group's attributable interests in its joint ventures are unlisted. Details of the principal joint ventures which, in the directors' opinion, materially affect the results and/or net assets of the Group at 31 December 2017 are set out in Note 49.

Summarised financial information of a material joint venture

Summarised financial information in respect of a material joint venture of the Group, Wunushan Icewine (as defined in Note 49), is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

This joint venture is accounted for using the equity method in these consolidated financial statements.

Wunushan Icewine

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Current assets	**8,698**	8,170
Non-current assets	**98,771**	103,435
Current liabilities	**(57,888)**	(54,396)
Non-current liabilities	**—**	—

17. INTERESTS IN JOINT VENTURES (Continued)

Summarised financial information of a material joint venture (Continued)

Wunushan Icewine (Continued)

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**4,471**	6,747
Current financial liabilities (excluding trade and other payables and provisions)	**–**	(149)
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	–

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
Revenue	**–**	–
Loss for the year	**(11,261)**	(13,103)
The above loss for the year is arrived at after (charging) crediting:		
Depreciation and amortisation	**(5,870)**	(6,258)
Interest income	**15**	27
Interest expense	**–**	–
Tax expense	**–**	–

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

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Net assets of Wunushan Icewine	**49,581**	57,209
Proportion of the Group's ownership interest in Wunushan Icewine and carrying amount of the Group's interest therein	**27,765**	32,037

17. INTERESTS IN JOINT VENTURES (Continued)

Aggregate information of joint ventures that are not individually material

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
The Group's share of post-tax loss	**(1,733)**	(1,378)
The Group's share of other comprehensive income (expense)	**776**	(838)
The Group's share of total comprehensive expense	**(957)**	(2,216)

The Group has discontinued recognition of its share of losses of a joint venture. The amounts of cumulative unrecognised share of losses for both years are as follows:

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
The unrecognised owner's share of loss of a joint venture for the year	**(60,588)**	(77,406)
Cumulative unrecognised owner's share of losses of a joint venture	**(255,909)**	(195,321)

18. INTANGIBLE ASSETS

	Development costs HK$'000 (note i)	Patents HK$'000 (note ii)	Technical know-how HK$'000 (note iii)	Total HK$'000
COST				
At 1 January 2016	34,621	247,067	13,126	294,814
Exchange differences	(2,205)	(15,735)	(835)	(18,775)
At 31 December 2016	**32,416**	**231,332**	**12,291**	**276,039**
Additions	**—**	**60,517**	**—**	**60,517**
Exchange differences	**2,288**	**18,498**	**867**	**21,653**
At 31 December 2017	**34,704**	**310,347**	**13,158**	**358,209**
AMORTISATION AND IMPAIRMENT				
At 1 January 2016	12,183	58,741	—	70,924
Exchange differences	(1,285)	(8,959)	—	(10,244)
Charge for the year	11,680	13,303	—	24,983
Impairment loss recognised in the year (note iv)	—	106,477	—	106,477
At 31 December 2016	**22,578**	**169,562**	**—**	**192,140**
Exchange differences	**1,958**	**14,159**	**—**	**16,117**
Charge for the year	**10,168**	**3,148**	**—**	**13,316**
Impairment loss recognised in the year (note iv)	**—**	**57,919**	**—**	**57,919**
At 31 December 2017	**34,704**	**244,788**	**—**	**279,492**
CARRYING VALUE				
At 31 December 2017	**—**	**65,559**	**13,158**	**78,717**
At 31 December 2016	9,838	61,770	12,291	83,899

notes:

(i) Development costs represented costs incurred by the Group for the design and development of new production systems under the electrical and mechanical segment.

(ii) Patents were acquired by the Group through the acquisitions of subsidiaries in prior years. During the year ended 31 December 2017, patents of HK$60,517,000 were received by the Group in the form of return of capital from an associate.

(iii) Technical know-how was acquired separately and would be amortised over their expected useful lives from its commencement of generation of future economic benefit.

(iv) Particulars regarding impairment testing on intangible assets are disclosed in Note 21.

The following useful lives are used in the calculation of amortisation from the date at which the asset is ready for use:

Development costs	3 years
Patents	10 to 11 years

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	notes	**2017** **HK$'000**	2016 HK$'000
Equity securities			
Listed, at market value	(i)	**107,823**	125,693
Unlisted	(ii)	**307,823**	287,530
		415,646	413,223

	HK$'000
At 1 January 2016	372,688
Additions	87,617
Exchange differences	(19,587)
Change in fair value	(27,495)
At 31 December 2016	**413,223**
Exchange differences	**21,940**
Change in fair value	**(19,517)**
At 31 December 2017	**415,646**

notes:

(i) The listed securities mainly represent the Group's 4.23% equity interest in Binhai Investment Company Limited ("Binhai Investment") which is listed on the Main Board of the Stock Exchange.

As at 31 December 2017, the market value of the Group's equity interest in Binhai Investment was HK$85,841,000 (2016: HK$99,238,000) and the unrealised fair value loss of HK$13,397,000 (2016: HK$22,328,000) was recognised as other comprehensive expense.

(ii) The unlisted available-for-sale financial assets are principally equity investments in certain entities established and operated in the PRC. They are mainly denominated in Renminbi and carried at cost less impairment because the range of reasonable fair value estimates is so significant.

20. GOODWILL

	HK$'000
COST	
At 1 January 2016	153,694
Exchange differences	(9,788)
At 31 December 2016	**143,906**
Exchange differences	**10,155**
At 31 December 2017	**154,061**
IMPAIRMENT	
At 1 January 2016	152,202
Exchange differences	(9,693)
At 31 December 2016	**142,509**
Exchange differences	**10,057**
At 31 December 2017	**152,566**
CARRYING VALUE	
At 31 December 2017	**1,495**
At 31 December 2016	1,397

Particulars regarding impairment testing on goodwill are disclosed in Note 21.

21. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

For the purposes of impairment testing, patents and goodwill set out in Notes 18 and 20, respectively, have been allocated to the respective CGU being the electrical and mechanical segment (as set out in Note 4). The carrying amounts of patents and goodwill, after exchange adjustments and impairment, allocated to the respective CGU are as follows:

	2017 **HK$'000**	2016 HK$'000
Patents	**–**	58,845
Goodwill	**1,495**	1,397
	1,495	60,242

The Group tests patents and goodwill annually for impairment, or more frequently if there are indications that they might have been impaired.

The basis of the recoverable amounts of the respective CGU and their major underlying assumptions are summarised below:

As at 31 December 2017, the recoverable amount of the respective CGU which is the higher of value in use and fair value less costs of disposal, was determined from value in use calculation. The calculation uses cash flow projections based on the most recent financial budgets provided by the management for the coming five years and discount rate of 10% (2016: 10%). The cash flows beyond the budget years are extrapolated using a steady 3% (2016: 3%) growth rate. Another key assumption for the value in use calculation relates to the estimation of cash inflows which include budgeted sales and gross margins, such estimation is based on the respective CGU's past performance and the management's expectations of the market development.

During the year ended 31 December 2017, the management of the Group recognised an impairment loss on patents of HK$57,919,000 (2016: HK$106,477,000) based on such assessment.

22. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials	**260,613**	171,634
Work in progress	**122,119**	25,942
Finished goods	**201,367**	284,342
Consumable stocks	**2,606**	2,606
	586,705	484,524

23. AMOUNTS DUE FROM JOINT VENTURES AND ULTIMATE HOLDING COMPANY

The balances are unsecured, interest-free and have no fixed repayment term and are mainly denominated in Renminbi.

24. AMOUNTS DUE FROM (TO) RELATED COMPANIES

			At 1 January	Maximum amount outstanding during the year	
	2017	2016	2016	**2017**	2016
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from related companies	**48,038**	47,740	43,817	**57,614**	63,648
Amounts due to related companies	**824,228**	875,471			

The balances are denominated in Renminbi and are unsecured, interest-free and have no fixed repayment term except for the amounts due to related companies of HK$47,847,000 (2016: HK$44,692,000) which carry fixed interest rates ranging from 4.35% to 4.44% (2016: 4.44% to 4.57%) per annum and are due within one year. Details of the relationship with related companies are set out in Note 45(b).

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017	2016
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**3,922,556**	3,803,417
Less: Progress billings	**(3,580,455)**	(3,258,886)
	342,101	544,531
Analysed for reporting purposes as:		
Amounts due from contract customers included in current assets	**572,533**	714,573
Amounts due to contract customers included in current liabilities	**(230,432)**	(170,042)
	342,101	544,531

As at 31 December 2017, retentions of HK$88,676,000 (2016: HK$74,793,000) held by customers for contract work were included in trade receivables.

As at 31 December 2017, advances of HK$74,233,000 (2016: HK$56,686,000) received from customers for contracts entered into but not yet commenced were included in other payables.

26. TRADE RECEIVABLES, NOTES RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	notes	2017 HK$'000	2016 HK$'000
Trade receivables			
Fully performing	(a)	**577,277**	545,801
Past due but not impaired	(b)	**344,188**	218,928
Impaired	(c)	**140,645**	124,903
Trade receivables — gross		**1,062,110**	889,632
Less: allowance for impairment	(c)	**(140,645)**	(124,903)
Trade receivables — net		**921,465**	764,729
Notes receivables		**334,108**	279,033
	(d) & (g)	**1,255,573**	1,043,762
Other receivables, deposits and prepayments			
Entrusted loan	(e)	**35,885**	33,520
Compensation receivable	(f)	**—**	20,960
Profit Guarantee Arrangement	(h)	**118,287**	—
Others		**436,826**	409,361
		590,998	463,841

notes:

(a) Various group companies have different credit policies which are dependent on the practice of the markets and the businesses in which they operate. In general, credit periods of (i) 30 days are granted to corporate customers of the Group's hotel business; (ii) 90 to 180 days are granted to customers in the electrical and mechanical segment; and (iii) 30 to 180 days are granted to customers in the pharmaceutical segment. No credit terms are granted to customers in the utilities segment. Receivables classified as fully performing are trade receivables that are neither past due nor impaired and with no history of default payment.

Annual government supplemental income receivables do not have credit terms and the amounts are finalised by the Finance Bureau of Tianjin Economic and Technological Development Area ("TEDA Finance Bureau") each financial year. Continuous settlements have been received by the Group over the years.

26. TRADE RECEIVABLES, NOTES RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

notes: (Continued)

(b) Trade receivables that are past due but not impaired are related to a wide range of customers and the management believes that no impairment allowance is necessary as there has not been a significant change in the credit quality and the balances are still considered fully recoverable. The ageing analysis of these trade receivables is as follows:

	2017	2016
	HK$'000	HK$'000
Within 30 days	**—**	18,327
31 to 90 days	**—**	—
91 to 180 days	**167**	176
181 to 365 days	**167,425**	81,009
Over 1 year	**176,596**	119,416
	344,188	218,928

(c) As at 31 December 2017, trade receivables of HK$140,645,000 (2016: HK$124,903,000) were impaired. The age and settlement track record of individual receivables were considered in the review for their impairment. The ageing of these receivables is as follows:

	2017	2016
	HK$'000	HK$'000
Within 30 days	**713**	50
31 to 90 days	**—**	—
91 to 180 days	**—**	—
Over 180 days	**139,932**	124,853
	140,645	124,903

Movements on the allowance for impairment of trade receivables are as follows:

	2017	2016
	HK$'000	HK$'000
At 1 January	**124,903**	129,371
Exchange differences	**9,054**	(8,410)
Allowance made in the year	**14,604**	11,340
Reversal of allowance	**(7,916)**	(7,398)
At 31 December	**140,645**	124,903

The creation and release of allowance for impaired receivables are included in other gains (losses), net in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

26. TRADE RECEIVABLES, NOTES RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

notes: (Continued)

(d) The ageing analysis of the Group's trade and notes receivables (net of allowance) is as follows:

	2017 **HK$'000**	2016 HK$'000
Within 30 days	**515,399**	369,152
31 to 90 days	**154,673**	197,676
91 to 180 days	**124,946**	216,135
181 to 365 days	**283,960**	141,382
Over 1 year (note (g))	**176,595**	119,417
	1,255,573	1,043,762

(e) The amount represented an entrusted loan to one government-related corporate borrower in the PRC through one PRC financial institution and the outstanding amount is repayable within one year with a fixed interest rate at 6% per annum (2016: 6% per annum).

(f) The amount as at 31 December 2016 represented the compensation receivable from the local government in respect of a relocation of production plant and transferal of the ownership of land use rights and certain immovable property, plant and equipment pursuant to a local government's urban redevelopment plan in 2014. The compensation was settled by instalments and fully settled during the year ended 31 December 2017.

(g) As at 31 December 2017, the amounts included retentions held by customers for contract works over one year of HK$75,012,000 (2016: HK$53,934,000).

(h) In December 2015, the Group completed the acquisition of 67% equity interest in Thrive Leap Limited ("Thrive Leap", together with its subsidiaries, the "Thrive Leap Group") from a wholly owned subsidiary of Tsinlien for a cash consideration of RMB2,315,855,000 (equivalent to HK$2,772,483,000). Pursuant to the terms of the sale and purchase agreement for the acquisition of Thrive Leap, Tsinlien and Tianjin Pharmaceutical Group Co., Ltd., a state-owned enterprise established in the PRC and the owner of Tsinlien ("Tianjin Pharmaceutical") (collectively referred as the "Vendor's Guarantors") have agreed to provide a profit guarantee to the Group in relation to the audited consolidated net profit of the Thrive Leap Group attributable to owners for the year ended 31 December 2015 and the two years ended 31 December 2017. If the audited consolidated net profit of the Thrive Leap Group attributable to owners of Thrive Leap falls short of the guaranteed profit of RMB130,000,000 for the year ended 31 December 2015 and RMB313,000,000 in aggregate for the two years ended 31 December 2017, the Vendor's Guarantors would pay an amount equal to 67% of such shortfalls to the Group (the "Profit Guarantee Arrangement") for the respective periods.

As at 31 December 2017, based on the actual financial performance of the Thrive Leap Group for the two years ended 31 December 2017, the audited consolidated net profit of the Thrive Leap Group attributable to owners of Thrive Leap in aggregate was RMB170,848,000 which did not meet the guaranteed profit with a shortfall amounted to RMB142,152,000. Accordingly, the Vendor's Guarantors are obliged to compensate an amount of HK$118,287,000, being 67% of the shortfall, to the Group.

(i) The carrying amounts of trade and notes receivables, other receivables and deposits approximate their fair values and they are mainly denominated in Renminbi. The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. Except for the concentration on a few receivables arising from the electrical and mechanical segment, the Group has no significant concentration of credit risk.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 **HK$'000**	2016 HK$'000
Investments held for trading:		
Listed shares in Hong Kong	**5,359**	5,359
Listed shares in the PRC	**54,087**	17,304
Listed funds in the PRC	**893**	31,829
Unlisted funds in the PRC	**136,236**	257,830
Unlisted trust funds in the PRC (note i)	**192,028**	290,580
	388,603	602,902
Financial asset at fair value through profit or loss:		
Profit Guarantee Arrangement (note ii)	**–**	44,726
	388,603	647,628
Market values of listed shares	**59,446**	22,663
Market values of listed funds	**893**	31,829

The balances are denominated in Renminbi except for the listed shares in Hong Kong which are denominated in Hong Kong dollar.

The fair values of all listed shares and listed funds are based on their current bid prices in active markets. The fair values of unlisted funds and unlisted trust funds are determined on their net asset values quoted by the relevant investment trust or securities companies.

notes:

(i) The above unlisted trust funds are measured at fair value on a recurring basis at the end of each reporting period. As at 31 December 2017, the fair value of the investments of HK$192,028,000 (2016: HK$290,580,000) is based on Level 2 measurement (inputs which are derived from other than quoted prices included within Level 1 that are observable for the asset or liability).

(ii) As at 31 December 2016, the fair value measurement of the Profit Guarantee Arrangement was determined by reference to a valuation carried out by Vigers and disclosed in Note 43.

28. ENTRUSTED DEPOSITS

As at 31 December 2017, the entrusted deposits were placed with four financial institutions (2016: six financial institutions) in the PRC, with maturity from 4 to 29 months (2016: 1 to 24 months) after the end of the reporting period. The deposits carry the expected rates of return ranging from 5.6% to 6.9% (2016: 2.8% to 6.9%) per annum.

Contracts with maturity over one year confer the Group rights of early redemption at amortised cost, before the maturity date. Accordingly, those deposits were classified as current assets.

29. CASH AND CASH EQUIVALENTS, TIME DEPOSITS WITH MATURITY OVER THREE MONTHS AND RESTRICTED BANK BALANCES

	2017 **HK$'000**	2016 HK$'000
Cash at banks and in hand	**5,180,589**	3,821,295
Time deposits with maturity less than three months	**697,556**	480,751
Balances with other financial institutions	**20,406**	29,118
Cash and cash equivalents	**5,898,551**	4,331,164
Time deposits with maturity over three months	**1,403,018**	1,436,927
Restricted bank balances (note)	**94,496**	149,135
	7,396,065	5,917,226

note: The restricted bank balances are pledged against the notes payables and short-term bank borrowings.

The carrying amounts of cash and cash equivalents, time deposits with maturity over three months and restricted bank balances approximate their fair values and they are mainly denominated in Renminbi.

30. SHARE CAPITAL

	Number of shares **thousand**	**Value** **HK$'000**
Issued and fully paid ordinary shares with no par value:		
At 1 January 2016, 31 December 2016 and 2017	**1,072,770**	**5,136,285**

31. SHARE OPTION SCHEME

The Company has adopted an equity-settled share option scheme (the "Option Scheme") on 25 May 2007 under which the directors may, at their discretion and within 10 years from the approval date, offer to grant options to the participants pursuant to the criteria set out in the Option Scheme. The Company operates the Option Scheme for the purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the Option Scheme. The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares of the Company in issue from time to time. The subscription price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet (the "Daily Quotation") on the date of grant, which must be a business day; (ii) the average of the closing price of the shares as stated in the Daily Quotation for the five business days immediately preceding the date of grant; and (iii) HK$0.10 of a share. A cash consideration of HK$1 is payable by the grantee on acceptance of the offer of grant of any option. The life of the Option Scheme would expire on 24 May 2017.

During the year ended 31 December 2017, the Company passed an ordinary resolution to extend the exercise period of a total of 20,800,000 fully vested outstanding share options granted by the Company under the Option Scheme adopted on 25 May 2007, which expired on 24 May 2017, for two years from 24 May 2017 to 24 May 2019. As a result of the extension, the estimated fair value of HK$19,362,000 measured at the date of extension was expensed in full in the current year and is disclosed in Note 9.

The estimated fair value related to the fully vested outstanding share options was calculated based on the Binomial model, the key inputs into which are as follows:

Weighted average share price	HK$4.56
Exercise price	Ranging from HK$3.56 to HK$6.07
Expected volatility	42%
Expected option life	Approximate 1.8 years
Risk-free rate	0.648%
Expected dividend yield	2.03%

The expected volatility was determined by using the historical volatility of the Company's share price. The Binomial model has been used to estimate the fair value of the option. The variables and assumptions used in computing the fair value of the options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

31. SHARE OPTION SCHEME (Continued)

Details of share options granted by the Company are as follows:

Date of grant	Exercisable period	Exercise price HK$	Number of share options: Balance at 1 January 2016	Granted	Exercised	Lapsed/ cancelled	Balance at 31 December 2016	**Granted**	**Exercised**	**Lapsed/ cancelled**	**Balance at 31 December 2017**
19 December 2007	17 January 2008 to 24 May 2017	8.040	1,000,000	–	–	–	1,000,000	**–**	**–**	**(1,000,000)**	**–**
16 December 2009	16 December 2009 to 24 May 2019 (note)	5.750	3,000,000	–	–	–	3,000,000	**–**	**–**	**–**	**3,000,000**
3 December 2010	3 December 2010 to 24 May 2019 (note)	6.070	300,000	–	–	–	300,000	**–**	**–**	**–**	**300,000**
7 November 2011	11 November 2011 to 24 May 2019 (note)	3.560	4,500,000	–	–	–	4,500,000	**–**	**–**	**–**	**4,500,000**
19 December 2012	19 December 2012 to 24 May 2019 (note)	4.060	5,000,000	–	–	–	5,000,000	**–**	**–**	**–**	**5,000,000**
20 December 2013	20 December 2013 to 24 May 2019 (note)	5.532	8,000,000	–	–	–	8,000,000	**–**	**–**	**–**	**8,000,000**
			21,800,000	–	–	–	21,800,000	**–**	**–**	**(1,000,000)**	**20,800,000**
Exercisable at the end of the year							21,800,000				**20,800,000**

note: At the extraordinary general meeting of the Company held on 19 May 2017, shareholders of the Company passed an ordinary resolution to extend the exercise periods of all the outstanding share options granted by the Company on 16 December 2009, 3 December 2010, 7 November 2011, 19 December 2012 and 20 December 2013 under the Option Scheme for two years from 24 May 2017 to 24 May 2019.

Of the outstanding share options at 31 December 2017, 15,600,000 share options (2016: 18,500,000 share options) were granted to the directors of the Company. Details of the share options granted to directors are set out in section headed "Share Option Scheme" in the Report of the Directors.

32. RESERVES

	Capital reserve HK$'000	General reserve HK$'000 note (i)	Statutory reserves HK$'000 note (i)	Share-based payments reserve HK$'000	Other reserves HK$'000 note (ii)	Exchange reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000 note (iii)	Retained earnings HK$'000 note (iv)	Total HK$'000
At 1 January 2016	9,010	93,330	656,364	29,559	(1,557,020)	874,661	118,733	4,817,971	5,042,608
Profit for the year	—	—	—	—	—	—	—	515,214	515,214
Other comprehensive expense for the year	—	(7,293)	—	—	—	(661,791)	(25,411)	—	(694,495)
Dividends	—	—	—	—	—	—	—	(109,208)	(109,208)
Share-based payment of an associate	—	—	—	424	—	—	—	—	424
Transfer between reserves	—	1,944	45,959	—	—	—	—	(47,903)	—
Others	—	13,346	—	—	—	—	—	—	13,346
At 31 December 2016	**9,010**	**101,327**	**702,323**	**29,983**	**(1,557,020)**	**212,870**	**93,322**	**5,176,074**	**4,767,889**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**488,837**	**488,837**
Other comprehensive (expense) income for the year	**—**	**(5,500)**	**—**	**—**	**—**	**629,972**	**5,849**	**—**	**630,321**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(98,373)**	**(98,373)**
Share-based payment expense (Note 31)	**—**	**—**	**—**	**19,362**	**—**	**—**	**—**	**—**	**19,362**
Transfer upon lapse of share options	**—**	**—**	**—**	**(26,616)**	**—**	**—**	**—**	**26,616**	**—**
Assets restructuring of an associate	**—**	**—**	**—**	**—**	**25,374**	**—**	**—**	**—**	**25,374**
Transfer between reserves	**—**	**2,088**	**74,966**	**—**	**—**	**—**	**—**	**(77,054)**	**—**
Others	**—**	**6,760**	**—**	**—**	**—**	**—**	**—**	**—**	**6,760**
At 31 December 2017	**9,010**	**104,675**	**777,289**	**22,729**	**(1,531,646)**	**842,842**	**99,171**	**5,516,100**	**5,840,170**

notes:

(i) General and statutory reserves are reserves required by the relevant PRC laws applicable to the Group's subsidiaries established in the PRC and cannot be used for distribution in the form of cash dividends.

According to the articles of association of each of the Group's subsidiaries established in the PRC, a percentage, as stated in the articles of association or as approved by the board of directors of the subsidiaries, of net profit as reported in the PRC statutory accounts must be appropriated to reserve fund and enterprise expansion reserve, both of which are classified under statutory reserves. The percentage of appropriation is determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in capital.

(ii) Other reserves mainly represented reserves arising from reorganisation in prior years and the merger reserve arising from acquisition of Thrive Leap in 2015, being the difference between the consideration for the acquisition and the amount of share capital of Thrive Leap. Other reserves of HK$25,374,000 represented reserves arising from assets restructuring of Tianjin Port.

(iii) The available-for-sale financial assets revaluation reserve represents cumulative gains arising on the revaluation of available-for-sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those available-for-sale investments are disposed of or are determined to be impaired. The available-for-sale financial assets revaluation reserve in relation to the Group's equity interest in Binhai Investment was in surplus as at 31 December 2017.

(iv) Retained earnings attributable to associates and accumulated losses attributable to joint ventures amounted to HK$1,242,648,000 (2016: HK$1,161,262,000) and HK$102,406,000 (2016: HK$110,446,000) respectively.

33. DEFINED BENEFIT OBLIGATIONS

The Group provides supplementary pension benefits to certain retired employees, which are accounted for as defined benefit plans. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out at 31 December 2017. The present value of the defined benefit obligations, the related current service cost and past service cost, are measured using the projected unit credit method. Significant actuarial assumptions for the determination of the defined obligations are discount rate and mortality. The Group expects to make a payment of HK$4,589,000 to the entitled employees during the year ending 31 December 2018.

34. DEFERRED INCOME

As set out in Note 4, the Group's pharmaceutical segment derives revenue from manufacture and sale of pharmaceutical research and development services as well as design, manufacture and printing for pharmaceutical packaging in the PRC. In the ordinary course of such business, government subsidies will be received in advance from the local government for the purpose of supporting the research and development activities on certain new pharmaceutical products, and are presented as deferred income in the Group's consolidated statement of financial position.

The amount of deferred income will be recognised in the same period as the related research and development activities are carried out and expenses are incurred or will be deducted from the carrying amount of the depreciable assets when the relevant assets for research and development activities are acquired.

35. BANK BORROWINGS

	2017 **HK$'000**	2016 HK$'000
Non-current		
Bank borrowings		
— Secured	**53,279**	38,795
— Unsecured	**1,803,337**	1,820,395
	1,856,616	1,859,190
Current		
Bank borrowings		
— Unsecured	**279,880**	182,409
— Secured	**211,999**	224,581
	491,879	406,990
Total bank borrowings	**2,348,495**	2,266,180

35. BANK BORROWINGS (Continued)

notes:

(a) The maturity of bank borrowings is as follows:

	2017 HK$'000	2016 HK$'000
Bank borrowings:		
Within one year	**491,879**	406,990
In the second year	**1,856,616**	29,309
More than two years but not more than five years	**—**	1,829,881
	2,348,495	2,266,180

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
Bank borrowings:		
Renminbi	**557,120**	479,305
Hong Kong dollar	**1,791,375**	1,786,875
	2,348,495	2,266,180

(c) The range of annual interest rates is 2.80% to 6.55% (2016: 1.23% to 5.31%) and the effective interest rates of bank borrowings at the end of the reporting period are as follows:

	2017 %	2016 %
Bank borrowings:		
Renminbi	**4.71**	3.87
Hong Kong dollar	**2.80**	2.42

(d) The carrying amounts of all bank borrowings approximate their fair values.

(e) On 23 November 2016, the Company obtained a new term loan banking facility of HK$1,800,000,000 for a period of 36 months commencing from the date of utilisation. On 9 December 2016, the term loan has been drawn down and was used to repay the prior term loan.

Pursuant to the facility agreement, it will be an event of default, inter alia, if:

(i) The Tianjin Municipal Government ceases to maintain a majority shareholding ownership directly or indirectly in the Company of more than 50%; or

(ii) The Company ceases to be under the direct or indirect control of Tsinlien.

36. DEFERRED TAXATION

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**93,409**	91,185
Deferred tax liabilities	**(37,772)**	(38,634)
Deferred tax assets, net	**55,637**	52,551

notes:

(a) Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the subsidiaries in the PRC from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$916,306,000 (2016: HK$720,161,000) as 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.

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

	Accelerated depreciation HK$'000	Revaluation of property HK$'000	Provisions for impairment HK$'000	Tax losses HK$'000	Fair value adjustments on business combination HK$'000	Others HK$'000	Total HK$'000
At 1 January 2016	(6,050)	(6,104)	36,111	66,680	(33,167)	(4,423)	53,047
Deferred tax credited (charged) to profit or loss	720	–	1,252	(4,145)	1,958	(600)	(815)
Deferred tax credited to other comprehensive income	–	–	–	–	–	776	776
Exchange differences	(791)	389	(2,355)	–	2,027	273	(457)
At 31 December 2016 and at 1 January 2017	**(6,121)**	**(5,715)**	**35,008**	**62,535**	**(29,182)**	**(3,974)**	**52,551**
Deferred tax credited (charged) to profit or loss	**2,741**	**–**	**(177)**	**(4,293)**	**1,935**	**597**	**803**
Deferred tax credited to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,530**	**1,530**
Exchange differences	**887**	**(403)**	**2,465**	**–**	**(1,990)**	**(206)**	**753**
At 31 December 2017	**(2,493)**	**(6,118)**	**37,296**	**58,242**	**(29,237)**	**(2,053)**	**55,637**

37. TRADE PAYABLES AND NOTES PAYABLES

The ageing analysis of the Group's trade and notes payables, based on invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 30 days	**423,581**	316,799
31 to 90 days	**190,381**	250,650
91 to 180 days	**203,238**	291,183
Over 180 days	**503,697**	373,190
	1,320,897	1,231,822

The carrying amounts of trade and notes payables approximate their fair values and are mainly denominated in Renminbi.

38. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Receipts in advance	**1,003,256**	973,127
Accruals	**839,339**	804,005
Other payables	**933,104**	690,205
	2,775,699	2,467,337

39. OPERATING LEASES

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:

The Group as lessees

	2017 HK$'000	2016 HK$'000
Land and buildings		
Not later than one year	**5,492**	8,790
Later than one year and not later than five years	**351**	5,064
	5,843	13,854

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

The Group as lessors

	2017 HK$'000	2016 HK$'000
Investment properties		
Not later than one year	**8,889**	4,804
Later than one year and not later than five years	**35,154**	9,209
Over five years	**30,090**	—
	74,133	14,013

40. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Contracted but not provided for in respect of		
— Additions to property, plant and equipment	**385,132**	352,472

41. PLEDGE OF ASSETS

At the end of the reporting period, restricted bank balances, land use rights and buildings of HK$94,496,000, HK$149,862,000 and HK$450,895,000 (2016: HK$149,135,000, HK$141,437,000 and HK$460,605,000), respectively, were pledged to financial institutions by the Group to secure general banking facilities.

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to net cash generated from operations:

	2017 **HK$'000**	2016 HK$'000
Profit before tax	**654,273**	713,731
Adjustments for:		
Share of profit of associates	**(433,100)**	(516,742)
Share of loss of joint ventures	**8,040**	8,715
Finance costs	**63,434**	68,067
Interest income	**(143,827)**	(273,073)
Allowance for inventories	**2,380**	3,800
Depreciation	**281,551**	224,076
Amortisation	**25,372**	36,086
Share-based payment expense	**19,362**	—
Gain on disposal of subsidiaries (Note 47)	**(11,392)**	—
Impairment loss on intangible assets	**57,919**	106,477
Impairment loss on property, plant and equipment	**21,029**	—
Allowance (reversal of allowance) for other receivables	**252**	(12,239)
Net exchange (gain) loss	**(82,412)**	55,179
Dividend income from available-for-sale financial assets	**(23,531)**	(19,006)
Net (gain) loss on disposal/written off of property, plant and equipment	**(8,150)**	191
Allowance for trade receivables	**6,688**	3,942
Unrealised gain on financial assets at fair value through profit or loss	**(72,885)**	(35,809)
Changes in working capital:		
Inventories	**(74,479)**	(68,213)
Trade receivables	**(105,894)**	53,651
Notes receivables	**(33,415)**	(90,261)
Other receivables, deposits and prepayments	**13,130**	(91,027)
Financial assets at fair value through profit or loss	**248,772**	(455,590)
Trade payables	**84,472**	(40,147)
Notes payables	**(84,611)**	2,037
Other payables and accruals	**48,720**	322,310
Defined benefit obligations	**(1,481)**	(1,396)
Deferred income	**11,295**	(24,971)
Amount due from ultimate holding company	**(6)**	(26)
Amounts due from/to related companies	**(106,015)**	40,310
Amounts due from/to customers for contract work	**232,088**	117,434
Net cash generated from operations	**597,579**	127,506

43. FINANCIAL RISK MANAGEMENT

The categories of financial instruments of the Group are as follows:

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**9,889,009**	7,849,605
Available-for-sale financial assets	**415,646**	413,223
Financial assets at fair value through profit or loss	**388,603**	647,628
	10,693,258	8,910,456
Financial liabilities		
Amortised cost	**5,293,445**	4,937,034

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit and counterparty risk and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance by actively managing debt level and cash flow in order to maintain a strong financial position and minimising refinancing and liquidity risks by attaining healthy debt repayment capacity, appropriate maturity profile and availability of banking facilities. The Group adheres to a policy of financial prudence and did not use any derivative financial instruments or structured financial products during the year.

(a) Market risk

(i) Foreign exchange risk

The actual foreign exchange risk faced by the Group is primarily with respect to bank balances and deposits, financial assets at fair value through profit or loss and borrowings made by the Group which are denominated in currencies (mainly Hong Kong dollar) other than the functional currency of the relevant group entities (collectively the "Non-Functional Currency Items").

The Group has foreign currency sales in its electrical and mechanical business segment, which have exposure to foreign exchange risk. Other than that, the principal subsidiaries of the Group operate in the PRC with almost all of their transactions settled in Renminbi and did not have significant exposure to foreign exchange risk during both years.

At 31 December 2017, with all other variables held constant, if Hong Kong dollar had weakened/strengthened against Renminbi by 5% (2016: 5%), the Group's profit for the year would have been favourably/unfavourably impacted by HK$67,441,000 (2016: HK$63,762,000) as a result of the translation of the Non-Functional Currency Items.

43. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Price risk

The Group is exposed to equity securities price risk because the Group's investments in listed shares, listed funds, unlisted trust funds and unlisted funds are classified on the consolidated statement of financial position as available-for-sale financial assets and financial assets at fair value through profit or loss specified in Notes 19 and 27, respectively. The Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio and invests in relatively low-risk funds. If the prices of the respective equity securities had been 10% (2016: 10%) higher/lower, the Group's profit and other comprehensive income for the year would increase/decrease by HK$19,525,000 (2016: HK$45,263,000) and HK$8,816,000 (2016: HK$10,270,000), respectively.

(iii) Interest rate risk

Other than the entrusted loan, entrusted deposits and bank balances and deposits specified in Notes 26, 28 and 29, respectively, the Group has no other significant assets bearing interest.

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on its bank balances and deposits.

The Group's entrusted loan, unlisted bonds and entrusted deposits carry fixed contractual interest rates and therefore expose the Group to fair value interest rate risk. Management believes that these fixed contractual rates instruments provide the Group with a steady income stream and are consistent with the Group's treasury management policy.

The Group's interest rate risk is mainly arising from bank borrowings (the "Interest Bearing Liabilities") set out in Note 35. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced portfolio of borrowings subject to variable and fixed interest rates. The Group also analyses its interest rate exposure periodically by considering refinancing, renewal of existing positions and alternative financing. The Group's Interest Bearing Liabilities include borrowings of HK$1,887,993,000 at variable rates and HK$460,502,000 at fixed rates (2016: HK$1,881,536,000 at variable rates and HK$384,644,000 at fixed rates).

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower for Hong Kong dollar-denominated borrowings at variable rates and with all other variables held constant, the Group's profit for the year would decrease/increase by HK$7,479,000 (2016: HK$7,460,000); if interest rates had been 50 basis points (2016: 50 basis points) higher/lower for Renminbi-dominated borrowings at variable rates and with all other variables held constant, the Group's profit for the year would decrease/increase by HK$396,000 (2016: HK$421,000).

If interest rates had been 25 basis points (2016: 25 basis points) higher/lower for Hong Kong dollar-denominated bank balances and deposits and with all other variables held constant, the Group's profit for the year would increase/decrease by HK$447,000 (2016: HK$587,000); if interest rates had been 25 basis points (2016: 25 basis points) higher/lower for Renminbi-denominated bank balances and deposits and with all other variables held constant, the Group's profit for the year would increase/decrease by HK$14,689,000 (2016: HK$12,245,000).

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

43. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit and counterparty risk

Credit risk mainly arises from deposits maintained with banks and other financial institutions, entrusted deposits placed with financial institutions, as well as credit exposures to joint ventures, ultimate holding company, related companies, customers (including outstanding trade receivables balance) and other debtor (including entrusted loan). Overall, the carrying amounts of these balances substantially represent the Group's maximum exposure to credit and counterparty risk as at 31 December 2017.

A significant portion of the Group's bank deposits, entrusted loan and entrusted deposits are placed with or arranged through state-owned banks/entities and other financial institutions in the PRC. The Group had a significant concentration of credit risk at 31 December 2017 because it had placed entrusted deposits of approximately HK$646 million (2016: HK$442 million) with four financial institutions (2016: six financial institutions) in the PRC.

The directors consider that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the counterparties and the balances are considered to be fully recoverable.

The Group has policies in place to ensure that provision of services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. According to the Group's historical experience, the irrecoverable trade and other receivables do not exceed the recorded allowances and the directors are of the opinion that adequate provision for uncollectible accounts receivable has been made in the consolidated financial statements.

For the Group's electrical and mechanical business which involves a long production cycle, there are policies in place to ensure the production process is consistent with the contracted schedule. The provisions of services are made to customers with appropriate credit history and periodic credit evaluations of customers are performed. The aggregate amount of the relevant trade receivables of electrical and mechanical business that are subject to credit risk is HK$502,612,000 (2016: HK$357,305,000). The directors are of the opinion that adequate provision for uncollectible trade receivable has been made in the consolidated financial statements.

As at 31 December 2017, 75% (2016: 71%) of the Group's financial assets were bank deposits and entrusted deposits, which were placed with state-owned banks and other financial institutions in the PRC. For utilities business, all government supplemental income from the TEDA Finance Bureau had been fully received as at 31 December 2017 and 2016 respectively. The residential, commercial and industrial customers in utilities segment demonstrated good credit quality in general as residential customers settled in cash while there are established relationships with key commercial and industrial customers with long business track record. For trade receivables arising from Tianfa Equipment (as defined in Note 46), a subsidiary in the electrical and mechanical segment, around 21% (2016: 25%) were receivable from a customer engaged in the hydroelectric business. In view that the management of this electrical and mechanical business has established relationships with a wide base of customers, the directors consider that the concentration risk is not significant.

43. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(c) Liquidity risk

The Group adopts prudent liquidity risk management which includes maintaining sufficient bank balances and cash and having funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve comprising undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flows.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$5,899 million (2016: HK$4,331 million), and bank borrowings of approximately HK$2,348 million (2016: HK$2,266 million), respectively.

The table below analyses the Group's financial liabilities that will be settled into relevant time bands based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which include principal and interest. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	On demand or less than 1 year HK$'000	**Between 1 and 2 years HK$'000**	**Between 3 and 5 years HK$'000**	**Total HK$'000**
At 31 December 2017				
Bank borrowings	**553,216**	**1,910,003**	**—**	**2,463,219**
Amounts due to related companies	**824,228**	**—**	**—**	**824,228**
Trade payables, notes payables and other payables	**2,120,722**	**—**	**—**	**2,120,722**
	3,498,166	**1,910,003**	**—**	**5,408,169**

	On demand or less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 3 and 5 years HK$'000	Total HK$'000
At 31 December 2016				
Bank borrowings	460,791	74,962	1,870,705	2,406,458
Amounts due to related companies	875,471	—	—	875,471
Trade payables, notes payables and other payables	1,795,383	—	—	1,795,383
	3,131,645	74,962	1,870,705	5,077,312

43. FINANCIAL RISK MANAGEMENT (Continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stakeholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated as equity attributable to the owners of the Company as shown in the consolidated statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the net gearing ratio. Net gearing ratio is calculated as net debt divided by equity attributable to the owners of the Company. Net debt is calculated as bank borrowings (including current and non-current portions as shown in the consolidated statement of financial position) less total cash and bank deposits. During the current year, the Group's policy, which was unchanged from prior year, was to maintain a net gearing ratio of not more than 40%.

At the end of the reporting period, the Group had a net cash position.

	2017 **HK$'000**	2016 HK$'000
Total cash and bank deposits	**7,396,065**	5,917,226
Less: bank borrowings	**(2,348,495)**	(2,266,180)
Net cash	**5,047,570**	3,651,046
Shareholders' funds	**10,976,455**	9,904,174
Net gearing position	**Net cash**	Net cash

Fair value measurements of financial instruments

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.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to perform the valuation.

43. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurements of financial instruments (Continued)

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31 December 2017 HK$'000	2016 HK$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Available-for-sale financial assets						
— listed equity securities	**107,823**	125,693	Level 1	Quoted bid price in an active market	N/A	N/A
Financial assets at fair value through profit or loss						
— listed equity securities	**59,446**	22,663	Level 1	Quoted bid price in active markets	N/A	N/A
— listed funds	**893**	31,829	Level 1	Quoted bid price in active markets	N/A	N/A
— unlisted funds	**136,236**	257,830	Level 2	Redemption value quoted by the relevant investment trust with reference to the underlying assets (mainly listed securities) of the trust	N/A	N/A
— unlisted trust funds	**192,028**	290,580	Level 2	Quoted prices from issuing banks or financial institutions	N/A	N/A
— profit guarantee	**—**	44,726	Level 3	Discounted cash flow — Estimated profit of Thrive Leap Group attributable to the owners of Thrive Leap and discounted at a rate that reflects the risk of the arrangement	Estimated profit of Thrive Leap Group attributable to the owners of Thrive Leap	The higher the estimated profit of Thrive Leap Group attributable to the owners of Thrive Leap, the lower the fair value, and vice versa

The movements of the profit guarantee during the year are set out below:

	HK$'000
At 1 January 2016	54,576
Fair value change recognised in profit or loss (note)	44,726
Settlement of profit guarantee	(54,576)
At 31 December 2016	**44,726**
Fair value change recognised in profit or loss (note)	**73,561**
Transfer to other receivables (Note 26)	**(118,287)**
At 31 December 2017	**—**

note: The amounts are realised/unrealised gain related to the financial instrument held at the end of the respective reporting periods.

43. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurements of financial instruments (Continued)

There were no transfers among Levels 1, 2 and 3 in both years.

The directors of the Company consider that the carrying amounts of trade receivables, notes receivables, other receivables, entrusted deposits, restricted bank balances, time deposits with maturity over three months, cash and cash equivalents, trade payables, notes payables, other payables, short-term bank borrowings and balances with joint ventures, ultimate holding company and related companies that are recorded at amortised cost in the consolidated financial statements approximate their fair values due to the short-term maturities of these assets and liabilities.

The fair values of the financial assets and financial liabilities recorded at amortised cost have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

The fair values of long-term bank borrowings are estimated using the expected future contractual payments discounted at current market interest rates available to similar financial instruments and approximate their carrying amounts.

44. 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.

	Dividend payables HK$'000	Bank borrowings HK$'000	Total HK$'000
At 1 January 2017	—	2,266,180	2,266,180
Financing cash flows	(134,385)	42,465	(91,920)
Dividends declared	134,385	—	134,385
Foreign exchange translation	—	39,850	39,850
At 31 December 2017	—	2,348,495	2,348,495

45. RELATED PARTY TRANSACTIONS

(a) Connected persons

On 14 March 2016, the Company entered into a master sales agreement (the "Master Sales Agreement") with Tianjin Pharmaceutical in relation to the sales of various chemical drug products and pharmaceutical printing and packaging products by the Group to the Tianjin Pharmaceutical and its subsidiaries (the "Tianjin Pharmaceutical Group") for a term commencing from 1 May 2016 and up to 31 December 2018. As Tianjin Pharmaceutical is an intermediate controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules, therefore the entering into of the Master Sales Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

For the year ended 31 December 2017, the total sales amount by the Group to the Tianjin Pharmaceutical Group under the Master Sales Agreement was RMB87,250,000 (equivalent to HK$100,751,000) (2016: RMB84,371,000 (equivalent to HK$98,565,000)).

On 14 March 2016, the Company entered into the master R&D services agreement (the "Master R&D Service Agreement") with Tianjin Pharmaceutical in relation to the provision of R&D services (the "Services") by the Group to the Tianjin Pharmaceutical Group for a term commencing from 14 March 2016 and up to 31 December 2018.

For the year ended 31 December 2017, the total transaction amount in respect of the Services rendered by the Group to the Tianjin Pharmaceutical Group under the Master R&D Service Agreement was RMB15,814,000 (equivalent to HK$18,261,000) (2016: RMB4,058,000 (equivalent to HK$4,741,000)).

Details of the above transactions were disclosed in the Company's announcements dated 14 March 2016 and the circular dated 7 April 2016, respectively.

(b) Related parties

The Group is controlled by Tsinlien, which owned 62.80% (2016: 62.80%) of the Company's shares as at 31 December 2017. The remaining 37.20% (2016: 37.20%) of the Company's shares are widely held.

Tsinlien is a state-owned enterprise and ultimately controlled by the Tianjin Municipal People's Government of the PRC. In accordance with HKAS 24 "Related Party Disclosures", entities directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include Tsinlien, its subsidiaries and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to exercise joint control or significant influence, and key management personnel of the Company and Tsinlien as well as their close family members.

For the years ended 31 December 2017 and 2016, except for the government supplemental income granted by the TEDA Finance Bureau to the utilities business (Note 4), the Group's significant transactions with other entities that are controlled, jointly controlled or significantly influenced by the PRC government (the "Other government-related entities") mainly include majority of its cash at banks and time deposits in banks and the corresponding interest income and part of sales and purchases of goods and services (such as purchase of utilities including electricity and water and sales of pharmaceutical products which constituted the majority of the Group's purchases and sales). The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed, as appropriate.

45. RELATED PARTY TRANSACTIONS (Continued)

(b) Related parties (Continued)

Apart from the above-mentioned transactions with the other government-related entities, the connected transactions and the related party transactions and balances during the year ended 31 December 2017 set out in Notes 6, 23, 24 and 26, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

(i) Transactions with related companies of the Group (note)

	2017	2016
	HK$'000	HK$'000
Interest expense	**2,175**	258
Operating lease expenses for land	**786**	795
Operating lease expenses for plants, pipelines and networks	**71,688**	72,525
Provision of services	**18,261**	4,741
Purchase of goods	**1,985**	1,415
Purchase of materials	**5,095**	5,154
Purchase of steam for sale	**827,314**	652,777
Purchase of property, plant and equipment	**2,065**	2,089
Sales of goods	**100,751**	100,799

note: The related companies are entities controlled by non-controlling interests of the Company's non-wholly owned subsidiaries. Balances with related companies are set out in Note 24.

(ii) Key management compensation

	2017	2016
	HK$'000	HK$'000
Salaries, share-based payment expense and other emoluments	**25,392**	13,292

46. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2017 and 2016 are set out below:

			Percentage					
			2017			2016		
Name	**Principal activities**	**Registered capital/issued and paid up capital**	**Effective interest attributable to the Group** %	**Held by the Company** %	**Held by subsidiaries** %	Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %
Established and operating in the PRC								
Tianjin Lisheng Pharmaceutical Co., Ltd. ("Lisheng") 天津力生製藥股份有限公司	Investment holding and manufacture and sale of chemical drugs	RMB182,454,992	**34.41**	**–**	**51.36**	34.41	–	51.36
Tianjin Yiyao Printing Co., Ltd. 天津宜藥印務有限公司	Investment holding and design, manufacture and printing for pharmaceutical packaging and sale of other paper-based packaging materials	RMB39,450,000	**43.55**	**–**	**65**	43.55	–	65
Tianjin Institute of Pharmaceutical Research Co., Ltd. 天津藥物研究院有限公司	Investment holding and research and development of new medicine technology and new products	RMB38,991,486	**67**	**–**	**100**	67	–	100
Tianjin Heavenly Palace Winery Co., Ltd. 天津天宮葡萄釀酒有限公司	Investment holding	RMB80,018,400	**100**	**100**	**–**	100	100	–
Tianjin Tai Kang Investment Co., Ltd. ("Tianjin Tai Kang") 天津泰康投資有限公司	Investment holding	RMB1,030,269,383	**82.74**	**82.74**	**–**	82.74	82.74	–
Tianjin Development Assets Management Co., Ltd. 天津發展資產管理有限公司	Investment holding	RMB838,239,651	**100**	**100**	**–**	100	100	–
Tianjin TEDA Tsinlien Electric Power Co., Ltd. 天津泰達津聯電力有限公司	Supply of electricity	RMB314,342,450	**94.36**	**–**	**94.36**	94.36	–	94.36
Tianjin TEDA Tsinlien Water Supply Co., Ltd. 天津泰達津聯自來水有限公司	Supply of water	RMB163,512,339	**91.41**	**–**	**91.41**	91.41	–	91.41
Tianjin TEDA Tsinlien Heat & Power Co., Ltd. 天津泰達津聯熱電有限公司	Supply of steam and thermal power	RMB262,948,258	**90.94**	**–**	**90.94**	90.94	–	90.94
Tianjin Tianduan Press Co., Ltd. 天津市天鍛壓力機有限公司	Manufacture and sale of presses and mechanical equipment	RMB50,776,070	**64.91**	**–**	**78.45**	64.91	–	78.45
Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. ("Tianfa Equipment") 天津市天發重型水電設備製造有限公司	Manufacture and sale of hydroelectric equipment and large scale pump unit	RMB413,397,627	**82.74**	**–**	**100**	82.74	–	100
Incorporated in the Cayman Islands and operating in Hong Kong								
Thrive Leap	Investment holding	US$10,000	**67**	**–**	**67**	67	–	67
Incorporated in the British Virgin Islands and operating in Hong Kong								
Dynamic Infrastructure Limited	Investment holding	US$5	**100**	**100**	**–**	100	100	–
Leadport Holdings Limited	Investment holding	US$1	**100**	**100**	**–**	100	100	–
Incorporated and operating in Hong Kong								
Tsinlien Realty Limited 津聯置業有限公司	Operation of Courtyard by Marriott Hong Kong	HK$200,000	**100**	**–**	**100**	100	–	100
Godia Holdings Limited 富聰控股有限公司	Investment holding	HK$15	**100**	**–**	**100**	100	–	100

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

46. PRINCIPAL SUBSIDIARIES (Continued)

Composition of the Group

At the end of the reporting period, the Company has 27 (2016: 29) other subsidiaries that are not material to the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. A majority of these subsidiaries operate in Hong Kong.

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 establishment and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017**	2016	**2017**	2016
		%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Tianjin Tai Kang	The PRC	**17.26**	17.26	**(5,634)**	23,338	**801,484**	754,100
Thrive Leap Group	Cayman Islands/Hong Kong	**33**	33	**86,097**	119,332	**2,873,269**	2,633,451
Other individual immaterial subsidiaries with non-controlling interests				**9,191**	5,858	**95,982**	85,638
				89,654	148,528	**3,770,735**	3,473,189

Summarised financial information in respect of Tianjin Tai Kang and Thrive Leap Group is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Tianjin Tai Kang

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Current assets	**2,917,034**	2,591,388
Non-current assets	**2,349,548**	2,342,192
Current liabilities	**(1,975,624)**	(1,876,874)
Non-current liabilities	**(29,239)**	(29,183)
Equity attributable to owners of the Company	**2,460,235**	2,273,423
Non-controlling interests	**801,484**	754,100

46. PRINCIPAL SUBSIDIARIES (Continued)

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

Tianjin Tai Kang (Continued)

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
Revenue	**1,127,268**	948,326
Share of profit of associates	**273,208**	402,595
Profit for the year	**50,347**	196,781
Other comprehensive income (expense) for the year	**161,358**	(150,911)
Total comprehensive income for the year	**211,705**	45,870
(Loss) profit for the year attributable to non-controlling interests	**(5,634)**	23,338
Total comprehensive income (expense) for the year attributable to non-controlling interests	**22,216**	(2,709)
Net cash (outflow) inflow from operating activities	**(21,396)**	70,243
Net cash inflow from investing activities	**446,537**	230,664
Net cash outflow from financing activities	**(65,280)**	(72,965)
Net cash inflow	**359,861**	227,942

Thrive Leap Group

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Current assets	**3,368,605**	2,321,392
Non-current assets	**2,903,490**	3,125,297
Current liabilities	**(1,342,826)**	(941,947)
Non-current liabilities	**(229,132)**	(213,931)
Equity attributable to owners of the Company	**1,826,868**	1,657,360
Non-controlling interests	**2,873,269**	2,633,451

46. PRINCIPAL SUBSIDIARIES (Continued)

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

Thrive Leap Group (Continued)

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
Revenue	**1,877,771**	1,528,449
Share of (loss) profit of associates	**(2,729)**	2,806
Profit for the year	**142,982**	195,507
Other comprehensive income (expense) for the year	**294,211**	(303,098)
Total comprehensive income (expense) for the year	**437,193**	(107,591)
Profit for the year attributable to non-controlling interests of Thrive Leap Group	**86,097**	119,332
Total comprehensive income (expense) for the year attributable to non-controlling interests	**268,675**	(62,950)
Dividends paid to non-controlling interests	**(30,743)**	(41,471)
Net cash inflow from operating activities	**345,467**	201,029
Net cash inflow from investing activities	**633,754**	88,031
Net cash outflow from financing activities	**(59,929)**	(132,130)
Net cash inflow	**919,292**	156,930

46. PRINCIPAL SUBSIDIARIES (Continued)

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

Additional information to Thrive Leap Group:

Lisheng and its subsidiaries (Consolidated in Thrive Leap Group)

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Current assets	**2,484,847**	1,583,087
Non-current assets	**1,911,857**	2,257,321
Current liabilities	**(692,721)**	(411,704)
Non-current liabilities	**(14,773)**	(37,579)
Equity attributable to Thrive Leap	**1,894,777**	1,741,681
Non-controlling interests	**1,794,433**	1,649,444

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
Revenue	**1,171,176**	977,098
Share of (loss) profit of associates	**(1,748)**	1,053
Profit and total comprehensive income for the year	**112,527**	158,588
Profit and total comprehensive income for the year attributable to non-controlling interests	**54,733**	77,137
Dividends paid to non-controlling interests	**(30,743)**	(41,470)
Net cash inflow from operating activities	**206,982**	202,799
Net cash inflow (outflow) from investing activities	**571,853**	(20,271)
Net cash outflow from financing activities	**(73,076)**	(122,293)
Net cash inflow	**705,759**	60,235

47. DISPOSAL OF A SUBSIDIARY

On 1 December 2017, Lisheng completed the disposal of its entire equity interest in Tianjin Sega Pharmaceutical Co., Ltd ("Tianjin Sega") and the assignment of shareholder's loan to an independent third party (the "Purchaser"), for an aggregate cash consideration of RMB530,205,000 (equivalent to HK$626,720,000). Lisheng has agreed under the equity transfer agreement to reimburse the Purchaser of the operating loss in respect of Tianjin Sega for the period commenced on 1 January 2017 and ended on the date of completion. The net liabilities of Tianjin Sega at the date of disposal were as follows:

	HK$'000
Consideration:	
Assignment of shareholder's loan	626,720
Less: reimbursement to Purchaser	(3,582)
	623,138

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	558,863
Land use rights	41,178
Inventories	8,028
Other receivables	18,254
Bank balances and cash	2,582
Trade and other payables	(18,362)
Amount due to Lisheng	(633,403)
Net liabilities disposed of	(22,860)
Gain on disposal of a subsidiary:	
Consideration	623,138
Net liabilities disposed of	22,860
Settlement of balance due from Tianjin Sega	(633,403)
Transaction costs	(1,415)
Gain on disposal	11,180
Net cash inflow arising on disposal:	
Total consideration	623,138
Less: bank balances and cash disposed of	(2,582)
	620,556

The impact of Tianjin Sega on the Group's results and cash flows in the prior periods was not significant.

48. PRINCIPAL ASSOCIATES

Name	Principal activities	Registered capital/issued and paid up capital	Percentage 2017 Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %	2016 Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %
Established and operating in the PRC								
Otis Elevator (China) Investment Company Limited ("Otis China") 奧的斯電梯(中國)投資有限公司	Manufacturing and selling of elevators and escalators	US$79,625,000	**16.55**	**–**	**20**	16.55	–	20
Liaoning Wunushan Milan Winery Co., Ltd. 遼寧五女山米蘭酒業有限公司	Brewing and processing of wine and ice wine products	RMB20,000,000	**25**	**–**	**25**	25	–	25
Benefo Financial Leasing Co., Ltd. 百利融資租賃有限公司	Operation of finance leasing business	RMB300,000,000	**40**	**–**	**40**	40	–	40
Incorporated in the Cayman Islands, operating in and listed in Hong Kong								
Tianjin Port Development Holdings Limited ("Tianjin Port") 天津港發展控股有限公司	Provision of port services	HK$615,800,000	**21**	**–**	**21**	21	–	21

note: All English names of associates established in the PRC are included for identification purpose only.

49. PRINCIPAL JOINT VENTURES

Name	Principal activities	Registered capital/issued and paid up capital	Percentage 2017 Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %	2016 Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %
Established and operating in the PRC								
Tianjin Haihe Dairy Company Limited 天津海河乳業有限公司	Production and sale of dairy products	RMB200,000,000	**40**	**–**	**40**	40	–	40
Liaoning Wang Chao Wunushan Icewine Co., Ltd. ("Wunushan Icewine") 遼寧王朝五女山冰酒莊有限公司	Operation of hospitality business	RMB98,250,000	**56**	**–**	**56**	56	–	56

note: All English names of joint ventures established in the PRC are included for identification purpose only.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 28 March 2018.

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	**2017 HK$'000**	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**220**	280
Investment properties		**106,681**	99,649
Interests in subsidiaries		**4,307,273**	4,023,330
Advances to subsidiaries		**6,322,359**	6,048,947
		10,736,533	10,172,206
Current assets			
Amount due from ultimate holding company		**363**	339
Other receivables, deposits and prepayments		**6,084**	11,474
Cash and cash equivalents		**297,313**	295,179
		303,760	306,992
Total assets		**11,040,293**	10,479,198
EQUITY			
Owners of the Company			
Share capital		**5,136,285**	5,136,285
Reserves	52	**1,980,322**	1,578,636
Total equity		**7,116,607**	6,714,921
LIABILITIES			
Non-current liabilities			
Bank borrowings		**1,791,375**	1,786,875
Amounts due to subsidiaries		**2,065,221**	1,884,060
		3,856,596	3,670,935
Current liability			
Accruals		**67,090**	93,342
Total liabilities		**3,923,686**	3,764,277
Total equity and liabilities		**11,040,293**	10,479,198
Net current assets		**236,670**	213,650
Total assets less current liabilities		**10,973,203**	10,385,856

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

Zeng Xiaoping
Director

Wang Zhiyong
Director

52. RESERVES OF THE COMPANY

	Share-based payments reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2016	26,616	1,328,710	805,253	2,160,579
Loss for the year	—	—	(13,360)	(13,360)
Other comprehensive expense for the year	—	(459,375)	—	(459,375)
Dividends	—	—	(109,208)	(109,208)
At 31 December 2016	**26,616**	**869,335**	**682,685**	**1,578,636**
Profit for the year	**—**	**—**	**9,347**	**9,347**
Other comprehensive income for the year	**—**	**471,350**	**—**	**471,350**
Dividends	**—**	**—**	**(98,373)**	**(98,373)**
Share-based payment expense (Note 31)	**19,362**	**—**	**—**	**19,362**
Transfer upon lapse of share options	**(26,616)**	**—**	**26,616**	**—**
At 31 December 2017	**19,362**	**1,340,685**	**620,275**	**1,980,322**

At 31 December 2017, the aggregate amount of reserves available for distribution to shareholders of the Company was HK$620,275,000 (2016: HK$682,685,000).

Financial Summary

	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Results					
Revenue	4,952,429	6,813,647	6,368,910	6,110,176	**6,987,845**
Operating profit less finance costs	290,304	310,194	95,625	205,704	**229,213**
Share of profit (loss) of:					
Associates	556,263	703,388	690,714	516,742	**433,100**
Joint ventures	(3,107)	(13,345)	(11,597)	(8,715)	**(8,040)**
Profit before tax	843,460	1,000,237	774,742	713,731	**654,273**
Tax expense	(68,602)	(96,119)	(71,533)	(49,989)	**(75,782)**
Profit for the year	774,858	904,118	703,209	663,742	**578,491**
Attributable to:					
Owners of the Company	704,353	737,009	562,351	515,214	**488,837**
Non-controlling interests	70,505	167,109	140,858	148,528	**89,654**
	774,858	904,118	703,209	663,742	**578,491**
Dividends	—	163,155	109,208	109,208	**98,373**
Assets and liabilities					
Total assets	17,606,659	24,980,733	23,013,422	20,719,301	**22,605,644**
Total liabilities	5,802,119	10,878,302	9,231,222	7,341,938	**7,858,454**
Total equity	11,804,540	14,102,431	13,782,200	13,377,363	**14,747,190**