CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Liu Meixuan *(Chairman)*
Mr Jin Xuesheng *(President)*
(appointed on 23 December 2019)
Mr Li Hongjun *(President)*
(resigned on 23 December 2019)

Non-Executive Directors

Mr Luo Zhenbang *(Independent)*
Ms Leung Sau Fan, Sylvia *(Independent)*
Mr Wang Xiaojun *(Independent)*
Mr Liu Xudong
Mr Mao Yijin
Mr Xu Liangwei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr Liu Meixuan *(Chairman)*
Mr Luo Zhenbang
Ms Leung Sau Fan, Sylvia
Mr Wang Xiaojun
Mr Xu Liangwei

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSEL

Reed Smith Richards Butler

PRINCIPAL BANK & FINANCIAL INSTITUTION

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

REGISTERED OFFICE

Room 1103–1107A, One Harbourfront
18 Tak Fung Street, Hung Hom
Kowloon, Hong Kong
Tel: (852) 2193 8888
Fax: (852) 2193 8899
E-mail: public@casil-group.com
Website: http://www.casil-group.com

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

CHAIRMAN'S STATEMENT

OVERVIEW

In 2019, the global economic slowdown and the escalating trade frictions between China and the US made an obvious impact to the business of the Company, materially inhibiting the growth and the profitability. For the year ended 31 December 2019, the Company and its subsidiaries reported a revenue of HK$3,450,824,000 (2018: HK$3,690,804,000), representing a decrease of 6.50% as compared with that of last year. The effective control of operating costs resulted in gross profit margin increasing from 24.29% last year to 26.31%. The Company and its subsidiaries recorded a profit of HK$437,858,000, representing a decrease of 15.83% as compared with that of HK$520,180,000 in 2018, after counting the impact of change in fair value of investment properties.

Profit attributable to shareholders was HK$338,350,000, representing a decrease of 16.27% as compared with that of HK$404,115,000 in 2018; earnings per share attributable to shareholders was HK10.97 cents (2018: HK13.10 cents). Without taking into account the effects on the change in fair value of investment properties and the related deferred taxation and non-controlling interests, the profit attributable to shareholders would be HK$285,744,000 (2018: HK$324,642,000), representing a decrease of 11.98% from last year.

Considering the development needs and funding position of the Company as a whole, the Board recommended the payment of a dividend of HK2 cents per share for the year.

BUSINESS REVIEW

In 2019, the revenue of the hi-tech manufacturing business remained stable but profitability was under pressure; Shenzhen Aerospace Science & Technology Plaza provided a stable income for the Company; and the internet of things application and cross-border e-commerce logistics business was greatly affected by policies, resulting in a significant decrease in revenue.

Hi-tech Manufacturing

In 2019, in response to the escalating trade frictions between China and the US and the downturn in mobile phones and automobiles industries etc., the Company's industrial enterprises actively adjusted the market and product structure to curb the sharp decline in economic scale and efficiency. The industrial enterprises vigorously reduced their current investment in fixed assets to ease tight cash flow and operating pressure, and strengthened the management of receivables and inventories to improve the quality of economic operations. Revenue of the hi-tech manufacturing business for the year was HK$3,012,219,000 (2018: HK$3,235,104,000), representing a decrease of 6.89% as compared with last year; operating profit was HK$205,945,000 (2018: HK$214,732,000), representing a decrease of 4.09% as compared with last year.

Having affected by factors such as the relocation of production bases by major customers to other countries, continued Sino-US trade frictions, as well as increased operating costs, the plastic product business recorded a decrease in revenue as compared with that of last year. The plastic product business expanded its range of product lines from office and financial equipment to new economic industries such as new energy vehicles, smart devices and robots, striving to develop into a manufacturer of high-end plastic parts. In order to expedite the adjustment of production capacity layout, and cope with the influence of factors such as the business relocation of major customers and the Sino-US trade friction, the plastic product business, based on actual development needs, is planning to develop a new production base in Vietnam with an aim to lay a foundation for the exploration of overseas markets in future.

As major customers withdrew from the personal consumer electronics market, the revenue and profit of the intelligent charger business were materially affected. The intelligent charger business is focusing on the transformation from the market of low-power products, and is intensifying its efforts on the research and development of medium and high power products, such as electric tools and electric bicycles, which contributing to the gradual increase in the sales of medium and high power products.

The printed circuit board ("PCB") business is deeply affected by factors such as the economic cycle and the iterative upgrade of electronic products, as well as the sluggish performance of the consumer electronics products, such as mobile phones, and the automotive markets. As a result, the PCB business experienced a substantial decrease in the orders from key customers. In 2019, the PCB business intensified the development efforts on 5G, cameras and other products in the domestic market, as a result of which, the market share of optoelectronic products was expanded, and the market presence of rigid-flex PCB business was also improved through pertinence research and development of camera products and better customer services. At the same time, the PCB business also made progress in exploring the markets of integrated circuit substrate and aerospace products.

In 2019, the liquid crystal display ("LCD") business achieved a satisfactory performance. It attached great importance to market exploration, successfully cultivated new strategic partners while maintaining the relationship with existing major customers, and introduced the new electricity meter business. During the year, the LCD business completed the basic construction of the new liquid crystal module ("LCM") plant, which provides a solid foundation for the expansion of production capacity in future.

Shenzhen Aerospace Science & Technology Plaza

Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") maintained a stable revenue and profit. In 2019, Shenzhen Aerospace and its wholly owned subsidiary responsible for the property management of Shenzhen Aerospace Science & Technology Plaza recorded a total revenue of HK$425,393,000, representing an increase of 1.50% as compared with that of HK$419,109,000 in 2018, and an operating profit of HK$439,566,000, representing a decrease of 14.78% as compared with that of HK$515,821,000 in 2018. The decrease in operating profit mainly reflected a decrease in the increment of property valuation as compared with last year. After taking out the impact of change in fair value of investment properties, the operating profit would be HK$348,770,000. As at the end of 2019, the valuation of Shenzhen Aerospace Science & Technology Plaza was approximately RMB7,772,000,000 (2018: RMB7,692,000,000).

The Complex Zone of the Launching Site in Hainan

The Company published two announcements on 8 March 2017 and 23 June 2017, respectively, in respect of the decision of Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, to withdraw from the land development project of the Complex Zone of the Launching Site in Hainan, and the return of the balance of the project investment and related expenses of RMB1,043,808,100 to Hainan Aerospace by the Municipal Government of Wenchang City ("Wenchang Municipal Government") before 31 December 2019.

Under the strong support of China Aerospace Science and Technology Corporation ("China Aerospace") and the Company's unremitting efforts, Wenchang Municipal Government paid the balance of RMB1,043,808,100 to Hainan Aerospace on 13 December 2019.

As at 31 December 2019, the carrying amount of the Company's interest in Hainan Aerospace was HK$629,508,000 (2018: HK$646,754,000). The Company's share of loss of Hainan Aerospace for the year ended 31 December 2019 was HK$3,613,000 (2018: HK$5,229,000), representing a significant decrease of 30.90% as compared with 2018.

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

In 2019, the cross-border e-commerce logistics business, the major business of Aerospace Digitnexus Information Technology (Shenzhen) Limited* (航天數聯信息技術 (深圳) 有限公司) ("Aerospace Digitnexus"), was affected by adjustments on customs policies whereas the business of internet of things application was under transformation. These factors caused the overall business performance of Aerospace Digitnexus to be under expectation. As of 31 December 2019, the revenue of Aerospace Digitnexus was approximately HK$4,573,000, representing a significant decrease of 85.92% as compared with that of HK$32,485,000 in 2018; the operating loss was approximately HK$33,573,000 (2018: operating loss of HK$37,133,000).

PROSPECTS

Looking ahead to 2020, multiple challenges still stand in front of global economic growth. Although China and the United States have reached the first-stage trade agreement, the subsequent Sino-US trade negotiations will continue to bring unpredictable risks to global economic growth. Certain geopolitical events will constitute ample uncertainties, and may result in the further slowdown of the global economic growth. In addition, the uncertainties plaguing the global economic growth in 2020 also include factors such as the political disputes between the two parties in the United States, election of US president, and the continuous increase in the debt burden worldwide.

The outbreak of the novel coronavirus severely disrupted the economic activities in China, operations of factories and suppliers had suspended completely or substantially after Chinese New Year. The impact of the Company's operations, as well as the production operations and supply chains in China has gradually revealed. With the gradual loosening of the control measures for business operations, people flow and traffic by the Chinese government, the Company has actively strived to resume the production and operation by taking on the premise of ensuring the health and safety of employees. The Company's operations are expected to substantially recover to normal levels by the end of the first quarter.

The rapid spread of novel coronavirus worldwide was totally unexpected, and the risks that it brought by will be highly unpredictable. The industrial enterprises of the Company, which are mainly export oriented and have production bases located in the mainland, will inevitably suffer a major economic shock. The Company will closely monitor the development of novel coronavirus, reasonably assess the impact on each subsidiary enterprise, take decisive measures on risk management and control in a timely manner, and actively carry out various works on the premise of maintaining prudent operation and strict risk control.

In 2020, each industrial enterprise will enhance its marketing efforts, continue to consolidate its existing premium customer base, increase investment in automation transformation, and strengthen research and development to enhance competitiveness comprehensively. The plastic product business will focus on the development of its high-end plastic parts business, continue to fully consolidate the high-quality customer base in the traditional market, expedite the exploration of new smart device markets, and cultivate the presence in the emerging new energy vehicle market so as to achieve overall business growth. At the same time, the plastic product business will fully promote the construction of a factory in Vietnam, and strive to make progress soon. The intelligent charger business will focus on promoting the businesses of nickel-metal hydride power sources for personal consumer products and lead-acid battery power sources in medical equipment, vigorously expand the application of lithium-ion power sources in electric bicycles, electric tools and robots, and actively develop the business of lithium-battery-based inverter power as a potential new growth driver.

The PCB business will strive for breakthroughs in the research and development of aerospace products and substrate products while advancing the development of various products. It will also increase the efforts on the development of domestic market to achieve mass production and scale up gradually. The LCD business will commence the mass production of electricity meter products, and establish a business foundation in Japan. The LCD business will continuously develop new products to meet customers' needs, and will complete the installation of production equipment in the new LCM plant and launch mass production.

The Company will prudently review the development strategy of the internet of things application and cross-border e-commerce logistics business, and take timely measures to improve or adjust business operations so as to control investment risks.

The Company has strengthened the scientific planning for the "14th Five-Year Plan", and determined its positioning to become the benchmark of international development and market-driven operation of China Aerospace, with the core strategies being innovation-driven, integrating into aerospace business, capital operation, and talent-based enterprise. Going forward, the Company will focus on the development of advanced manufacturing, modern services and high-tech industries, fully utilize the resources in both international and the China markets, and comprehensively deepen reform to achieve high-quality development of the Company.

In 2020, the Company will strive to complete the objectives set out in the "13th Five-Year Plan", make scientific development planning for the "14th Five-Year Plan" period, and spare no effort to usher in a brand new era for the reform-based development of the Company!

APPRECIATION

Due to career change, Mr Li Hongjun resigned as the Executive Director and President of the Company on 23 December 2019. Mr Li Hongjun made significant contributions to the Company during his tenure as the Executive Director and President, and, on behalf of the Board, I hereby extend my sincere gratitude and heartfelt appreciation to him and extend a warm welcome to Mr Jin Xuesheng in taking up the position of Executive Director and President.

On behalf of the Board, I express my profound gratitude to all the staff for their dedication and loyal services, especially those who stuck to their posts with unremitting efforts during the difficult time of the spread of novel coronavirus. Grateful thanks are also due to shareholders, bankers, business partners and members of the community who have supported the Company's development all along.

By order of the Board,

Liu Meixuan
Chairman and Executive Director

Hong Kong, 31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The revenue of the Company and the subsidiaries for the year ended 31 December 2019 was HK$3,450,824,000, representing a decrease of 6.50% as compared with that of HK$3,690,804,000 for 2018. The profit of this year was HK$437,858,000, representing a decrease of 15.83% as compared with that of HK$520,180,000 for 2018.

The decrease in profit was mainly due to a decrease in both the operating profit and the increment of fair value gain of investment properties of this year, as well as no gain on deemed disposal was recorded during the year.

PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Profit attributable to the owners of the Company was HK$338,350,000, representing a decrease of 16.27% as compared with that of HK$404,115,000 for 2018.

Based on the issued share capital of 3,085,022,000 shares during the year, the basic earnings per share was HK10.97 cents, representing a decrease of 16.26% as compared with that of HK13.10 cents for 2018.

DIVIDENDS

The Board proposed the distribution of 2019 final dividend of HK2 cents per share, subject to the approval by shareholders at the Annual General Meeting to be held on 24 June 2020. If approved, warrants of which will be dispatched to all shareholders on or about 20 July 2020.

The distribution of 2018 final dividend of HK1 cent per share was approved by shareholders at the Annual General Meeting in May 2019 and warrants of which were dispatched to all shareholders on 26 June 2019.

RESULTS OF CORE BUSINESSES

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

The revenue of the hi-tech manufacturing is the main source of the Company's revenue and that contributes a significant profit and cash flow. In recent years, the Company has gradually developed other new businesses. With the completion of Shenzhen Aerospace Science & Technology Plaza and that being turned into asset management, it brought in a constant rental revenue and relatively minimized the Company's individual business risk.

Hi-tech Manufacturing

In 2019, the global economy maintained a steady growth in the first half of the year. With uncertain factors affecting the global economy in the second half of the year such as the US-China trade dispute, fluctuations of exchange rate, increase in interest rate, the continued increase in labour costs, the demand of electronic consumer goods slowed down rapidly and many foreign companies moved to the South East Asian countries gradually to reduce costs, the already intense competition being faced by hi-tech manufacturing was further impacted. Except for the continued strengthening the research and development of new products and exploring high end product markets, the hi-tech manufacturing strived to develop the mainland's market so as to reduce market risks.

The revenue of the hi-tech manufacturing business for the year ended 31 December 2019 was HK$3,012,219,000, representing a decrease of 6.89% as compared with last year; the operating profit was HK$205,945,000, representing a decrease of 4.09% as compared with last year. The results of the hi-tech manufacturing business are shown below:

	Revenue (HK$'000)			Operating Profit (HK$'000)		
	2019	2018	Changes (%)	**2019**	2018	Changes (%)
Plastic Products	**1,105,308**	1,192,091	(7.28)	**55,476**	44,449	24.81
Printed Circuit Boards	**861,194**	862,348	(0.13)	**52,494**	63,474	(17.30)
Intelligent Chargers	**352,480**	542,799	(35.06)	**10,877**	20,852	(47.84)
Liquid Crystal Display	**680,064**	623,195	9.13	**60,285**	52,782	14.22
Industrial Property Investment	**13,173**	14,671	(10.21)	**26,813**	33,175	(19.18)
Total	**3,012,219**	3,235,104	(6.89)	**205,945**	214,732	(4.09)

In order to strengthen market competitiveness, expand business scale and explore overseas markets, Chee Yuen Industrial Company Limited, a subsidiary whose main business is plastic products, established a wholly-owned subsidiary in Vietnam in January 2020. It plans to set up several production lines to manufacture plastics, moldings, electroplating and electronic products and strives for fully operation by the end of 2020.

In 2020, the outbreak of the novel coronavirus happened in every corner of the world, the consumption activities almost stopped in those affected countries and cities, the sharp decrease in aggregate demand is weakening the economic activities, and the global economy for the first half of 2020 will be seriously suffered. At this difficult time, it is believed that the overall performance of the hi-tech manufacturing will be adversely affected, however it will continue to put effort in the research and development of new products and marketing, enhancing the level of automation in production, and maintaining the scale and capacity of production. In the meantime, it strives to reduce inventory and receivables, maintain stable business and sustainable development.

Shenzhen Aerospace Science & Technology Plaza

In 2019, the rental income of Shenzhen Aerospace Science & Technology Plaza under Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") brought a consistent and constant revenue to the Company. In 2019, Shenzhen Aerospace and Shenzhen Aerospace Technology Property Management Company Limited* (深圳市航天高科物業管理有限公司) ("Shenzhen Property Management"), a wholly-owned subsidiary of Shenzhen Aerospace responsible for property management, recorded a total revenue of HK$425,393,000 and an operating profit of HK$439,566,000.

As at 31 December 2019, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,772,000,000 (2018: RMB7,692,000,000).

In 2020, Shenzhen Property Management will continue to do better in public hygiene and property management, paying special attention to safety management, take effective measures to improve the quality of property services, enhance the satisfaction and praise of tenants and strengthen promotion to attract visitors, so as to elevate the overall value of Shenzhen Aerospace Science & Technology Plaza.

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

The performance of Kaiping Customs Clearance Centre operated by Aerospace Digitnexus Information Technology (Shenzhen) Limited ("Aerospace Digitnexus") is not ideal, while other businesses are still in the development stage, customer needs are constantly changing and fail to respond in time, it does not form a unique competitive advantage yet. Hence, it recorded a revenue of HK$4,573,000 only and an operating loss of HK$33,573,000 in 2019.

In 2020, Aerospace Digitnexus should strive to improve its business model, elevate efficiency and reduce losses as soon as possible, it is expected that it will continue to suffer losses in 2020, whereas the Company will prudently consider the business sustainability of Aerospace Digitnexus with the other shareholders when appropriate.

The Complex Zone of the Launching Site in Hainan

In 2018, Hainan Aerospace Investment Management Company Limited* (海南航天投資管理有限公司) ("Hainan Aerospace"), a joint venture of the Company, entered into a Settlement Agreement to the Land Development Agreement of the Complex Zone of the Launching Site in Hainan with the Municipal Government of Wenchang, pursuant to which both parties agreed to release the Land Development Agreement of the Complex Zone of the Launching Site in Hainan, their rights and obligations under which will be terminated accordingly. The Municipal Government of Wenchang also agreed to repay the investment and related expenses of RMB1,333,808,100 to Hainan Aerospace, of which, a sum of RMB290,000,000 had been repaid to Hainan Aerospace and the remaining balance be returned by assets in equivalent value or in cash by 31 December 2019. On 13 December 2019, Hainan Aerospace received the remaining balance of the investment and related expenses of RMB1,043,808,100. Details of which please refer to the Company's announcements published on 8 March 2017, 23 June 2017 and 16 December 2019.

As of 31 December 2019, the carrying amount of the Company's interest in Hainan Aerospace was HK$629,508,000 (2018: HK$646,754,000). The Company's share of loss of Hainan Aerospace for the year ended 31 December 2019 was HK$3,613,000 (2018: HK$5,229,000), representing a decrease of 30.90% as compared with 2018.

In 2020, Hainan Aerospace should strive to complete its in-depth feasibility studies on other businesses, striving to expand new business areas, and achieve transformation as soon as possible, whereas the Company will prudently consider the business sustainability of Hainan Aerospace with the other shareholders when appropriate.

ASSETS

(HK$'000)	**31 December 2019**	31 December 2018	Changes (%)
Non-Current Assets	**11,656,155**	11,518,775	1.19
Current Assets	**3,049,116**	2,800,505	8.88
Total Assets	**14,705,271**	14,319,280	2.70

The increase in non-current assets was mainly due to the recognition of right-of-use asset by the application of newly amended Hong Kong Financial Reporting Standards 16, as well as the increase in the long term portion of accrued rental income. The equity attributable to shareholders of the Company was HK$7,245,792,000, representing an increase of 2.28% as compared with that of HK$7,084,257,000 as at the end of 2018. Based on the issued share capital of 3,085,022,000 shares during the year, the net assets per share attributable to shareholders of the Company was HK$2.35.

As at 31 December 2019, a cash deposit of HK$41,272,000 and bills receivable of HK$136,106,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. Property right certificates at an approximate value of RMB1,900,000,000 of Shenzhen Aerospace Science & Technology Plaza were mortgaged by Shenzhen Aerospace to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) as a guarantee of repayment of a 12-year term loan in the amount of RMB1,300,000,000. Details of which please refer to the Company's announcement published on 30 August 2016.

LIABILITIES

(HK$'000)	31 December 2019	31 December 2018	Changes(%)
Non-Current Liabilities	**3,954,619**	3,890,239	1.65
Current Liabilities	**1,369,666**	1,248,674	9.69
Total Liabilities	**5,324,285**	5,138,913	3.61

The increase in both non-current liabilities and current liabilities were mainly due to the recognition of lease liabilities by the application of newly amended Hong Kong Financial Reporting Standards 16, as well as the increase in trade and other receivables.

As at 31 December 2019, the Company and the subsidiaries had other borrowings of HK$1,437,124,000.

OPERATING EXPENSES

The administrative expenses of the Company and the subsidiaries in 2019 were HK$325,583,000, representing an increase of 8.77% as compared with last year. The finance costs amounted to HK$75,038,000, representing an increase of 12.67% as compared with last year.

CONTINGENT LIABILITIES

As at 31 December 2019, the Company and the subsidiaries did not have any other material contingent liabilities.

FINANCIAL RATIOS

	2019	2018
Gross Profit Margin	**26.31%**	24.29%
Return on Net Assets	**4.67%**	5.67%

	31 December 2019	31 December 2018
Assets-Liabilities Ratio	**36.21%**	35.89%
Current Ratio	**2.23**	2.24
Quick Ratio	**1.96**	1.95

LIQUIDITY

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking facilities.

As at 31 December 2019, the free cash and bank balance amounted to HK$1,271,556,000, the majority of which were in Hong Kong Dollars and Renminbi.

CAPITAL EXPENDITURE AND INVESTMENT COMMITMENT

As at 31 December 2019, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the consolidated financial statements was HK$16,284,000, mainly for the acquisition of fixed assets.

FINANCIAL RISKS

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

HUMAN RESOURCES AND REMUNERATION POLICIES

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

As at 31 December 2019, the Company and the subsidiaries had a total of approximately 7,250 employees based in the mainland and Hong Kong respectively.

APPRECIATION

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

By order of the Board,

Jin Xuesheng
Executive Director and President

Hong Kong, 31 March 2020

CORPORATE GOVERNANCE REPORT

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

BOARD OF DIRECTORS

In 2019, the Board of Directors of the Company comprised the Executive Directors, namely, Mr Liu Meixuan (Chairman), Mr Jin Xuesheng (President) (appointed on 23 December 2019) and Mr Li Hongjun (President) (resigned on 23 December 2019); the Non-Executive Directors, namely, Mr Liu Xudong, Mr Mao Yijin and Mr Xu Liangwei; and the Independent Non-Executive Directors, namely, Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun. Each of the Directors is not related to each other in financial, business or family aspects.

The Chairman of the Company is Mr Liu Meixuan, whereas the President of the Company is Mr Jin Xuesheng (appointed on 23 December 2019) and was Mr Li Hongjun (resigned on 23 December 2019). Mr Liu Meixuan, Mr Jin Xuesheng and Mr Li Hongjun are not related to each other in financial, business or family aspects. The roles of Chairman and President have been divided according to respective written Terms of Reference.

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

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

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

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2019, namely, Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, they are unrelated to each other in every aspect, including financial, business or family. Among those Independent Non-Executive Directors, Mr Luo Zhenbang has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The Company had received a letter from each of the Independent Non-Executive Directors confirming his and his immediate family members' independence in compliance with Rule 3.13 of the Listing Rules. In addition, Mr Luo Zhenbang has been an Independent Non-Executive Director for more than nine years who continuously demonstrates the characters of being an Independent Non-Executive Director and is able to provide independent opinion. As such, the Board of Directors confirmed the same upon the Nomination Committee had reviewed and confirmed that all Independent Non-Executive Directors are independent.

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

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

The Company had enquired with all the Directors as to whether they had complied with Appendix 10 while trading the securities of the Company during 2019. So far as was known to the Company, all Directors had complied with Appendix 10 during the year.

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

The attendance record of Directors during 2019 is set out below (due to personal business reason, Mr Liu Meixuan, the Chairman, was unable to attend the annual general meeting while Mr Luo Zhenbang, the Chairman of the Audit Committee, was unable to attend the extraordinary general meeting):

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

CORPORATE GOVERNANCE POLICY

The Board is responsible for the Company's corporate governance and shall review and approve the Company's corporate governance in board meeting(s) in a timely manner. This includes but not limited to reviewing the effectiveness and sufficiency of corporate governance measures and policies, reviewing the training arrangements of Directors and senior management, whether the Company's policies comply with requirements of rules and regulations, applicability of the Company's internal codes, whether the Company complies with requirements of the *Corporate Governance Code* and *Corporate Governance Report*, and whether these have been disclosed in the Corporate Governance Report.

The corporate governance policy has been covered in the Company's *Rules of Board Procedure* which mainly regulate and monitor the discussion and decision making procedure of the Board in order to raise the effectiveness of corporate governance. Besides, the Board has made an appropriate internal control, risk management system and whistle-blowing system so as to effectively monitor the Company's financial and governance situation. At the same time, the Company also made a *Shareholder's Communication Policy* to effectively put forward disclosures of information and increase the Company's transparency.

Pursuant to the Company's *Rules of Board Procedure*, regular board meetings are held at least four times a year, and, if necessary, additional meetings would be arranged. In 2019, the Company held four board meetings, and Mr Liu Meixuan, the Chairman, also convened a meeting with the Independent Non-Executive Directors without the presence of other Directors and management officers.

The Company Secretary assists the Directors in establishing the meeting agenda. Notice of meeting and information package are sent to Directors within reasonable and practical time prior to a meeting in order to facilitate the Directors informed discussion and decision-making.

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

BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee and Nomination Committee, all of which respectively monitors the Company's governance such as financial situation, directors and senior management's remuneration policy, and nomination of directors. The Committees are governed by their respective Terms of Reference and accountable to the Board. The Terms of Reference of respective committees can be downloaded on the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

Audit Committee

In 2019, the Audit Committee comprises Mr Luo Zhenbang (Chairman) and Ms Leung Sau Fan, Sylvia, both being Independent Non-Executive Directors; and Mr Mao Yijin, being a Non-Executive Director. The major functions of the Audit Committee include serving as a focal point for communication between the Directors and external auditors, reviewing the Company's financial information as well as overseeing the Company's financial reporting system, risk management and internal control procedures.

The Audit Committee met twice during 2019 for the purpose of assessing and reviewing the internal control system, risk management, the financial statements and corporate governance practices and so on. The external auditors, the Financial Controller, the General Manager of Finance Department, the General Manager of Internal Audit & Risk Management Department and the Company Secretary attended both meetings.

The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2019.

The attendance record of Audit Committee members during 2019 is set out below:

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

Remuneration Committee

In 2019, the Remuneration Committee comprises Ms Leung Sau Fan, Sylvia (Chairman) and Mr Wang Xiaojun, both being Independent Non-Executive Directors, and Mr Xu Liangwei, being a Non-Executive Director. The Remuneration Committee takes the role of advisory and proposes to the Board on the emoluments of the Directors and senior management with regard to the operating results of the Company, the individual performance and the comparable market information.

The Remuneration Committee met once during 2019 for the purpose of reviewing the remuneration and the appraisal policy of the Company's Directors and senior management, as well as the remuneration of new directors. The Deputy General Manager of General Affairs Department and the Company Secretary attended the meeting. In 2019, no Director was involved in deciding his/her own remuneration.

The attendance record of Remuneration Committee members during 2019 is set out below:

	Number of meetings eligible to attend	Number of attendance
Leung Sau Fan, Sylvia	1	1
Wang Xiaojun	1	1
Xu Liangwei	1	1

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

Nomination Committee

In 2019, the Nomination Committee comprises Mr Liu Meixuan (Chairman), the Chairman and Executive Director, and Mr Xu Liangwei, being a Non-Executive Director, and Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, all being Independent Non-Executive Directors. Main functions of the Nomination Committee are to review the structure, size and composition of the Board in order to implement the Company's strategy.

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

The Company has formulated the *Directors' Nomination Policy*, which has been considered and passed by the Nomination Committee and the Board. Highlights of the policy are as follows:

1. The Nomination Committee shall at least consider the following factors when assessing candidates:

   a. compliance with the requirements on assuming directorship under, among others, the Hong Kong Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company;

   b. suitable candidate selected is based on the Board structure and actual needs of the Company's operation, including but not limited to the determination of the type of director to be identified (i.e. executive director, non-executive director or independent non-executive director), the determination of the director to be identified (e.g. possession of experience on finance and accounting, law or peers; lowering average age; candidates for the succession of the Board), the determination of the requirements for the director to be identified (e.g. one of the independent directors must possess experience on finance and accounting);

   c. the *Board Diversity Policy* of the Company;

   d. in case the assumption of the role of independent non-executive director of the Company represents his/her directorship in seven or more listed companies, the reasons why that independent non-executive director candidate could devote sufficient time; and

   e. other factors, including but not limited to, among others, his/her contributions to the Company (e.g. view and perspective, skills and experience, promotion of board diversity), familiarity with legal requirements in Hong Kong and China, as well as time to be devoted to the affairs of the Company.

2. Potential nominees shall provide sufficient information, such as biographical details, to the Nomination Committee for consideration.

3. Assessment on the independence of potential independent non-executive director nominee.

4. The Nomination Committee could invite other directors or senior management to assist in identifying candidates.

5. If necessary, the Nomination Committee can invite potential nominee(s) to attend meeting(s) for it to further learn about him/her.

6. The Nomination Committee has the discretion to nominate or reject the identified candidate(s).

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

The Nomination Committee met once during 2019 while the Company Secretary attended the meeting. The Nomination Committee reviewed the structure of the Board, confirmed the rotation list of Directors at the Annual General Meeting, and reviewed the independency of each of the Independent Non-Executive Directors and confirmed all of them are independent, and the Board, based on the recommendation of the Nomination Committee, also confirmed that all of them have an independency.

The attendance record of Nomination Committee members during 2019 is set out below:

	Number of meetings eligible to attend	Number of attendance
Liu Meixuan	1	0
Luo Zhenbang	1	1
Leung Sau Fan, Sylvia	1	1
Wang Xiaojun	1	1
Xu Liangwei	1	1

DIRECTORS' TRAINING

The Directors have been reported the financial and the operational information by the Company periodically, and will be informed, both in written and by meetings, the latest amendments of the relevant laws related to listed companies and the Listing Rules, if any, in order to let them to understand the related directors' duties and responsibilities. Besides, the Company already informed each Director of the requirement of receiving relevant training each year and the provision of a record of the training they received to the Company. In 2019, the Company arranged a training regarding the Stock Exchange's training videos of "Environmental, Social and Governance Responsibility and Report" and "Handling Inside Information". All Directors participated appropriate trainings according to their own needs and provided a training record during 2019 to the Company pursuant to the *Corporate Governance Code and Corporate Governance Report*.

LIABILITY INSURANCE

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

COMPANY SECRETARY

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

The Company Secretary of the Company is Mr Chan Ka Kin, Ken, a member of the Hong Kong Institute of Chartered Secretaries, who has been servicing the Company for many years and he had taken not less than 15 hours' professional training in 2019 which met the requirements as stipulated in Rules 3.28 and 3.29 of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

The Company's management evaluates the risk management and internal control system each year. Firstly, each of the subsidiaries reviews and evaluates the design and actual operation of their organizational structure, development strategy, human resource, corporate culture, social responsibility and so on. Secondly, the Company reviews the internal control of such companies by examining the risk identification and analysis and solutions taken, as well as reviewing and verifying the design and operation of relevant control measures on such as financing activities, asset management, purchase, sales, research and development, engineering project, guarantees, outsourcing, overall budget and contract management.

If any potential loophole is noted and recognized, the Company will put forward proposals, requiring relevant companies to enact or revise their rules and rectify the loophole within a specified period. Appraisal of the internal control environment will be carried out each year. Continuous improvements can strengthen the Company and its subsidiaries' internal control and reduce the possibility of risk occurrence.

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

The Company has established the *Rules on Administration of Information Disclosure Affairs* and *Guidelines on Identification of Discloseable Transactions and Inside Information* to maintain sound corporate governance and duly fulfill information disclosure obligations of a listed company and protect the rights and interests of the Company and investors. The Company and its subsidiaries shall regularly monitor their transactions and identify whether the counterparty is a connected party or not. Where a possible notifiable transaction is identified, it shall report to the Company immediately. When a transaction is confirmed as a notifiable transaction, the Company Secretary will draw up disclosure documents as soon as possible, and publish an announcement upon obtaining approval from the Board of Directors.

During the period, employees who have become aware of the transaction shall bear the duty of confidentiality and may not disclose it to the public without authorization. The *Model Code for Securities Transactions by Employees* of the Company also provides that specific employees who are aware of or privy to any negotiations or agreements related to a notifiable transaction, connected transaction or any inside information must refrain from dealing in the Company's securities on the date as they become aware of them or privy to them.

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

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

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial year, which give a true and fair view of the state of affairs, the results and the cash flows of the Company and its subsidiaries for that period. In preparing the accounts for the year ended 31 December 2019, the Directors had selected suitable accounting policies and adopted Hong Kong Financial Reporting Standards and applied them consistently. Based on judgments and estimations that are prudent and reasonable, the Directors prepared the accounts on a going concern basis. Auditor's reporting responsibilities are set out on the financial statements by the auditor.

During 2019, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern. The Company aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects in all published documents such as announcements, circulars, interim reports and annual reports. The Company has announced its annual and interim results in a timely manner within the limits of 3 months and 2 months respectively after the end of the relevant period as laid down in the Listing Rules.

In 2019, the Company paid a total of approximately HK$5,361,000 to the auditor, of which included an audit fee of approximately HK$4,155,000 and a non-audit fee of approximately HK$1,206,000. The latter comprised fees for provision of services in reviewing interim report, results announcements, continuing connected transactions and so on.

INVESTORS' RELATION

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

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

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

The Company held an annual general meeting in May 2019 and an extraordinary general meeting in July 2019. Circulars of the meetings were sent beforehand as required by related rules. In the annual general meeting, the shareholders reviewed and approved the resolutions on the Company's financial results of 2018, the payment of a final dividend, re-election of Directors, remuneration fixing of Directors, the re-election of auditors and authorisation to the Board in remuneration fixing of auditors, and the general mandate to the Board to issue and repurchase shares. All proposed resolutions were approved by the shareholders. In the extraordinary general meeting, the independent shareholders reviewed the resolution on connected transaction that making deposits with a connected person, however, the proposed resolution was not approved by the independent shareholders.

The Company had set aside enough time for shareholders to raise questions and for Directors to respond in the general meeting and the extraordinary general meeting. The results of resolutions were verified by the share registrar and the Company Secretary, on behalf of the meeting chairman, announced the poll results promptly during the meeting, of which the same were uploaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company respectively on the same day's afternoon.

The Company did not amend its Articles of Association in 2019.

SHAREHOLDERS' RIGHTS

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2019, the issued share capital was approximately 3,085,022,000 shares, and the market capitalization was about HK$1,496,000,000.

As at 31 December 2019, the Company had total registered shareholders of 1,046, of which included the substantial shareholder, China Aerospace Science & Technology Corporation, holding approximately 38.37%. Since many other shareholders hold shares through HKSCC Nominees Limited in Hong Kong, the actual number of shareholders should be greater than the registered numbers.

According to the public information obtained by the Company and to the best knowledge of the Directors, the Company complied with the sufficiency of public float of not less than 25% as required by the Listing Rules as of 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

CORE BUSINESSES

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

The turnover of the hi-tech manufacturing is the main source of the Company's turnover and that contributes a significant profit and cash flow. In recent years, the Company has gradually developed other new businesses. Following the completion of Shenzhen Aerospace Science & Technology Plaza and that being turned into asset management, it brought in constant rental revenue and achieved the Company's new development objective, and relatively minimized the Company's individual business risk.

CORPORATE SOCIAL RESPONSIBILITY

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

Scope of coverage

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

A. Environment

General disclosure

Emission

The Major Industrial Enterprises are principally engaged in manufacturing and selling plastic products, liquid crystal display, print circuit boards and intelligent chargers, and will produce various wastes, pollutants and noise during their daily production. Emissions of which are mainly greenhouse gases, exhaust gas, waste water and waste materials etc. The Property Management Company engages in provision of property management services to Shenzhen Aerospace Science & Technology Plaza. Its impact on the environment mainly comes from the emission of exhaust gas, domestic garbage and wastes, consumption of electricity and water resources and various kinds of material consumption. Inappropriate treatment of such discharges would cause pollution and impose an adverse impact on local ecological environment and thus the rights of stakeholders. Emissions of these pollutants and wastes are significant scope of each Major Operating Enterprise. Shall the law of environmental protection be severely violated, the government may request for rectification or even mandatorily suspend operation, where the production progress would definitely be affected, thereby, hampering the Company's overall business results.

Major Operating Enterprises have always strictly complied with the provisions of laws of Mainland China concerning environmental protection, waste collection, pollutant emission and noise emission while also established energy management system, pollutant emission and waste management control procedures and safety management system for hazardous chemicals in response to the needs of different industries. To ensure waste water, exhaust gas and waste materials treatment is in compliance with the requirements of local environmental protection government authorities, waste water will be passed through water recycling facilities in the waste water treatment system to boost water reuse rate and reduce waste water discharge. All exhaust gas would only be discharged upon meeting respective standards after passing through water filter and absorption. Waste materials produced are distinguished by disposing into rubbish bins of different logo and treated in a centralized manner, while domestic wastes are handled by environment and hygiene administration. For the treatment of hazardous waste, Major Operating Enterprises will report it through the designated webpage of local environmental protection bureaus, and that will be recovered by those companies with hazardous waste recycling permits, whereas those general wastes will be recycled by qualified waste recycling companies. Besides, each Major Operating Enterprise has also engaged qualified professional companies to test whether their noise, exhaust gas and waste water emission levels exceed the stipulated standard, and to dispose of and recycle various hazardous industrial wastes, thereby striving to control and reduce pollution on communities.

Save as power consumption, the consumption of other energy sources by Major Industrial Enterprises was slightly lower than in 2018, whereas waste and greenhouse gas emissions were roughly the same. In 2018, many tenants moved in Shenzhen Aerospace Technology Plaza and hence increased many handling and packaging materials but such non-hazardous wastes were reduced substantially in 2019. The consumption of electricity and water increased as a result of increasing tenants, which indirectly increased the greenhouse gas emissions of Property Management Company.

All Major Operating Enterprises must comply with laws and requirements related to environmental protection, mainly the Law on Prevention and Control of Atmospheric Pollution, Energy Conservation Law, Cleaner Production Promotion Law, Environmental Protection Tax Law, Solid Wastes Prevention Law, National Catalogue of Hazardous Wastes and Law on Prevention and Control of Pollution from Environmental Noise, as well as regulations related to environmental protection at the place where the companies are located at, if applicable. According to the Environmental Protection Tax Law effective in 2018, requirements on regulating the pollutants discharge for enterprises are becoming more stringent. Verified pollutants of the Major Industrial Enterprises are categorized into atmospheric pollution and water pollutants, which in turn increased the tax burden on environmental protection tax to a certain extent, though the amount was not significant. For the Property Management Company, no environmental protection tax had to be paid since no direct discharge of pollutants was made to the environment.

In 2019, the wastes, pollutants and noise emitted by each Major Operating Enterprise generally complied with the standard prescribed by laws and did not materially violate the law requirements related to environmental protection. Also, no incident exerting material adverse impact was noted.

Use of resources

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

Environment and natural resources

The Major Industrial Enterprises, as manufacturers of electronic products, may affect the environment mainly due to emission of waste gas and waste water, production of solid wastes, consumption of electricity, water resources and various materials. The Property Management Company's impact on the environment mainly comes from the emission of exhaust gas, domestic garbage and wastes, consumption of electricity and water resources and various kinds of material consumption. By doing this, each Major Operating Enterprise had identified the impact of its business scope over the environment and relevant environmental factors, placed them in orders according to their environmental impact by using scientific methods and determined significant environmental factors, and took appropriate measures accordingly. These measures include improving the manufacturing technique, complying with regulatory requirements (including 24-hour real-time testing of waste water volume and its pH scale as required by relevant government departments), reducing emissions, recycling, contingency plans and setting goals for consumption reduction for reasonable management purpose. Each of the Major Operating Enterprises had obtained the certification of Environmental Management System Standard (ISO 14001) in the hope of reducing the impact of operations to the environment.

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

Emissions			2018	**2019**
A1.2	Total greenhouse gas emissions		146,866 tonnes	**154,508 tonnes**
A1.3	Total hazardous waste produced		1,319 tonnes	**1,442 tonnes**
A1.4	Total non-hazardous waste produced		24,717 tonnes	**3,690 tonnes**

Use of Resources				
A2.1	Total direct and indirect energy consumption	Electricity	105,434,199 kilowatts	**114,605,562 kilowatts**
		LNG	107,307 kilograms	**83,130 kilograms**
		Environmental-friendly fuel	24,200 liters	**24,296 liters**
		Gasoline	47,951 liters	**47,454 liters**
		Diesel	29,640 liters	**18,838 liters**
A 2.2	Total water consumption		1,440,793 tonnes	**1,619,397 liters**
A2.5	Total packaging material used		1,988 tonnes	**1,903 tonnes**

B. Social: Employment and Labour Practice

General disclosure

Employment

The Company and its subsidiaries adhere to the principle of fair recruitment regardless of age, gender, marital status, race, nationality, religion or disability, and always regard staff as the most important assets and appoint them according to their ability. On the other hand, the Company and its subsidiaries continuously enhance their human resources management skill and strictly implement the performance-based appraisal system, in order to motivate employees to make continuous improvement in their individual performance and contributions to the Company.

The Company and its subsidiaries provide the staff with a reasonable salary, appropriate medical protection and other insurance coverage, which helps to maintain a comparatively stable working environment for the staff. All employees enjoy equal opportunity and the salary policy is based on the qualification, experience and work performance of employees as well as the prevailing market rates.

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

All Major Operating Enterprises must comply with the laws and requirements related to employment, mainly the Labour Law, Labour Contract Law, Provisions on Prohibition of Using Child Labour and Protection System for Women Labour and Underage Labour, as well as regulations related to employment at the place where the companies are located at, if applicable.

In 2019, all Major Operating Enterprises generally complied with the law requirements and did not materially violate the law requirements related to employment. Also, no incident exerting material adverse impact was noted.

Health and safety

The Major Operating Enterprises have established a complete set of occupational safety and health management system in accordance with the provisions of regulations by establishing methods for evaluation, of which individual industrial enterprises have also implemented SA 8000 (social responsibility standards) management systems, disposal and administration of hazard sources, rules and methods for safe operation as well as relevant methods for administration of safety performance. The Major Operating Enterprises will monitor and check the above-mentioned methods on a regular basis, evaluate hazard sources once each year, offer trainings on safe operation rules on a regular basis, manage and drill emergency plans on a regular basis, and evaluate and assess safety performance.

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

All Major Operating Enterprises must comply with the laws and requirements related to employees' health and occupational safety, mainly the Labour Law, Safe Production Method, Law on Prevention and Control of Occupational Diseases and Fire Protection Law, as well as regulations related to employees' health and occupational safety at the place where the companies are located at, if applicable.

In 2019, all Major Operating Enterprises generally complied with the law requirements and did not materially violate the law requirements related to employees' health and occupational safety, and the total number of working days lost due to work-related injuries decreased as compared with last year. Also, no incident exerting material adverse impact was noted.

Development and trainings

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

Labour standards

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

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

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

In 2019, individual Major Industrial Enterprises were affected by a relatively high turnover rate. The turnover rate of employees aged below 30 was higher than that of 2018, of which many young employees prefer to engage in other emerging industries (such as information technology industry) or more relaxed duties instead of working in plants, and as a traditional industry, the aging of employment is very obvious. The turnover of Property Management Company was slightly stable. Overall, the problem of turnover rate is still obvious.

All Major Operating Enterprises have enlarged the room of development for employees and provided them with development platform and occupational guidance on various aspects, including inter-department employment and employment priority as well as enhanced incentives, so as to offer employees a sense of security. On the other hand, analysis reports are made on resigning employees for understanding the change in headcount. Adjustments are made on a timely basis to ensure the stability of headcount and lower turnover.

All Major Operating Enterprises must comply with the laws and requirements related to labour protection, mainly the Labour Law, Labour Contract Law, Provisions on Prohibition of Using Child Labour and Protection System for Women Labour and Underage Labour, as well as regulations related to labour protection at the place where the companies are located at, if applicable.

In 2019, all Major Operating Enterprises generally complied with the law requirements and did not materially violate the law requirements related to labour protection. Also, no incident exerting material adverse impact and no significant labour disputes were noted.

As at 31 December 2019, the Company and its subsidiaries had a total of approximately 7,250 employees (31 December 2018: approximately 7,160 employees) based in Mainland China and Hong Kong.

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

Employment	Indicator	Type	Age	Sex	2018 Total persons	2018 Geographical Region	**2019 Total persons**	**2019 Geographical Region**
B1.1	Total workforce by gender, employment type, age group and geographical region	Clerical Staff	18–30	Male	311	China (100%)	**285**	**China (100%)**
			18–30	Female	135	China (100%)	**125**	**China (100%)**
			above 30	Male	529	China (100%)	**565**	**China (100%)**
			above 30	Female	165	China (100%)	**181**	**China (100%)**
		Factory Worker/ Other Employees	18–30	Male	1,438	China (100%)	**1,231**	**China (100%)**
			18–30	Female	849	China (100%)	**664**	**China (100%)**
			above 30	Male	810	China (100%)	**973**	**China (100%)**
			above 30	Female	996	China (100%)	**1,102**	**China (100%)**
B1.2	Employee turnover rate by gender, age group and geographical region		18–30	Male	568 (20.62%)	China (100%)	**772 (30.65%)**	**China (100%)**
			18–30	Female	387 (14.05%)	China (100%)	**436 (17.31%)**	**China (100%)**
			above 30	Male	235 (9.53%)	China (100%)	**444 (16.69%)**	**China (100%)**
			above 30	Female	201 (8.15%)	China (100%)	**324 (12.18%)**	**China (100%)**

Safety	Indicator	2018	**2019**
B2.1	Number and rate of work related fatalities	0 (0%)	**0 (0%)**
B2.2	Lost working days due to work injury	371 days	**22 days**

Development & Training	Indicator			2018	**2019**
B3.1	The percentage of employees trained by gender and employee category	Senior Management	Male	100%	**100%**
			Female	100%	**100%**
		Middle Management	Male	100%	**100%**
			Female	100%	**100%**
		Other Employees	Male	100%	**100%**
			Female	100%	**100%**
B3.2	The average training hours completed per employee by gender and employee category	Senior Management	Male	19–48 hours	**17-63 hours**
			Female	20–30 hours	**17-25 hours**
		Middle Management	Male	30–50 hours	**22-52 hours**
			Female	30–50 hours	**22-52 hours**
		Other Employees	Male	12–158 hours	**16-139 hours**
			Female	12–158 hours	**16-139 hours**

C. Social: Operational practices

General disclosure

Supply chain management

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

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

In addition, each Major Operating Enterprise has put into place procedures for administration and control of suppliers, including qualification identification, annual review and regular supervision for suppliers, formulated anti-commercial bribery rules. Meanwhile, management system for product delivery and service has been established, in which including product quality control methods and complaint handling. To ensure product and service quality, individual industrial enterprises have established and continuously optimized their respective supplier appraisal and management mechanism. Such enterprises have formulated and documented a set of rules and systems to strictly select suppliers and regularly assess their performance. Individual industrial enterprises have also extended the implementation of ISO 14001 Environment Management System Standard to its suppliers, while continuously examine the packaging of all products and unleash more possibilities for lowering the demand for raw materials in innovative manner.

For procurement and supply chain management, all employees must strictly comply with all integrity systems, and keep the company's trade secret confidential. Those companies also signed the Declaration on Integrity for Service Co-operation with its partners, which clearly prescribes the respective authorities and obligations.

All Major Operating Enterprises must comply with the law and requirements related to supply chain management, mainly the Anti-Money Laundering Law, Anti-Unfair Competition Law, Anti-Monopoly Law, Bidding Law and Interim Provisions on Banning Commercial Bribery, as well as regulations related to supply chain management at the place where the companies are located at, if applicable.

In 2019, all Major Operating Enterprises generally complied with the law requirements and did not materially violate the law requirements related to supply chain management. Also, no incident exerting material adverse impact was noted.

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

		2018			**2019**		
	Indicator	Number of suppliers	Overseas proportion	Mainland China Proportion	**Number of suppliers**	**Overseas proportion**	**Mainland China Proportion**
B5.1	Number of suppliers by geographical region	1,168	27%	73%	**1,290**	**18%**	**82%**

Product liability

The industrial enterprises are responsible for producing different types of products, and have established a sound internal testing system. The reject rate has remained at a relatively low level and the products are in compliance with relevant product safety regulations, so as to ensure the production process does not affect the health and safety of staff and the finished products do not affect the health and safety of customers. In 2019, products of the industrial enterprises had no significant quality problems.

Property Management Company mainly provides property management services to the tenants. It frequently improves service quality in correspondence to tenants' opinion. In 2019, Property Management Company implemented a tenant's opinion survey, and the main opinions of which related to the demand for improving sanitation, complaining about indoor smoking of certain tenants, and strengthening management, etc., no significant complaints arising from health and safety were received by Property Management Company and certain tenants were revisited after rectification.

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

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

Individual industrial enterprise has dedicated personnel responsible for the management of intellectual property rights as well as the establishment trade secret systems and continuous optimization of trade secret. On the other hand, each Major Operating Enterprise always takes appropriate measures to protect clients' information, intellectual property and privacy in accordance with laws and upon clients' reasonable request.

All Major Operating Enterprises must comply with the laws and requirements related to product liabilities, mainly the Company Law, Property Law, Product Quality Law, Tort Law, Trademark Law and Patent Law, as well as regulations related to product liabilities at the place where the companies are located at, if applicable.

In 2019, all Major Operating Enterprises generally complied with the law requirements and did not materially violate the law requirements related to product liabilities. Also, no incident exerting material adverse impact was noted.

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

	Indicator	2018	**2019**
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	0%	**0%**

Anti-corruption

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

In 2019, the Major Operating Enterprises did not receive any complaint from any organization or individual against an employee's misconduct or other illegal activities.

All Major Operating Enterprises must comply with the laws and requirements related to anti-corruption, mainly the Anti-Money Laundering Law, Anti-Unfair Competition Law, Anti-Monopoly Law, Bidding Law and Interim Provisions on Banning Commercial Bribery, as well as regulations related to anti-corruption at the place where the companies are located at, if applicable.

In 2019, all Major Operating Enterprises generally complied with the law requirements and did not materially violate the law requirements related to anti-corruption. Also, no incident exerting material adverse impact was noted.

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

	Indicator	2018	2019
B7.1	Number of concluded legal cases regarding corrupt practices brought against the Company and the Major Operating Enterprises or their respective employees and the outcomes of the legal actions	0	**0**

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

In 2019, the Company did not receive complaints against misconduct in financial reporting. There was no significant dispute between the Company and its subsidiaries and partners of various businesses and lending banks.

Community investment

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

CONCLUSION

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

The Company's Board of Directors had reviewed, discussed and approved the contents of the Environmental, Social and Governance Report and its publication on 31 March 2020.

INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
A. Environmental	A1: Emissions	General Disclosure	Information on air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	22
		A1.1	The types of emissions and respective emissions data	22-24
		A1.2	Total greenhouse gas emissions and intensity	24
		A1.3	Total hazardous waste produced and intensity	24
		A1.4	Total non-hazardous waste produced and intensity	24
		A1.5	Description of measures to mitigate emissions and results achieved	23
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	23

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	A2: Use of Resources	General Disclosure	Policies on the effective use of resources, including energy, water and other raw materials	23
		A2.1	Total direct and/or indirect energy consumption by type and intensity	24
		A2.2	Total water consumption and intensity	24
		A2.3	Description of energy use efficiency initiatives and results achieved	23
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	23
		A2.5	Total packaging material used for finished products and with reference to per unit produced	24
	A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing significant impact on the environment and natural resources	23
		A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	23

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
B. Social	**Employment and Labour Practices**			
	B1: Employment	**General Disclosure**	Information on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	24-25
		B1.1	Total workforce by gender, employment type, age group and geographical region	27
		B1.2	Employee turnover rate by gender, age group and geographical region	27
	B2: Health and Safety	**General Disclosure**	Information on providing a safe working environment and protecting employees from occupational hazards: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	25
		B2.1	Number and rate of work-related fatalities	27
		B2.2	Lost days due to work injury	27
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	26

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	25
		B3.1	The percentage of employees trained by gender and employee category	28
		B3.2	The average training hours completed per employee by gender and employee category	28
	B4: Labour Standards	General Disclosure	Information on prevention of child and forced labour: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	25-26
		B4.1	Description of measures to review employment practices to avoid child and forced labour	25
		B4.2	Description of steps taken to eliminate such practices when discovered	25-26
	Operating Practices B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	28-29
		B5.1	Number of suppliers by geographical region	29
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	29

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	B6: Product Responsibility	General Disclosure	Information on health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	29-30
		B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	30
		B6.2	Number of products and service related complaints received and how they are dealt with	29
		B6.3	Description of practices relating to observing and protecting intellectual property rights	30
		B6.4	Description of quality assurance process and recall procedures	30
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	30

Subject Areas	Aspects	KPI & Disclosure		Position in the Report (Page)
	B7: Anti-corruption	**General Disclosure**	Information on prevention of bribery, extortion, fraud and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact	30-31
		B7.1	Number of concluded legal cases regarding corrupt practices brought against the Company and the Major Operating Enterprises or its employees during the reporting period and the outcomes of the cases	31
		B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	31
	Community **B8: Community Investment**	**General Disclosure**	Policies on community engagement to understand the needs of the communities where the Company and the Major Operating Enterprises operate and to ensure its activities take into consideration the communities' interests	31
		B8.1	Focus areas of contribution	31
		B8.2	Resources contributed to the focus areas	31

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr Liu Meixuan, aged 53, the Chairman and Executive Director of the Company, graduated from Shanghai Jiao Tong University and obtained a bachelor's degree in engineering. From 1987, he held such positions as Vice Plant Director, Plant Director of No. 811 Plant and Director General of both Human Resources Department and General Operation Department of China Academy of Launch Vehicle Technology; Deputy General Manager and General Manager of China Aerospace Times Electronics Company Limited; President of Aerospace Long March Launch Vehicle Technology Company Limited and Chairman of China Aerospace Times Electronics Company Limited. From February 2009 to December 2018, he was the Dean of China Academy of Aerospace Electronics Technology, during which he also served as General Manager and Executive Director of China Aerospace Times Electronics Company Limited. Mr Liu possesses ample experience in enterprise management. He was appointed as the Chairman and Executive Director of the Company in December 2018.

Mr Jin Xuesheng, aged 57, a Senior Engineer, is the Executive Director and President of the Company. He graduated from Harbin Institute of Technology with a bachelor's degree in engineering and the University of Lancaster in the United Kingdom with a MBA degree. From 1984, he held such positions as Deputy Division Director and Division Director of the Planning and Operation Division, Engineer and Deputy Factory Director at Capital Engineering Factory under China Academy of Launch Vehicle Technology, as well as Managing Director of Langfang Hangxing Packaging Machinery Company Limited, the Vice President and Financial Controller of China Spacesat Company Limited (stock code: 600118), the shares of which are listed on Shanghai Stock Exchange, Deputy General Manager of Beijing Aerospace Satellite Applications Company and Deputy General Manager of Aerospace Technology Investment Holdings Limited. Among which, he was the Executive Director and Vice President of the Company from September 1999 to May 2001, and the Director, Deputy General Manager and Financial Controller of Shanghai Aerospace Technology Investment Management Company Limited, a subsidiary of the Company, from November 2006. Mr Jin possesses extensive corporate management experience, especially the experience in financial management. He was appointed as a Non-Executive Director of the Company in March 2008 and was re-designated as an Executive Director and appointed as Executive Vice President in May 2010. He resigned the position of Executive Director in December 2018 but remained the position of Executive Vice President. In December 2019, he was appointed as the Executive Director and President.

Mr Luo Zhenbang, aged 53, is an Independent Non-Executive Director of the Company and a director and managing partner of BDO China Shu Lun Pan Certified Public Accountants LLP. Mr Luo graduated from the School of Business of Lanzhou in 1991 majoring in Enterprise Management. He has been managing the audit works for many listed companies since 1994. He has been an expert supervisor of China Xinda Asset Management Corporation and China Great Wall Asset Management Corporation. He was also an independent director of Long March Vehicle Technology Company Limited, Orient Tantalum Industry Company Limited, Wuzhong Instrument Company Limited, Shengxue Company Limited, Avic Heavy Machinery Co. Ltd., Digital China Information Service Company Ltd., shares of which are listed on Shenzhen Stock Exchange (stock code: 000555), and Xinjiang Goldwind Science & Technology Co., Ltd., shares of which are listed on Shenzhen Stock Exchange (stock code: 002202) and The Stock Exchange of Hong Kong Limited (stock code: 2208), as well as an internal audit expert of Northeast Securities Company Limited, shares of which are listed on Shenzhen Stock Exchange (stock code: 000686). He currently serves as independent director of BII Railway Transportation Technology Holdings Company Limited (formerly known as China City Railway Transportation Technology Holdings Company Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1522), and Guorui Properties Limited, shares of which are listed on The Stock Exchange of Hong Kong (stock code: 2329). Mr Luo possesses several professional qualifications, such as Chinese certified public accountant, certified accountant in securities and futures industry, Chinese certified assets valuer and Chinese certified tax accountant and has in-depth experience in accounting, auditing and financial management. He is familiar with the audit of listed companies from various sectors and extensively participates in corporate restructuring for listing, listed company restructure and other business consultation services. He was appointed as an Independent Non-Executive Director of the Company in December 2004.

Ms Leung Sau Fan, Sylvia, aged 56, is an Independent Non-Executive Director of the Company. Ms Leung holds a bachelor's degree of arts in accountancy from City University of Hong Kong and had studied as an external student and passed the approved examinations and obtained a bachelor of laws degree from the University of London. Ms Leung was an independent non-executive director of Prosper Construction Holdings Limited (stock code: 6816), shares of which is listed on The Stock Exchange of Hong Kong Limited. Ms Leung is currently a Responsible Officer of a company licensed to conduct, among others, type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and is also an independent non-executive director of Poly Property Group Co., Limited (stock code: 119), shares of which is listed on The Stock Exchange of Hong Kong Limited. She has over 20 years of experience in company secretarial and corporate finance advisory. She was appointed as an Independent Non-Executive Director of the Company in March 2012.

Mr Wang Xiaojun, aged 65, is an Independent Non-Executive Director of the Company. Mr Wang is a practicing solicitor admitted in the Mainland China, Hong Kong and the United Kingdom. Mr Wang Xiaojun obtained a Bachelor's degree in Laws from the Renmin University of China in 1983 and a Master of Laws from the Chinese Academy of Social Sciences in 1986. He joined The Stock Exchange of Hong Kong Limited in 1992 and served Richards Butler from 1993 to 1996. In 1996, he served as an associate director of Peregrine Capital Limited. From 1997 to 2001, he served as a director of ING Barings. He established X. J. Wang & Co. in 2001 and that was associated with Jun He Law Offices in 2009, and was a partner of Jun He Law Offices. He is currently a partner of JNJ Partners LLP. From 2011 to 2012, Mr Wang Xiaojun served as managing director of CCB International (Holdings) Limited. He was an independent non-executive director of Norinco International Company Limited, shares of which are listed on Shenzhen Stock Exchange (stock code: 000065), CSSC Offshore & Marine Engineering (Group) Company Limited (formerly known as Guangzhou Shipyard International Company Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 317) and Shanghai Stock Exchange (stock code: 600685), Zijin Mining Group Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 2899) and Shanghai Stock Exchange (stock code: 601899), and Yanzhou Coal Mining Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1171), Shanghai Stock Exchange (stock code: 600188) and New York Stock Exchange (stock code: YZC), and Livzon Pharmaceutical Group Co., Ltd., shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1513) and Shenzhen Stock Exchange (stock code: 000513), and currently serves as an independent non-executive director of OP Financial Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1140). Mr Wang Xiaojun is familiar with corporate listing, merger and acquisition and restructuring, direct investment and so on and possesses many years of relevant experience. Mr Wang was appointed as an Independent Non-Executive Director of the Company in March 2013.

Mr Liu Xudong, aged 60, a Researcher and Senior Accountant, is a Non-Executive Director of the Company. He graduated from Tianjin University of Finance and Economics and Harbin Institute of Technology and obtained a bachelor's degree in economics and a master degree in management respectively. From October 1991 to August 2019, he held such positions as Deputy Division Director, Division Director of Accounting and Finance Department of China Aerospace Science & Industry Aviation Technology Academy; Chief Accountant of the Finance Department of China Aerospace Corporation; Deputy Director of Finance Department, Chief of Audit Bureau, Director General of Audit Department of China Aerospace Science and Technology Corporation; Chief Accountant of China Academy of Space Technology; Director of the Finance Department of China Aerospace Science and Technology Corporation. Mr Liu possesses ample experience in financial management. He was appointed as a Non-Executive Director of the Company in December 2018.

Mr Mao Yijin, aged 57, is a Non-Executive Director of the Company. He graduated from the Faculty of Industrial Economics, Hubei Institute of Finance and Economics in 1985. He joined No. 1 Research Academy under China Aerospace Science & Technology Corporation shortly after graduation and held such posts as staff of the Planning Department, a Deputy Division Director and Senior Engineer of the Planning Division, a Division Director of the Finance Division, a Deputy Director General of the General Business Department; a Deputy Director General of No. 18 Research Institute, the Chief Accountant of No. 11 Research Academy, and the Chief Accountant and Deputy Head of Shanghai Academy of Spaceflight Technology. Since June 2016, he has served as a Consultant of Shanghai Academy of Spaceflight Technology and a Director of both China Lucky Group Corporation and China Great Wall Industry Corporation. Mr Mao has ample experience in administration management and financial management. Mr Mao was appointed as a Non-Executive Director of the Company in August 2016.

Mr Xu Liangwei, aged 65, is a Non-Executive Director of the Company. He graduated from the Faculty of Chinese, Shanghai Television University, and obtained a Master degree in Business Administration from Fudan University. Mr Xu joined Shanghai Academy of Spaceflight Technology in 1991 and held such posts as a Deputy Director, Director of General Office and Assistant to Academy General. He served as a Vice President of Shanghai Aerospace Corporation from 1995 to 1998; a Deputy Academy General of Shanghai Academy of Spaceflight Technology, the Chairman and President of Shanghai Aerospace Industrial Company Limited, the Chairman of both Shanghai Instrument Company Limited and Shanghai Aerospace Energy Company Limited from 2000 to 2011; and he served as Deputy Director of the preparation group of China Academy of Launch Vehicle Technology Company Limited and as a Consultant of Shanghai Academy of Spaceflight Technology from 2011 to 2015. Mr Xu has ample experience in administration management. Mr Xu was appointed as a Non-Executive Director of the Company in August 2016.

Mr Li Hongjun, aged 54, a Senior Engineer, is the former Executive Director and President of the Company. He started his career in China Academy of Aerospace Propulsion Technology in September 1985 and held such posts as Technician, Vice President and President of Academy of Metrology, Director General of Civilian Products Department of China Academy of Aerospace Propulsion Technology, Deputy General Manager and General Manager of Shaanxi Aerospace Power High-tech Company Limited (stock code: 600343), the shares of which are listed on Shanghai Stock Exchange. In the meantime, he studied in the Party School of the Central Committee majoring in Economic Management by correspondence, the Northwest University majoring in Administrative Management and obtained a master degree of Public Administration, and the Nanyang Technological University, Singapore majoring in Business Administration and obtained a degree of EMBA. He was the Vice President of China Spacesat Company Limited (stock code: 600118), the shares of which are listed on Shanghai Stock Exchange, from May 2004 to June 2005. He was the Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation from June 2005 and was promoted to Director General from December 2007 until May 2010. He has been involved in the senior posts in listed companies for years and has extensive experience in corporate management, market exploration and capital operation. He was appointed as a Non-Executive Director of the Company in March 2008, and was re-designated as an Executive Director and appointed as the President in May 2010 and resigned in December 2019.

DIRECTORS' REPORT

The Directors present this annual report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and joint ventures are set out in notes 43, 44 and 45 to the consolidated financial statements, respectively.

BUSINESS REVIEW

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

RESULTS AND APPROPRIATION

The results of the Company and its subsidiaries for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 52.

A final dividend of HK2 cents per share in respect of the year ended 31 December 2019 (2018: HK1 cent per share) had been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company and its subsidiaries acquired plant and equipment and motor vehicles, furniture and other equipment of HK$60,127,000 and HK$32,364,000 respectively and project in progress of HK$26,432,000 to cope with the expansion of the Company and its subsidiaries. Details of movements in property, plant and equipment are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2019 comprised the retained profits of approximately HK$1,048,026,000 (2018: HK$963,415,000).

PURCHASE, SALE AND REDEMPTION OF SHARES

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate revenue attributable to the Company and its subsidiaries' largest customer and five largest customers were 7% and 3% to 7% of the Company and its subsidiaries' consolidated revenue, respectively. The aggregate purchases attributable to the Company and its subsidiaries' five largest suppliers were less than 30% of the Company and its subsidiaries' total purchases.

DIRECTORS

The Directors during 2019 and up to the date of this Report were:

Executive
Liu Meixuan *(Chairman)*
Jin Xuesheng *(President) (appointed on 23 December 2019)*
Li Hongjun *(President) (resigned on 23 December 2019)*

Non-Executive
Luo Zhenbang *(Independent)*
Leung Sau Fan, Sylvia *(Independent)*
Wang Xiaojun *(Independent)*
Liu Xudong
Mao Yijin
Xu Liangwei

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

During 2019 and up to the date of this Report, the directors of subsidiary undertakings of the Company in alphabetical order were Messrs. Chen Yongjie, Cheng Zhanheng, Chu Kam Ching, Gao Yuda, Gong Benning, Guo Xiaokui, Han Jinguang, Hu Min, Jin Xuesheng, Lan Guihong, Li Gang*, Li Guangneng, Li Hongjun*, Li Wenjie*, Lin Jianming, Lin Zhijian, Liu Weixiong, Liu Xiangyang*, Liu Youzhan, Mao Zhongyi, Niu Zhanjie*, Qiu Jihua, Shum King Mo, Song Dasheng, Sun Jingguo, Wang Hai, Wang Libo, Wang Muchun, Wang Mushun, Wong Siu Fong Jenny, Yang Honghui, Yin Guang, Yu Kehu, Zhao Jinlong, Zhen Feng* and Zhou Weibing.

* Resigned during 2019 or the period up to the date of this Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The Company had adopted *the Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules as the required standard for the Directors of the Company to trade the securities of the Company. Having made specific enquiry to all the Directors of the Company and in accordance with information provided, all the Directors have complied with the provisions under the Model Code in 2019.

As at 31 December 2019, save for Mr Liu Xudong, Mr Mao Yijin and Mr Xu Liangwei, the Directors of the Company, are the officers of the subsidiaries of the substantial shareholder China Aerospace Science & Technology Corporation, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests or short positions in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and the *Model Code for Securities Transactions by Directors of Listed Issuers* of The Stock Exchange of Hong Kong Limited.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to Part XV of the Securities & Futures Ordinance discloses the following companies as having 5% or more of the issued capital of the Company:

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

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital or underlying shares of the Company as at 31 December 2019.

LITIGATION

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

EMOLUMENT POLICY

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

PERMITTED INDEMNITY PROVISION

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

CONTINUING CONNECTED TRANSACTIONS

On 10 June 2019, the Company entered into the Financial Services Agreement with Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance"), a connected person of the Company, in respect of the provision of certain financial services to the Company's subsidiaries incorporated in the People's Republic of China (the "PRC Subsidiaries"). China Aerospace Science & Technology Corporation* (中國航天科技集團有限公司), as guarantor, issued an irrevocable and unconditional guarantee to the Company and the PRC Subsidiaries, as beneficiaries, so as to secure all payment obligations of Aerospace Finance on a joint liabilities basis.

The Extraordinary General Meeting for the purpose of approving the provision of deposit services under the Financial Services Agreement was convened on 23 July 2019, the resolution was not approved by the independent shareholders, and the financial services provided by Aerospace Finance under the Financial Services Agreement will not be implemented.

Details of which please refer to the Company's announcements published on 10 June 2019, 25 June 2019, 28 June 2019 and 23 July 2019, as well as the circular dated 28 June 2019.

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

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

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

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

The Company's auditor was engaged to report on the Company and its subsidiaries' continuing connected transactions in accordance with *Hong Kong Standard on Assurance Engagements 3000 (Revised)*, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to *Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Company and its subsidiaries in page 44 of the Annual Report in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

The transactions as shown in note 40 to the consolidated financial statements which constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of those connected transactions.

List of Continuing Connected Transactions for the year ended 31 December 2019

The Company and/or its subsidiary(ies) involved	Connected person(s)	Continuing connected transactions	Annual cap	Amount outstanding as of 31 December 2019
CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展 (深圳) 有限公司) ("New Century")	China Aerospace Science & Technology Corporation ("CASC")	CASC entrusted a loan in the sum of RMB500,000,000 to New Century with maturity of 60 months through Bank of Beijing	N/A	RMB500,000,000 or equivalent to HK$557,414,000
Shenzhen Aerospace Technology Investment Management Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace")	Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance")	The provision of security by Shenzhen Aerospace to Aerospace Finance for a loan in the amount of RMB1,300,000,000	N/A	RMB789,100,000 or equivalent to HK$879,710,000

DIVIDEND POLICY

The dividend policy reflects the Board's current view on the financial and cash flow positions of the Company and its subsidiaries. The Board will review the dividend policy from time to time, but the Company does not guarantee any payment of dividends in any specific amount at any designated period.

Pursuant to the Company's dividend policy, profit is shared with shareholders in the form of dividend or other forms. Dividend payout ratio for each year is determined based on the then profit attributable to shareholders for the year (after deducting non-cash flow items such as the increase in fair value of investment properties, minority interests and depreciation), and is subject to the following conditions:

1. Dividend distribution by the Company is subject to the laws of Hong Kong and relevant provisions of the articles of association of the Company;

2. Dividend distribution by the Company depends on, among others, the prevailing and future operation, liquidity position and capital requirements of the Company and its subsidiaries;

3. The form, frequency, timing and amount of dividend distribution depend on the operation and profit, capital requirements and surplus, financial position and contractual constraints of the Company and its subsidiaries, as well as other factors affecting the Company and its subsidiaries, including the appropriation of dividend tax payment by subsidiaries and foreign exchange conditions, if applicable;

4. Other factors deemed fit by the Board; and

5. Dividend distribution by the Company is subject to the approval by shareholders at the general meeting.

AUDITOR

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

By order of the Board,

Jin Xuesheng
Executive Director & President

Hong Kong, 31 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 146, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We have identified the valuation of investment properties as a key audit matter due to the significant judgements and estimates required in determining the fair value. As disclosed in notes 4 and 16 to the consolidated financial statements as at 31 December 2019, the fair value of investment properties is HK$9,110,037,000, with a fair value gain recorded in the consolidated statement of profit or loss of HK$111,878,000. All the Group's investment properties are stated at fair value based on valuations performed by independent qualified professional valuers (the "Valuers"). Details of the valuation techniques and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements. The valuations are dependent on certain key inputs that require significant management judgements and estimates, which involves certain estimates of market conditions and assumptions made on the investment properties including comparable market transactions with adjustments to reflect different locations or conditions, and comparable market rents and capitalisation rate.	Our procedures in relation to the valuation of investment properties included: • Obtaining the valuation reports and evaluating the management's process in respect of reviewing the valuation performed by the Valuers. • Evaluating the competence, capabilities and objectivity of the Valuers. • Evaluating the valuation techniques and assessing the reasonableness of the key inputs used in the valuations based on available market data and our knowledge of the property industry. • Assessing the integrity of information provided by the management to the Valuers by comparing the details of rentals on a sample basis to the respective underlying existing lease agreements. • Checking, on a sample basis, the market transactions and market rents/capitalisation rate of similar properties and locations, and assessing the appropriateness of specific assumptions made on adjustments of the properties by reference to age, location and other individual factors which affect the valuation of properties.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables arising from contracts with customers	
We identified the impairment assessment of trade receivables arising from contracts with customers as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables arising from contracts with customers at the end of the reporting period. As at 31 December 2019, the Group's trade receivables arising from contracts with customers amounting to approximately HK$968,723,000 (net of allowance of HK$63,376,000), which represented approximately 6.59% of total assets of the Group and out of these trade receivables arising from contracts with customers of approximately HK$117,364,000 (net of allowance of HK$63,376,000) were past due. As disclosed in note 39 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables arising from contracts with customers individually or based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables arising from contracts with customers. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables arising from contracts with customers with significant outstanding balances or credit-impaired are assessed for ECL individually. The loss allowance amount of the trade receivables arising from contracts with customers is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.	Our procedures in relation to impairment assessment of trade receivables arising from contracts with customers included: • Obtaining an understanding of how the management estimates the loss allowance for trade receivables arising from contracts with customers. • Testing the integrity of information used by management to develop the provision matrix, including trade receivables arising from contracts with customers ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents. • Challenging management's basis and judgement in determining credit loss allowance on trade receivables arising from contracts with customers as at 31 December 2019, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information). • Testing subsequent settlements of credit-impaired trade receivables arising from contracts with customers, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	5	3,450,824	3,690,804
Cost of sales		(2,542,898)	(2,794,220)
Gross profit		907,926	896,584
Other income	7	63,736	71,815
Impairment loss under expected credit loss model, net of reversal			
— trade receivables		(13,183)	(45,225)
— other receivables		(9,633)	—
Other gains and losses	7	24,327	(7,635)
Gain on deemed disposal of an associate	18	—	41,121
Selling and distribution expenses		(52,485)	(56,783)
Administrative expenses		(325,583)	(299,318)
Research and development expenses		(93,292)	(86,345)
Fair value changes of investment properties	16	111,878	205,401
Finance costs	9	(75,038)	(66,598)
Share of results of associates		11,144	16,718
Share of results of joint ventures		(2,733)	(4,371)
Profit before taxation	10	547,064	665,364
Taxation	11	(109,206)	(145,184)
Profit for the year		437,858	520,180
Profit for the year attributable to:			
Owners of the Company		338,350	404,115
Non-controlling interests		99,508	116,065
		437,858	520,180
Earnings per share	12		
Basic		HK10.97 cents	HK13.10 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	**437,858**	520,180
Other comprehensive (expense) income includes:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations		
— subsidiaries	**(160,847)**	(389,300)
— associates	**(4,278)**	(7,884)
— joint ventures	**(13,967)**	(34,236)
Reclassification adjustments for the cumulative exchange differences upon deregistration/disposal of a foreign operation	**(13,765)**	(982)
Reclassification adjustments for the cumulative exchange differences upon deemed disposal of an associate	**—**	4,444
	(192,857)	(427,958)
Total comprehensive income for the year	**245,001**	92,222
Total comprehensive income for the year attributable to:		
Owners of the Company	**191,384**	86,183
Non-controlling interests	**53,617**	6,039
	245,001	92,222

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	1,066,677	1,132,630
Right-of-use assets	15(A)	190,910	—
Prepaid lease payments	15(B)	—	86,808
Investment properties	16	9,110,037	9,179,973
Interests in associates	18	199,546	192,680
Interests in joint ventures	19	697,923	714,623
Deposit paid for property, plant and equipment		6,387	31,929
Long term assets	20	384,675	180,132
		11,656,155	11,518,775
Current assets			
Inventories	21	361,391	364,556
Trade and other receivables	20	1,245,705	1,437,610
Prepaid lease payments	15(B)	—	4,138
Amount due from a related party	22	16	5,745
Financial assets at fair value through profit or loss	23	5,787	7,456
Pledged bank deposits	24	41,272	14,572
Short-term bank deposits	24	123,389	7,800
Bank balances and cash	24	1,271,556	958,628
		3,049,116	2,800,505
Current liabilities			
Trade and other payables	25	1,248,333	1,079,924
Contract liabilities	26	38,569	115,011
Lease liabilities	27	29,330	—
Taxation payable		45,444	45,576
Other loan	28	7,990	8,163
		1,369,666	1,248,674
Net current assets		1,679,450	1,551,831
Total assets less current liabilities		13,335,605	13,070,606

Consolidated Statement of Financial Position (continued)
At 31 December 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
Non-current liabilities			
Lease liabilities	27	**79,895**	—
Loan from a controlling shareholder	29	**557,414**	569,476
Loan from a related party	30	**879,710**	898,747
Deferred taxation	31	**2,437,600**	2,422,016
		3,954,619	3,890,239
		9,380,986	9,180,367
Capital and reserves			
Share capital	32	**1,154,511**	1,154,511
Reserves		**6,091,281**	5,929,746
Equity attributable to owners of the Company		**7,245,792**	7,084,257
Non-controlling interests		**2,135,194**	2,096,110
		9,380,986	9,180,367

The consolidated financial statements on pages 52 to 146 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Liu Meixuan
Director

Jin Xuesheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000 *(Note b)*	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	1,154,511	14,044	38,794	164,962	30,523	43,925	5,643,866	7,090,625	2,115,587	9,206,212
Profit for the year	–	–	–	–	–	–	404,115	404,115	116,065	520,180
Exchange differences arising on translating foreign operations										
– subsidiaries	–	–	–	(279,274)	–	–	–	(279,274)	(110,026)	(389,300)
– associates	–	–	–	(7,884)	–	–	–	(7,884)	–	(7,884)
– joint ventures	–	–	–	(34,236)	–	–	–	(34,236)	–	(34,236)
Reclassification adjustments for the cumulative exchange differences upon disposal of a foreign operation *(note 33)*	–	–	–	(982)	–	–	–	(982)	–	(982)
Reclassification adjustments for the cumulative exchange differences upon deemed disposal of an associate	–	–	–	4,444	–	–	–	4,444	–	4,444
Total comprehensive income for the year	–	–	–	(317,932)	–	–	404,115	86,183	6,039	92,222
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	(92,551)	(92,551)	–	(92,551)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	(19,018)	(19,018)
Disposal of a subsidiary *(note 33)*	–	–	–	–	–	–	–	–	(6,498)	(6,498)
Transfer to general reserve	–	–	18,441	–	–	–	(18,441)	–	–	–
	–	–	18,441	–	–	–	(110,992)	(92,551)	(25,516)	(118,067)
At 31 December 2018	1,154,511	14,044	57,235	(152,970)	30,523	43,925	5,936,989	7,084,257	2,096,110	9,180,367

Consolidated Statement of Changes in Equity (continued)
For the year ended 31 December 2019

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000 *(Note b)*	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2019	1,154,511	14,044	57,235	(152,970)	30,523	43,925	5,936,989	7,084,257	2,096,110	9,180,367
Profit for the year	–	–	–	–	–	–	338,350	338,350	99,508	437,858
Exchange differences arising on translating foreign operations										
– subsidiaries	–	–	–	(114,956)	–	–	–	(114,956)	(45,891)	(160,847)
– associates	–	–	–	(4,278)	–	–	–	(4,278)	–	(4,278)
– joint ventures	–	–	–	(13,967)	–	–	–	(13,967)	–	(13,967)
Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation	–	–	–	(13,765)	–	–	–	(13,765)	–	(13,765)
Total comprehensive income for the year	–	–	–	(146,966)	–	–	338,350	191,384	53,617	245,001
Partial disposal of an existing subsidiary	–	–	–	–	–	1,001	–	1,001	5,098	6,099
Dividend recognised as distribution *(note 13)*	–	–	–	–	–	–	(30,850)	(30,850)	–	(30,850)
Dividends paid to non-controlling interests of a subsidiaries	–	–	–	–	–	–	–	–	(18,665)	(18,665)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	(966)	(966)
Transfer to general reserve	–	–	19,412	–	–	–	(19,412)	–	–	–
	–	–	19,412	–	–	1,001	(50,262)	(29,849)	(14,533)	(44,382)
At 31 December 2019	1,154,511	14,044	76,647	(299,936)	30,523	44,926	6,225,077	7,245,792	2,135,194	9,380,986

Notes:

(a) The general reserve is non-distributable and represents reserve fund and enterprise expansion fund of the subsidiaries established in the People's Republic of China other than Hong Kong (the "PRC") at 10% of their profit after tax based on their statutory financial statements, used to (i) make up prior years' losses or (ii) expand production operations.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTE	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**547,064**	665,364
Adjustments for:			
Interest income		**(13,326)**	(10,160)
Interest expense		**75,038**	66,598
Depreciation of property, plant and equipment		**153,840**	146,632
Depreciation of right-of-use assets		**34,600**	—
Impairment loss, net of reversal, under expected credit loss model		**22,816**	45,225
Amortisation of prepaid lease payments		**—**	3,667
Fair value changes of investment properties		**(111,878)**	(205,401)
Net (gain) loss from change in fair value of financial assets at fair value through profit or loss		**(14,178)**	3,841
Allowance for (reversal of allowance for) obsolete inventories		**1,300**	(132)
Share of results of associates		**(11,144)**	(16,718)
Share of results of joint ventures		**2,733**	4,371
Gain on disposal of a subsidiary		**—**	(8,641)
Gain on deemed disposal of an associate		**—**	(41,121)
Gain on deregistration of a subsidiary		**(13,765)**	—
Loss on disposal/written off of property, plant and equipment		**6,764**	3,427
Operating cash flows before movements in working capital		**679,864**	656,952
Increase in inventories		**(4,793)**	(32,894)
Increase in trade and other receivables		**(56,132)**	(300,276)
Increase (decrease) in trade and other payables		**269,312**	(48,695)
(Decrease) increase in contract liabilities		**(76,442)**	14,827
Cash generated from operations		**811,809**	289,914
Hong Kong Profits Tax paid		**—**	(43,567)
PRC Enterprise Income Tax paid		**(41,023)**	(21,390)
NET CASH FROM OPERATING ACTIVITIES		**770,786**	224,957

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2019

	NOTE	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES			
Placement of short-term bank deposits		(124,987)	(7,800)
Purchase of property, plant and equipment		(112,924)	(169,779)
Payment for development costs incurred in respect of investment properties		(71,672)	(170,440)
Placement of pledged bank deposits		(34,770)	(15,207)
Deposit paid for property, plant and equipment		(2,210)	(44,663)
Proceeds from disposal of financial assets at fair value through profit or loss		15,847	2,423
Interest received		13,037	10,160
Withdrawal of short-term bank deposits		7,800	—
Withdrawal of pledged bank deposits		7,275	19,923
Withdrawal of deposits with a related party		5,707	—
Proceeds from disposal of property, plant and equipment		513	2,044
Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of	33	—	(108)
Placement of deposits with a related party		—	(5,214)
NET CASH USED IN INVESTING ACTIVITIES		(296,384)	(378,661)
FINANCING ACTIVITIES			
Interest paid		(75,038)	(66,598)
Dividend paid		(30,835)	(92,474)
Repayments of lease liabilities		(26,355)	—
Dividend paid to non-controlling interests of a subsidiary		(18,665)	(19,018)
Deposits received from potential investors of subsidiaries		3,688	6,106
Repayment of bank loans		—	(19,018)
Loan from a related party		—	267,443
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(147,205)	76,441
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		327,197	(77,263)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		958,628	1,063,168
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(14,269)	(27,277)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH		1,271,556	958,628

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

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

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

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries, associates and joint ventures are set out in notes 43, 44 and 45, respectively.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

2.1 HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the PRC and Hong Kong was determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.68%.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	175,668
Less: Recognition exemption — short-term lease	(4,235)
Less: Recognition exemption — low value assets	(19)
	171,414
Lease liabilities discounted at relevant incremental borrowing rate as at 1 January 2019	135,511
Analysed as	
Current	25,317
Non-current	110,194
	135,511

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	135,511
Reclassified from prepaid lease payments *(Note a)*	90,946
Adjustments on rental deposits at 1 January 2019 *(Note b)*	1,879
	228,336
By class:	
Leasehold land in the PRC	90,946
Leased properties	137,390
	228,336

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included:

	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000
Non-current Assets			
Prepaid lease payments *(Note a)*	86,808	(86,808)	—
Right-of-use assets	—	228,336	228,336
Current Assets			
Prepaid lease payment *(Note a)*	4,138	(4,138)	—
Trade and other receivables *(Note b)*	1,437,610	(1,879)	1,435,731
Current Liabilities			
Lease liabilities	—	25,317	25,317
Non-current Liabilities			
Lease liabilities	—	110,194	110,194

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidation statement of financial position as at 1 January 2019 as disclosed above.

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$4,138,000 and HK$86,808,000 respectively were reclassified to right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$1,879,000 was adjusted to refundable rental deposits paid and right-of-use assets.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets.

(c) Effective on 1 January 2019, the Group has applied HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components.

The application of HKFRS 16 as a lessor in the current year has had no material impact on the Group's financial position and performance for the year.

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

New and amendments to HKFRSs in issue but not yet effective

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Except disclosed above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs would have no material impact on the consolidated financial statements of the Group in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values of the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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

For financial instruments and investment properties which are transacted 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 at initial recognition the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's control in existing subsidiaries

Changes in the Group's interests in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's control in existing subsidiaries (continued)

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 HKFRS 9 "Financial Instruments" ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group assess whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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.

Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of performance obligation

Output Method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of offices and warehouse that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Right-of-use assets (continued)

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within “investment properties”.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefits costs

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

Short-term employee benefits

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

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amount of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

Intangible assets

Internally-generated intangible assets — research and development expenses

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Provisions

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 (where the effect of the time value of money is material).

Warranties

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of manufacturing products are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is 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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") on financial assets (including trade receivables, other receivables, amount due from a related party, pledged bank deposits, short-term bank deposits and bank balances) and other items (including lease receivables), which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-months ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables arising from contracts with customers. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings or when the management considers that the past due balances are not recoverable. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- past-due status;
- nature, size and industry of debtors; and
- internal credit ratings.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

(a) Deferred taxation on investment properties

For the purposes of measuring deferred taxes arising from investment properties that are depreciable and measured using the fair value model, the management has reviewed the Group's investment properties portfolios and concluded that for certain portion of the Group's investment properties which is classified as retail and offices premises located in the PRC, are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation arising from these investment properties, the management determined that the presumption that these investment properties measured using the fair value model are recovered through sale is not rebutted. As a result, the Group has recognised deferred tax liabilities on changes in fair value of these investment properties taking into account the Land Appreciation Tax ("LAT") and Enterprise Income Tax ("EIT") payable upon sales of those investment properties.

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

The deferred tax impact of the Group is recognised at the end of the reporting period as shown in note 31.

(b) Revenue recognition from sales of manufacturing products with no alternative use at a point in time

Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. After considering the contract terms and the relevant local laws that apply to those relevant contracts, the terms of the relevant sales contracts do not create an enforceable right to payment for performance completed to date. Accordingly, the sales of manufacturing products with no alternative use is considered to be performance obligation satisfied at a point in time.

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

Critical judgements in applying accounting policies (continued)

(c) Determination of incremental borrowing rates of lease contracts

In determining incremental borrowing rates of lease contracts, the Group applies judgement to determine the applicable rates, taking into account the nature of the underlying assets, the terms and condition of the leases, creditworthiness of the relevant group entities and economic environment, at both the commencement date and the effective date of the modification to calculate the present value of lease payments. The incremental borrowing rates of the Group applied significantly affect the amounts of lease liabilities and right-of-use assets recognised.

Key sources of estimation uncertainty

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

(a) Investment properties

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

- comparable market transactions with adjustments to reflect different locations or conditions; and
- comparable market rents and capitalisation rate.

In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation is reflective of the current market conditions of the investment properties. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss. As at 31 December 2019, the carrying amount of investment properties is HK$9,110,037,000 (2018: HK$9,179,973,000). Information about the valuation techniques and inputs used in determining the fair value of the Group's investment properties is described in note 16.

(b) Provision of ECL for trade receivables arising from contracts with customers

Trade receivables arising from contracts with customers with significant balances and credit impaired are assessed for ECL individually. In addition, the Group estimates the amount of ECL of trade receivables arising from contracts with customers which are individually insignificant based on provision matrix through grouping of various debtors that have similar loss pattern, after considering internal credit ratings of trade debtors, aging, repayment history and/or past due status of respective trade receivables arising from contracts with customers. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables arising from contract with customers are disclosed in note 39.

5. REVENUE

(i) Disaggregation of revenue

	For the year ended 31 December 2019 Timing for revenue recognition		
	A point in time HK$'000	Overtime HK$'000	Total HK$'000
Manufacturing of goods *(Note)*	2,999,046	—	2,999,046
Property management fee	—	90,130	90,130
Logistic services	—	4,215	4,215
Others	5,262	—	5,262
Revenue from contracts with customer	3,004,308	94,345	3,098,653
Leases			352,171
Total revenue			3,450,824

	For the year ended 31 December 2018 Timing for revenue recognition		
	A point in time HK$'000	Overtime HK$'000	Total HK$'000
Manufacturing of goods *(Note)*	3,220,433	—	3,220,433
Property management fee	—	78,506	78,506
Logistic services	—	31,972	31,972
Others	821	—	821
Revenue from contracts with customer	3,221,254	110,478	3,331,732
Leases			359,072
Total revenue			3,690,804

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

5. REVENUE (continued)

(ii) Performance obligations for contracts with customers

a) Manufacturing of goods (revenue recognised at a point in time)

The Group sells plastic products, liquid crystal display, printed circuit boards and intelligent chargers to customers.

For sales of plastic products, liquid crystal display, printed circuit boards and intelligent chargers (including those manufacturing products with no alternative use but the Group has no enforceable right to payable for performance completed to date), revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers. The contracts with customers are with fixed consideration and the duration is within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Advance payments maybe received based on terms of sales contract and any transactions price received by the Group is recognised as a contract liability until the goods have been delivered to the customers. The average normal credit term is 30 to 105 days upon delivery.

Sales-related warranties associated with sales of goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" consistent with its previous accounting treatment.

b) Property management fee (revenue recognised over time)

The Group invests in properties in Shenzhen Aerospace Science & Technology Plaza. Property management fee income is recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group applied the practical expedient in HKFRS 15 by recognising revenue in the amount to which the Group has right to invoice, since the Group is entitled to bill the value of the Group's performance completed to date according to the terms of the relevant agreements. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied contracts is not disclosed.

5. REVENUE (continued)

(ii) Performance obligations for contracts with customers (continued)

c) Logistic services (revenue recognised over time)

The Group develops an e-commerce logistics service platform. Such service is recognised over time as the customer simultaneously receives and consumes the benefits of the Group's performance over time.

The contracts with customers are with fixed consideration and the duration is within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

d) Internet of Things (revenue recognised point in time)

The Group maintains and completes the prevailing projects of internet of things. Revenue is recognised at a point in time when the customer obtains the control of the goods and the Group has present right to payment and the collection of the consideration is probable. The contract with customers are with fixed consideration and the duration is within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group determines its operating and reportable segments based on the internal reports reviewed by the President, the chief operating decision maker ("CODM") of the Group, that are used to make strategic decisions. There are 8 operating and reportable segments, namely Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and industrial property investment), Aerospace Service (including property investment in Shenzhen Aerospace Science & Technology Plaza, Internet of Things and Cross-border e-commerce) which represent the major industries in which the Group is engaged.

Other business mainly represents income and expenses relating to certain investment properties and other services. None of these segments met the quantitative thresholds for the reportable segments in both current and prior year. Accordingly, these were grouped in "Others Business".

6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2019

	Revenue			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	1,105,308	44,096	1,149,404	55,476
Liquid crystal display	680,064	—	680,064	60,285
Printed circuit boards	861,194	—	861,194	52,494
Intelligent chargers	352,480	1,846	354,326	10,877
Industrial property investment	13,173	20,896	34,069	26,813
	3,012,219	66,838	3,079,057	205,945
Aerospace Service				
Property investment in Shenzhen Aerospace Science & Technology Plaza	425,393	7,014	432,407	439,566
Internet of Things	358	—	358	(5,360)
Cross-border e-commerce	4,215	—	4,215	(28,213)
	429,966	7,014	436,980	405,993
Reportable segments total	3,442,185	73,852	3,516,037	611,938
Elimination	—	(73,852)	(73,852)	—
Other Business	8,639	—	8,639	9,773
	3,450,824	—	3,450,824	621,711
Unallocated corporate income				47,298
Unallocated corporate expenses				(69,083)
Share of results of associates				11,144
Share of results of joint ventures				(2,733)
Gain on deregistration of a subsidiary				13,765
Finance costs				(75,038)
Profit before taxation				547,064

6. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2018

	Revenue			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	1,192,091	50,189	1,242,280	44,449
Liquid crystal display	623,195	346	623,541	52,782
Printed circuit boards	862,348	—	862,348	63,474
Intelligent chargers	542,799	1,939	544,738	20,852
Industrial property investment	14,671	21,269	35,940	33,175
	3,235,104	73,743	3,308,847	214,732
Aerospace Service				
Property investment in Shenzhen				
Aerospace Science & Technology Plaza	419,109	6,127	425,236	515,821
Internet of Things	513	—	513	(2,015)
Cross-border e-commerce	31,972	—	31,972	(35,118)
	451,594	6,127	457,721	478,688
Reportable segments total	3,686,698	79,870	3,766,568	693,420
Elimination	—	(79,870)	(79,870)	—
Other Business	4,106	—	4,106	5,135
	3,690,804	—	3,690,804	698,555
Unallocated corporate income				45,945
Unallocated corporate expenses				(74,647)
Share of results of associates				16,718
Share of results of joint ventures				(4,371)
Finance costs				(66,598)
Gain on deemed disposal of an associate				41,121
Gain on disposal of a subsidiary				8,641
Profit before taxation				665,364

6. SEGMENT INFORMATION (continued)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represents the profit earned by/loss from each segment without allocation of interest income, change in fair value of financial assets at fair value through profit or loss, share of results of associates, share of results of joint ventures, gain on deemed disposal of an associate, interest expenses, gain on disposal of a subsidiary, gain on deregistration of a subsidiary and other corporate income and corporate expenses. This is the measure reported to the President for the purpose of resource allocation and performance assessment.

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

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

	2019 HK$'000	2018 HK$'000
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	926,490	869,851
Liquid crystal display	439,071	447,618
Printed circuit boards	999,648	933,442
Intelligent chargers	208,414	249,310
Industrial property investment	349,320	321,134
	2,922,943	2,821,355
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	9,250,024	9,407,249
Internet of Things	311	4,082
Cross-border e-commerce	295	20,162
	9,250,630	9,431,493
Total assets for reportable segments	12,173,573	12,252,848
Other Business	98,328	99,886
Interests in associates	199,546	192,680
Interests in joint ventures	697,923	714,623
Unallocated assets	1,535,901	1,059,243
Consolidated assets	14,705,271	14,319,280

6. SEGMENT INFORMATION (continued)

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

	2019 HK$'000	2018 HK$'000
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	343,544	225,457
Liquid crystal display	113,094	130,452
Printed circuit boards	294,083	258,889
Intelligent chargers	90,753	92,251
Industrial property investment	6,001	6,439
	847,475	713,488
Aerospace Service		
Property investment in Shenzhen Aerospace Science & Technology Plaza	105,271	183,345
Internet of Things	1,209	744
Cross-border e-commerce	23,246	18,502
	129,726	202,591
Total liabilities for reportable segments	977,201	916,079
Other Business	—	—
Unallocated liabilities	4,347,084	4,222,834
Consolidated liabilities	5,324,285	5,138,913

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

- all assets are allocated to operating and reportable segments other than bank balances and cash, pledged bank deposits, short-term bank deposits, amount due from a related party, financial assets at FVTPL, interests in joint ventures, interests in associates, and the other unallocated assets; and

- all liabilities are allocated to operating and reportable segments other than taxation payable, deferred taxation, other loan, loan from a controlling shareholder, loan from a related party and the other unallocated liabilities.

6. SEGMENT INFORMATION (continued)

(c) Other segment information

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

2019

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value gain on investment properties HK$'000	Loss (gain) on disposal/ written off of property, plant and equipment HK$'000	Impairment loss under expected credit loss model, net of reversal HK$'000	Allowance for (reversal of allowance for) obsolete inventories HK$'000
Hi-Tech Manufacturing Business						
Plastic products	38,831	57,459	–	180	5,326	–
Liquid crystal display	36,577	13,669	–	159	(474)	–
Printed circuit boards	34,650	88,201	–	1,790	–	(958)
Intelligent chargers	4,751	7,752	–	3	–	2,258
Industrial property investment	16,385	12,740	19,948	8	–	–
	131,194	179,821	19,948	2,140	4,852	1,300
Aerospace Service						
Property investment in Shenzhen Aerospace Science & Technology Plaza	775	1,162	90,796	6	5,890	–
Internet of Things	–	329	–	–	–	–
Cross-border e-commerce	–	1,768	–	4,719	12,074	–
	775	3,259	90,796	4,725	17,964	–
Reportable segments total	131,969	183,080	110,744	6,865	22,816	1,300
Other Business	608	5,360	1,134	(101)	–	–
Total	132,577	188,440	111,878	6,764	22,816	1,300

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2019

6. SEGMENT INFORMATION (continued)

(c) Other segment information (continued)

2018

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value gain on investment properties HK$'000	Loss (gain) on disposal/written off of property, plant and equipment HK$'000	Impairment loss under expected credit loss model, net of reversal HK$'000	Allowance for (reversal of allowance for) obsolete inventories HK$'000
Hi-Tech Manufacturing Business						
Plastic products	95,709	29,810	–	2,604	–	–
Liquid crystal display	25,629	12.734	–	1,322	–	–
Printed circuit boards	88,261	83,570	–	(723)	–	2,372
Intelligent chargers	9,691	7,769	–	230	–	(2,504)
Industrial property investment	16,780	13,392	26,546	–	–	–
	236,070	147,275	26,546	3,433	–	(132)
Aerospace Service						
Property investment in Shenzhen Aerospace Science & Technology Plaza	483	347	177,785	2	26,311	–
Internet of Things	431	311	–	–	–	–
Cross-border e-commerce	1,940	1,192	–	–	18,914	–
	2,854	1,850	177,785	2	45,225	–
Reportable segments total	238,924	149,125	204,331	3,435	45,225	(132)
Other Business	810	1,174	1,070	(8)	–	–
Total	239,734	150,299	205,401	3,427	45,225	(132)

6. SEGMENT INFORMATION (continued)

(d) Geographical information

The Group operates in two principal geographical areas — Hong Kong and the PRC.

The Group's revenue from external customers based on the location of operation and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Hong Kong	**1,770,534**	2,042,902	**272,556**	297,584
The PRC	**1,680,290**	1,647,902	**11,383,599**	11,221,191
	3,450,824	3,690,804	**11,656,155**	11,518,775

Information about major customers

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

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
The Group's other income mainly comprises:		
Interest income	**13,326**	10,160
Sales of scrap materials	**9,601**	10,818
Government subsidies in respect of research expenses	**8,841**	9,951
The Group's other gains and losses mainly comprise:		
Net exchange gain (loss)	**3,100**	(9,053)
Gain on disposal of a subsidiary *(note 33)*	**—**	8,641
Gain on deregistration of a subsidiary	**13,765**	—
Net gain (loss) from change in fair value of financial assets at fair value through profit or loss *(Note)*	**14,178**	(3,841)
Loss on disposal/written off of property, plant and equipment	**(6,764)**	(3,427)

Note: The amount in the year ended 31 December 2019 includes the fair value gain of HK$15,847,000 from financial assets at fair value through profit or loss disposed during the year.

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2018: 10) directors are as follows:

	Executive directors			Non-executive directors			Independent non-executive directors			
	Li Hongjun* HK$'000	Liu Meixuan^ HK$'000	Jin Xuesheng** HK$'000	Liu Xudong^ HK$'000	Mao Yijin HK$'000	Xu Liangwei HK$'000	Luo Zhenbang HK$'000	Leung Sau Fan, Sylvia HK$'000	Wang Xiaojun HK$'000	2019 Total HK$'000
Directors' fees										
Executives	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	33	–	91	–	–	–	124
Independent non-executives	–	–	–	–	–	–	150	150	150	450
	–	–	–	33	–	91	150	150	150	574
Other emoluments										
Salaries and other benefits	1,813	1,602	39	4	–	11	80	110	60	3,719
Bonuses	977	–	–	–	–	–	–	–	–	977
Contributions to retirement benefits scheme	183	170	3	–	–	–	–	–	–	356
	2,973	1,772	42	4	–	11	80	110	60	5,052
Total emoluments	2,973	1,772	42	37	–	102	230	260	210	5,626

	Executive directors			Non-executive directors				Independent non-executive directors			
	Li Hongjun HK$'000	Liu Meixuan^ HK$'000	Jin Xuesheng** HK$'000	Liu Xudong^ HK$'000	Gong Bo^^ HK$'000	Mao Yijin HK$'000	Xu Liangwei HK$'000	Luo Zhenbang HK$'000	Leung Sau Fan, Sylvia HK$'000	Wang Xiaojun HK$'000	2018 Total HK$'000
Directors' fees											
Executives	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	95	–	–	–	95
Independent non-executives	–	–	–	–	–	–	–	150	150	150	450
	–	–	–	–	–	–	95	150	150	150	545
Other emoluments											
Salaries and other benefits	1,602	–	1,524	–	–	–	11	80	110	60	3,387
Bonuses	579	–	579	–	–	–	–	–	–	–	1,158
Contributions to retirement benefits scheme	188	–	141	–	–	–	–	–	–	–	329
	2,369	–	2,244	–	–	–	11	80	110	60	4,874
Total emoluments	2,369	–	2,244	–	–	–	106	230	260	210	5,419

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

(a) Directors' emoluments (continued)

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

Mr. Li Hongjun is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive while Mr. Jin Xuesheng and Mr. Liu Meixuan's emoluments shown above are for their services in connection with the management of the affairs of the Company and the Group. Upon the resignation of Mr. Li Hongjun, Mr. Jin Xuesheng becomes the Chief Executive of the Company. His emoluments disclosed above include those for services rendered by him as executive director during the year.

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

* Resigned on 23 December 2019

** Resigned on 13 December 2018 and appointed on 23 December 2019

^ Appointed on 13 December 2018

^^ Resigned on 13 December 2018

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included two directors (2018: two directors), details of whose emoluments are set out above. The emoluments of the remaining three (2018: three) highest paid individuals are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	2,321	1,510
Bonuses *(Note)*	5,955	8,099
Contributions to retirement benefits scheme	172	18
	8,448	9,627

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

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

(b) Highest paid individuals' emoluments (continued)

The emoluments of these individuals and all directors were within the following band:

Emoluments band	Number of individuals 2019	2018
HK$5,000,001 to HK$5,500,000	—	—
HK$4,000,001 to HK$4,500,000	—	—
HK$3,500,001 to HK$4,000,000	1	1
HK$3,000,001 to HK$3,500,000	—	1
HK$2,500,001 to HK$3,000,000	1	1
HK$2,000,001 to HK$2,500,000	2	2
HK$1,500,001 to HK$2,000,000	2	—
Nil to HK$1,000,000	6	8

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

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expense on		
— loan from a controlling shareholder	28,766	30,128
— loan from a related party	40,042	35,726
— bank borrowings	—	744
— lease liabilities	6,230	—
	75,038	66,598

10. PROFIT BEFORE TAXATION

	2019 HK$'000	2018 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	–	3,667
Auditors' remuneration	5,177	4,425
Cost of inventories charged to profit or loss including allowance for obsolete inventories of HK$1,300,000 (2018: reversal of allowance for obsolete inventories of HK$132,000)	2,496,060	2,727,432
Depreciation of property, plant and equipment	153,840	146,632
Depreciation of right-of-use assets	34,600	–
Minimum lease payments under operating leases in respect of land and buildings	–	32,029
Staff costs, including directors' remuneration	698,813	680,472
Gross rental income	(352,171)	(359,072)
Less: Direct operating expenses for investment properties that generated rental income during the year	9,374	8,237
	(342,797)	(350,835)

11. TAXATION

The tax charge (credit) for the year comprises:

	2019 HK$'000	2018 HK$'000
Current tax:		
Hong Kong Profits Tax	4,369	8,216
PRC Enterprise Income Tax	37,373	23,255
	41,742	31,471
Overprovision in prior years:		
Hong Kong Profits Tax	(40)	(90)
PRC Enterprise Income Tax	(63)	(69)
	(103)	(159)
Deferred tax charge *(note 31)*	67,567	113,872
	109,206	145,184

11. TAXATION (continued)

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

	2019 HK$'000	2018 HK$'000
Profit before taxation	547,064	665,364
Tax at Hong Kong Profits Tax of 16.5%	90,266	109,785
Tax effect of share of results of associates	(1,839)	(2,758)
Tax effect of share of results of joint ventures	451	721
Tax effect of expenses not deductible for tax purpose	12,126	11,411
Tax effect of income not taxable for tax purpose	(24,049)	(36,411)
Land appreciation tax	13,504	38,824
Tax effect of land appreciation tax deductible for PRC Enterprise Income Tax	(3,376)	(9,706)
Super deduction for research and development expenses	(7,517)	(6,742)
Tax effect of tax losses not recognised	8,787	12,702
Utilisation of tax losses previously not recognised	(2,705)	(7,230)
Effect of different tax rates of subsidiaries operating in other jurisdictions	27,376	35,234
Effect of income tax on concessionary rates for certain subsidiaries	(3,063)	(2,013)
Overprovision in prior years	(103)	(159)
Others	(652)	1,526
Income tax expenses for the year	109,206	145,184

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Three subsidiaries (2018: four subsidiaries) of the Company operating in the PRC are eligible as High and New Technology Enterprise till the dates ranging from 9 November 2020 to 2 December 2022 and the income tax rate of these subsidiaries is 15%.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprise engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred starting from 2018 as tax deductible expenses when determining their assessable profits for that year ("Super Deduction").

Details of deferred taxation are set out in note 31.

12. EARNINGS PER SHARE

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

	2019 HK$'000	2018 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	338,350	404,115

	2019 Number of shares	2018 Number of shares
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	3,085,022,000	3,085,022,000

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

13. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Dividends recognised as distribution during the year:		
2018 final dividend of HK1 cent (2018: 2017 final dividend of HK3 cents) per ordinary share	30,850	92,551

A final dividend of HK2 cents per share in respect of the year ended 31 December 2019 (2018: HK1 cent) has been proposed by the board of directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK$'000	Leasehold land and buildings in the PRC HK$'000	Plant and equipment HK$'000	Motor vehicles, furniture and office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2018	76,875	628,979	950,223	296,593	28,716	1,981,386
Exchange realignment	—	(35,677)	(49,840)	(14,700)	(2,273)	(102,490)
Additions	—	16,715	115,393	41,039	66,587	239,734
Disposals/written off	—	(36,218)	(65,222)	(28,509)	—	(129,949)
Transfer	—	8,646	29,220	8,696	(46,562)	—
At 31 December 2018	76,875	582,445	979,774	303,119	46,468	1,988,681
Exchange realignment	—	(14,020)	(21,541)	(6,652)	(1,357)	(43,570)
Additions	—	—	60,127	32,364	26,432	118,923
Disposals/written off	—	—	(9,788)	(20,014)	—	(29,802)
Transfer	—	4,001	21,259	18,336	(43,596)	—
At 31 December 2019	76,875	572,426	1,029,831	327,153	27,947	2,034,232
DEPRECIATION AND IMPAIRMENT						
At 1 January 2018	42,805	212,507	437,157	184,430	—	876,899
Exchange realignment	—	(12,470)	(22,316)	(8,216)	—	(43,002)
Provided for the year	1,985	17,821	99,591	27,235	—	146,632
Eliminated on disposals/written off	—	(36,218)	(62,642)	(25,618)	—	(124,478)
At 31 December 2018	44,790	181,640	451,790	177,831	—	856,051
Exchange realignment	—	(5,332)	(10,717)	(3,762)	—	(19,811)
Provided for the year	1,985	17,357	99,236	35,262	—	153,840
Eliminated on disposals/written off	—	—	(7,523)	(15,002)	—	(22,525)
At 31 December 2019	46,775	193,665	532,786	194,329	—	967,555
CARRYING VALUES						
At 31 December 2019	30,100	378,761	497,045	132,824	27,947	1,066,677
At 31 December 2018	32,085	400,805	527,984	125,288	46,468	1,132,630

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

Leasehold land and buildings	Over the shorter of the terms of lease, or 50 years
Plant and equipment	5%–15%
Motor vehicles, furniture and office equipment	6%–25%

15. PREPAID LEASE PAYMENTS/RIGHT-OF-USE ASSETS

(A) Right-of-use assets

	Leasehold land in the PRC HK$'000	Leased properties HK$'000	Total HK$'000
As at 1 January 2019			
Carrying amount	90,946	137,390	228,336
As at 31 December 2019			
Carrying amount	84,771	106,139	190,910
For the year ended 31 December 2019			
Depreciation charge	3,125	31,475	34,600

	2019 HK$'000
Expense relating to short-term leases	4,625
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	19
Total cash outflow for leases	37,229
Additions to right-of-use assets	2,377

For both years, the Group leases various offices and warehouses for its operations. Other than short-term leases, lease contracts are entered into for fixed term of 2 to 30 years without extension or termination option. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

During the year, the Group entered into new lease agreements for the use of leased properties for 2 years. On the lease commencement, the Group recognised HK$2,377,000 of right-of-use assets and lease liabilities, which constitute non-cash transactions.

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expenses.

15. PREPAID LEASE PAYMENTS/RIGHT-OF-USE ASSETS (continued)

(B) Prepaid lease payments

	2018 HK$'000
The Group's prepaid lease payments comprise leasehold land in the PRC held under medium-term leases and are analysed for reporting purposes as:	
Non-current portion	86,808
Current portion	4,138
	90,946

16. INVESTMENT PROPERTIES

The Group leases out various offices and retail shops under operating leases with rentals payable monthly. Rental deposits ranging from one to three months are received upon the inception of the lease. The leases typically run for an initial period of 1 to 15 years and rent-free periods has been granted to certain tenants. None of the leases included variable lease payment.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2019 HK$'000	2018 HK$'000
At 1 January	**9,179,973**	9,568,215
Exchange realignment	**(193,091)**	(475,290)
Addition	**11,277**	—
Adjustment of cost *(note)*	**—**	(118,353)
Net increase in fair value recognised in profit or loss	**111,878**	205,401
At 31 December	**9,110,037**	9,179,973
Unrealised gain on property revaluation included in profit or loss of current year	**111,878**	205,401

Note: During the year ended 31 December 2018, the Group reached agreements with contractors over the total development cost incurred for the construction of investment properties.

16. INVESTMENT PROPERTIES (continued)

The fair values of the Group's investment properties at 31 December 2019 and 31 December 2018 have been arrived at on the basis of valuations carried out on that date by Jones Lang LaSalle Limited ("Jones Lang") for properties situated in Hong Kong and Knight Frank Petty Limited ("Knight Frank") for properties situated in the PRC. Jones Lang and Knight Frank are independent qualified professional valuers not connected with the Group.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs to the model. The management reports the findings to the board of directors of the Company every half-year to explain the cause of fluctuation in fair value of property.

The Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs.

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

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2019

16. INVESTMENT PROPERTIES (continued)

	Fair value as at 31.12.2019 HK$'000	Fair value as at 31.12.2018 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
The PRC						
Industrial premises	178,481	158,331	Level 3	Direct Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly market rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 7.5%–8% per annum (2018: 8% per annum).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB8–RMB10/sq.m. (2018: RMB10/sq.m.) on average for the base level.	The higher the monthly market rent, the higher the fair value.
Office premises	98,885	99,886	Level 3	Direct Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly market rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4%–5.25% per annum (2018: 4%–5.25% per annum).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB97–RMB220/sq.m. (2018: RMB95–RMB212/sq.m.) on average.	The higher the monthly market rent, the higher the fair value.
Retail and office premises*	8,664,441	8,760,826	Level 3	Direct Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly market rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 7.5% per annum (2018: 7.5% per annum) (retail) and 3.5% per annum (2018: 3.5% per annum) (office).	The higher the capitalisation rate, the lower the fair value.
					Monthly market rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB100–RMB110/sq.m. (2018: RMB100–RMB110/sq.m.) for retail and RMB152-RMB165/sq.m. (2018: RMB150–RMB160/sq.m.) for office.	The higher the monthly market rent, the higher the fair value.
Hong Kong						
Industrial premises	138,830	133,530	Level 3	Direct comparison method based on market observable transactions of similar properties adjusted timing of reference transactions and property-specific adjustments including nature, location and conditions of the property	Adjusted market unit rate, mainly taking into account the conditions and location, between the comparables, at HK$5,400–HK$8,000 (2018: HK$5,600–HK$7,700) per square feet.	The higher the adjusted market unit rate, the higher the fair value.
Carparks	29,400	27,400	Level 3	Direct comparison method based on market observable transactions of similar properties adjusted timing of reference transactions and property-specific adjustments including nature, location and conditions of the property	Adjusted market unit rate, mainly taking into account the conditions and location, between the comparables, at HK$1,600,000–HK$2,300,000 (2018: HK$1,500,000–HK$2,100,000).	The higher the adjusted market unit rate, the higher the fair value.

* The fair value of these investment properties have been adjusted to exclude prepaid or accrued operating lease income to avoid double count.

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

There were no transfers into or out of level 3 during both years.

17. INTANGIBLE ASSETS

	Development costs HK$'000
COST	
At 1 January 2018	53,002
Exchange realignment	(2,656)
At 31 December 2018	50,346
Exchange realignment	(1,066)
Written off	(49,280)
At 31 December 2019	—
AMORTISATION AND IMPAIRMENT	
At 1 January 2018	53,002
Exchange realignment	(2,656)
At 31 December 2018	50,346
Exchange realignment	(1,066)
Written off	(49,280)
At 31 December 2019	—
CARRYING VALUES	
At 31 December 2019	—
At 31 December 2018	—

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

Development costs	4 years

18. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Cost of unlisted investments in associates	**193,586**	193,586
Share of post-acquisition profits net of dividends received	**23,765**	12,621
Exchange realignment	**(17,805)**	(13,527)
Share of net assets	**199,546**	192,680

On 27 April 2018, the Group entered into a capital increment agreement with several existing and strategic investors in which the registered capital of Shenzhen Rayitek Hi-tech Film Company Limited (深圳瑞華泰薄膜科技股份有限公司) ("Shenzhen Rayitek") would be increased from RMB98,442,972 to RMB135,000,000. The transaction was completed on 26 September 2018. The Group did not subscribe for additional shares and accordingly, the equity interest held by the Group in Shenzhen Rayitek decreased from 42.75% to 31.17% after completion of the transaction. Gain on deemed disposal of an associate amounted to HK$41,121,000 was recognised in profit or loss for the year ended 31 December 2018.

Particulars of the associates of the Group at 31 December 2019 and 2018 are set out in note 44.

Summarised financial information of material associates

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

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

18. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Shenzhen Rayitek

	2019 HK$'000	2018 HK$'000
Current assets	**316,632**	387,127
Non-current assets	**762,418**	651,960
Current liabilities	**(358,578)**	(202,960)
Non-current liabilities	**(109,593)**	(245,033)
Revenue	**263,695**	261,650
Profit and total comprehensive income for the year	**32,887**	41,734

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

	2019 HK$'000	2018 HK$'000
Net assets of Shenzhen Rayitek	**610,879**	591,094
Proportion of the Group's ownership interest in Shenzhen Rayitek	**31.17%**	31.17%
Carrying amount of the Group's interest in Shenzhen Rayitek	**190,411**	184,244

18. INTERESTS IN ASSOCIATES (continued)

Aggregate information of an associate that is not individually material

	2019 HK$'000	2018 HK$'000
The Group's share of profit and total comprehensive income for the year	893	202
Aggregate carrying amount of the Group's interests in these associates	9,135	8,436

19. INTERESTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Cost of unlisted investments in joint ventures	849,825	849,825
Share of post-acquisition losses	(86,633)	(83,900)
Exchange realignment	(65,269)	(51,302)
	697,923	714,623

Particulars of the joint ventures of the Group at 31 December 2019 and 2018 are set out in note 45.

Summarised financial information of material joint ventures

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

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

19. INTERESTS IN JOINT VENTURES (continued)

Summarised financial information of material joint ventures

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

	2019 HK$'000	2018 HK$'000
Current assets	1,223,737	1,256,202
Non-current assets	45,158	47,320
Current liabilities	(9,879)	(10,014)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,223,343	67,488

	2019 HK$'000	2018 HK$'000
Other income	2,139	1,694
Loss and total comprehensive expenses for the year	(7,226)	(10,458)

The above loss for the year included the following:

	2019 HK$'000	2018 HK$'000
Depreciation and amortisation	(600)	(551)
Interest income	1,429	1,198

19. INTERESTS IN JOINT VENTURES (continued)

Summarised financial information of material joint ventures (continued)

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

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

	2019 HK$'000	2018 HK$'000
Net assets of Hainan Aerospace	1,259,016	1,293,508
Proportion of the Group's ownership interest in Hainan Aerospace	50%	50%
Carrying amount of the Group's interest in Hainan Aerospace	629,508	646,754

Information of a joint venture that is not individually material

	2019 HK$'000	2018 HK$'000
The Group's share of profit and total comprehensive income for the year	880	858
Aggregate carrying amount of the Group's interests in this joint venture	68,415	67,869

20. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS

As at 31 December 2019, the Group's total trade and other receivables comprised of trade receivables arising from contracts with customers, rental receivables and other receivables, deposits and prepayments of HK$968,723,000 (net of allowance for credit losses of HK$63,376,000) (2018: HK$875,532,000 (net of allowance for credit losses of HK$74,281,000)), HK$547,660,000 (2018: HK$608,323,000) and HK$113,997,000 (2018: HK$133,887,000), respectively.

The Group allows an average credit period of 30 to 105 days to its trade customers. No credit period was granted to tenants of rental of premises. Receivables are unsecured and interest-free.

As at 1 January 2018, trade receivables arising from contracts with customers amounted to HK$914,978,000.

The following is an aged analysis of trade receivables arising from contracts with customers net of allowance for credit losses presented based on invoice date at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Within 90 days	851,223	802,514
Between 91–180 days	113,296	67,284
Between 181–365 days	4,204	5,734
	968,723	875,532

Included in the Group's trade receivables arising from contracts with customer is bills received amounting to HK$166,131,000 (2018: HK$109,736,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$117,364,000 (2018: HK$73,018,000) which are past due as at the reporting date. Out of the past due balances, HK$19,411,000 (2018: HK$5,734,000) has been past due 90 days or more and is not considered as in default. The Group considers the information developed internally or obtained from external sources and considered that the debtor is likely to pay its creditors, including the Group, and the past due balances are therefore, not considered as in default.

Other than bills received amounting to HK$166,131,000 (2018: HK$109,736,000), the Group does not hold any collateral over these balances.

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

The Group's rental income are based on effective accrued rentals after taking into account of rent free period and progressive rentals which are recorded as unbilled rental receivables. Rental receivables are invoiced to tenants on a monthly basis after the rent free period and are due for settlement upon the issuance of invoices.

Rental receivables of the Group HK$547,660,000 (2018: HK$608,323,000) included billed rental receivables of HK$27,555,000 (2018: HK$141,868,000) and unbilled rental receivables of HK$520,105,000 (2018: HK$466,455,000). The following are the aged analysis of billed rental receivables presented based on invoice date which are also past due balances at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Within 90 days	12,348	68,477
Between 91–180 days	15,207	67,201
Between 181–365 days	—	6,190
	27,555	141,868

Included in the Group's rental receivables as at 31 December 2019 are accrued rental income of HK$384,675,000 (2018: HK$180,132,000) that are expected to be realised after twelve months after the reporting period and are presented as non-current assets under long term assets.

Included in the Group's other receivables, deposits and prepayments at 31 December 2019 is value-added tax recoverable of HK$45,881,000 (2018: HK$51,516,000).

Rental deposits paid were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.

Details of impairment assessment of trade and other receivables are set out in note 39.

21. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**106,420**	113,999
Work-in-progress	**79,974**	77,429
Finished goods	**174,997**	173,128
	361,391	364,556

22. AMOUNT DUE FROM A RELATED PARTY

The amount represents the deposits placed with Aerospace Science & Technology Finance Company Limited (航天科技財務有限責任公司) ("Aerospace Finance"), a subsidiary of the Company's controlling shareholder, China Aerospace Science & Technology Corporation ("CASC"). The amount is unsecured, receivable on demand and carries interests at prevailing market rate (note (40)(a)(i)).

Details of impairment assessment of amount due from a related party are set out in note 39.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Financial assets mandatorily measured at FVTPL:		
Equity securities		
— listed in Hong Kong	**5,787**	7,456

24. PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

The Group's bank deposits amounting to HK$41,272,000 (2018: HK$14,572,000) have been pledged to secure general banking facilities of the Group and are therefore classified as current assets.

At 31 December 2019, short-term bank deposits with maturity more than three months carry fixed interest rates which range from 2.05% to 3.37% per annum (2018: 2.50%).

At 31 December 2019, bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.01% to 4.4% (2018: 0.01% to 4.4%) per annum.

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

Details of impairment assessment of pledged bank deposits, short-term bank deposits and bank balances are set out in note 39.

25. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	474,406	430,461
Accrued charges	190,949	169,875
Refundable deposit received	29,475	30,325
Other payables	553,503	449,263
	1,248,333	1,079,924

Other payables included an amount of HK$54,000,000 (2018: HK$54,000,000) received on behalf of CASC and payables with respect to development costs for investment properties of HK$30,783,000 (2018: HK$92,152,000).

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

	2019 HK$'000	2018 HK$'000
Within 90 days	427,820	389,714
Between 91–180 days	1,521	940
Between 181–365 days	35,658	30,964
Over 1 year	9,407	8,843
	474,406	430,461

26. CONTRACT LIABILITIES

The amounts represent advances from customers in relation to their purchase orders of goods placed with the Group in which the Group does not expect to refund any of the advance payments.

As at 1 January 2018, contract liabilities amounted to HK$100,184,000.

During the year ended 31 December 2019, revenue recognised in current year of HK$115,011,000 (2018: HK$100,184,000) was included in the contract liability balance at the beginning of the year.

The significant decrease in contract liabilities in the current year was mainly due to the less advances received from the customers.

27. LEASE LIABILITIES

	2019 HK$'000
Lease liabilities payable:	
Within one year	29,330
Within a period of more than one year but not more than two years	25,966
Within a period of more than two years but not more than five years	28,683
Within a period of more than five years	25,246
	109,225
Less: Amount due for settlement within 12 months shown under current liabilities	(29,330)
Amount due for settlement after 12 months shown under non-current liabilities	79,895

28. OTHER LOAN

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

29. LOAN FROM A CONTROLLING SHAREHOLDER

The loan is unsecured, repayable in 2023, and bears a fixed interest rate at 5% per annum (note 40(a)(ii)).

30. LOAN FROM A RELATED PARTY

The amount represents loan from Aerospace Finance. The amount is secured, bears a variable interest rate at 4.41% (2018: 4.41%) per annum, which is determined by the People's Bank of China Benchmark Rate, and is repayable in 2028 (note 40(a)(iii)).

31. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Accrued rent HK$'000	Others HK$'000 *(Note)*	Total HK$'000
At 1 January 2018	4,629	2,364,945	97,925	(33,751)	2,433,748
Exchange realignment	(90)	(121,090)	(5,665)	1,241	(125,604)
Charge to profit or loss for the year *(note 11)*	983	88,008	18,134	6,747	113,872
At 31 December 2018	5,522	2,331,863	110,394	(25,763)	2,422,016
Exchange realignment	(1)	(49,557)	(2,610)	185	(51,983)
Charge to profit or loss for the year *(note 11)*	(2,235)	37,393	15,307	17,102	67,567
At 31 December 2019	**3,286**	**2,319,699**	**123,091**	**(8,476)**	**2,437,600**

Note: The amount mainly represents temporary differences arising from allowances for doubtful debts and tax losses.

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

As at 31 December 2019, the Group has unused tax losses of HK$1,123 million (2018: HK$1,236 million) available to offset against future profits. As at 31 December 2018, deferred tax assets had been recognised in respect of HK$123 million (2019: nil) of such losses. No deferred tax asset has been recognised in respect of remaining tax losses of approximately HK$1,123 million (2018: HK$1,113 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses, HK$927 million (2018: HK$938 million) may be carried forward indefinitely and the remaining balance will expire at various dates up to the end of 2024 (2018: expire at various dates up to the end of 2023).

Deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributable retained profits earned by the subsidiaries in the PRC amounting to approximately HK$3,722 million (2018: HK$3,467 million) starting from 1 January 2008 under the EIT Law of the PRC that requires withholding tax upon the distribution of such profits to the non-PRC shareholders as the directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

32. SHARE CAPITAL

	HK$'000
Issued and fully paid:	
At 1 January 2018, 31 December 2018 and 31 December 2019	
— 3,085,022,000 ordinary shares with no par value	1,154,511

33. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2018, the Group entered into an agreement to dispose of its 45.9% equity interest in Huizhou Hai Yin Hotel Company Limited (惠州市海燕賓館有限公司) ("Hai Yin") to a third party for a cash consideration of RMB1 through the Shanghai United Assets and Equity Exchange. The disposal was completed on 29 September 2018 resulting in a gain on disposal of approximately HK$8,641,000.

Net cash outflow arising on disposal was amounting to approximately HK$108,000 from the bank balances and cash disposed of.

The disposal of Hai Yin did not contribute significantly to the Group's cash flows or operating results.

34. PLEDGE OF OR RESTRICTION ON ASSETS

At 31 December 2019, bank deposits of HK$41,272,000 (2018: HK$14,572,000) and bills receivables of HK$136,106,000 (2018: HK$80,008,000) and investment properties of approximately HK$2,120,963,000 (2018: nil) were pledged to banks and Aerospace Finance to secure general banking facilities granted to the Group.

Restriction on assets

In addition, lease liabilities of HK$109,225,000 are recognised with related right-of-use assets of HK$106,139,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

35. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**16,284**	46,943

36. OPERATING LEASES

The Group as lessee

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	30,229
In the second to fifth year inclusive	78,141
Over five years	67,298
	175,668

The Group as lessor

The properties held for rental purposes have committed tenants for the next one to thirteen years (2018: one to fourteen years) and rent-free periods has been granted to certain tenants with accrued lease receivables as disclosed in note 20.

36. OPERATING LEASES (continued)

The Group as lessor (continued)

At 31 December 2019, fixed lease payment receivable are as follows:

	2019 HK$'000
Within one year	323,792
In the second year	354,082
In the third year	388,119
In the fourth year	421,723
In the fifth year	446,381
Over five years	1,209,442
	3,143,539

At 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	2018 HK$'000
Within one year	293,878
In the second to fifth year inclusive	1,490,485
Over five years	1,685,640
	3,470,003

37. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme, limit to HK$18,000 per annum per staff.

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

The total cost charged to the consolidated statement of profit or loss of HK$32,555,000 (2018: HK$30,234,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which mainly includes the borrowings disclosed in notes 28, 29 and 30 and lease liabilities disclosed in note 27, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

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

39. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at FVTPL	5,787	7,456
Financial assets at amortised cost	2,437,887	2,014,028
Financial liabilities		
Financial liabilities at amortised cost	2,439,850	2,324,704

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party, pledged bank deposits, short-term bank deposits, bank balances and cash, financial assets at FVTPL, trade and other payables, loan from a controlling shareholder, loan from a related party, other loan and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, loan from a controlling shareholder (see notes 24 and 29 for details of these deposits and borrowings) and lease liabilities (see note 27). The Group currently does not have a policy on hedging of interest rate risks. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to loan from a related party (see note 30 for details). In addition, the Group is exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on bank balances. However, the management consider the Group's exposure of the bank balances is not significant as interest bearing bank balances are within short maturity period and thus it is not included in sensitivity analysis.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rate risk for loan from a related party. The analysis is prepared assuming the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period. A 50-basis-point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit after taxation for the year ended 31 December 2019 would have decreased/increased by HK$3,673,000 (2018: HK$3,752,000).

Equity price risk

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

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the financial assets at fair value through profit or loss had been 10% (2018: 10%) higher/lower, the Group's profit after taxation for the year ended 31 December 2019 would have increased/decreased by HK$578,000 (2018: HK$746,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

The Group is not exposed to significant foreign currency risk as majority of its transactions are denominated in HK$ and Renminbi ("RMB") (the functional currencies of the Group's major subsidiaries) except for the foreign currency risk on certain inter-company balances that form part of net investments of the relevant foreign operations in which the exchange differences are recognised in other comprehensive income. In the management opinion, the Group's foreign currency risk exposure is insignificant and hence, no sensitivity analysis is prepared at the end of the reporting period.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group.

The Group's credit risk exposure are primarily attributable to the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets except that the credit risks associated with settlements of certain trade receivables are backed by bills issued by financial institutions.

The Group performed impairment assessment for financial assets and lease receivables under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

The Group's internal credit risk grading assessment comprises the following categories:

		Trade receivables	Other financial assets and lease receivables
"Strong":	The counterparty has low probability of default.	Lifetime ECL — not credit-impaired	12m ECL
"Satisfactory":	The counterparty has moderate default risk.	Lifetime ECL — not credit-impaired	12m ECL
"Doubtful":	There is evidence indicating that significant increase in credit risk since initial recognition through information developed internally.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
"Loss":	There is evidence indicating the asset is credit-impaired.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
"Write-off":	There is evidence indicating that the debtors is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets and lease receivables, which are subject to ECL assessment:

	External credit rating	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount HK$'000	2019 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000
Financial assets at amortised cost							
Pledged bank deposits	BB+ to BBB-	N/A	12m ECL		41,272		14,572
Short-term bank deposits	BBB- to BBB	N/A	12m ECL		123,389		7,800
Bank balances	BBB- to A+	N/A	12m ECL		1,271,297		958,328
Other receivables	N/A	*(Note 1)*	Lifetime ECL (not credit impaired)	13,024		22,841	
			Credit-impaired	9,633	22,657	–	22,841
Trade receivables – Contract with customers	N/A	*(Note 2)*	Lifetime ECL (provision matrix)	313,516		242,497	
		Low risk	Lifetime ECL (not credit-impaired)	655,207		633,035	
		Loss	Credit-impaired	63,376	1,032,099	74,281	949,813
Other item							
Leases receivables	N/A	Low risk	12m ECL		547,660		608,323

Notes:

(1) For the purposes of internal credit risk management, the Group use historical repayment information to assess whether credit risk has increased significant since initial recognition. At 31 December 2019, for the other receivables amounting HK$9,633,000, the amount is considered as credit-impaired due to the overdue of the balance and non-repayment from the counter parties.

(2) For the trade receivables arising from contracts with customers, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. For trade receivables from Hi-Tech Manufacturing Business, except for debtors with significant outstanding balances, which maybe backed by bills issued by reputable banks, or credit-impaired that are assessed for impairment individually, the remaining trade receivables balances are grouped under a provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment histories and/or past due status of respective debtors.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued by reputable PRC banks if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the relevant debtors is insignificant.

Except for certain large customers, the remaining trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has no significant concentration of credit risk in trade receivables, with exposure spread over a number of counterparties and customers.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

Management assessed the expected loss on trade receivables individually or based on provision matrix by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The management is of the opinion that there has no default occurred for trade receivables past due 90 days or more of approximately HK$19,411,000 (2018: HK$5,734,000) and the balances are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers.

Details of the quantitative disclosures are set out below in this note.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Collective assessment

Gross carrying amount

Credit rating	Trade receivables	
	2019 **HK$'000**	2018 HK$'000
Strong	**276,616**	218,270
Satisfactory	**30,416**	18,362
Doubtful	**6,484**	5,865
	313,516	242,497

Individual assessment

As part of the Group's credit risk assessment, the Group assessed credit risk of its individual customers with significant balance, which may be backed by bills, by reference to external credit rating and internal information to assess the credit risk for those credit-impaired debtor. The following table provides information about the exposure to credit risk for trade receivables not backed by bank bills which are assessed individually as at 31 December 2019 and 2018 within lifetime ECL.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Individual assessment (continued)

Credit rating	Trade receivables (not credit-impaired) 2019 HK$'000	2018 HK$'000
Strong	484,627	515,832
Satisfactory	4,449	7,467
	489,076	523,299

Credit rating	Trade receivables (credit-impaired) 2019 Average loss rate	2019 HK$'000	2018 Average loss rate	2018 HK$'000
Loss	100%	63,376	100%	74,281

No impairment allowance for trade receivables was provided based on the provision matrix and the not credit-impaired trade receivables that assessed individually as the management of the Group consider the amount of loss allowance is insignificant since the loss given default is low based on historical credit loss experience. The directors of the Company have also assessed all available forward looking information, including but not limited to expected growth rate of the industry, and concluded that there is no significant increase in credit risk. Impairment allowance, net of reversal, of HK$13,183,000 (2018: HK$45,225,000) were made on credit-impaired debtors.

In determining the ECL for trade receivables backed by bills, the management of the Group considers the probability of default is negligible on the basis of banks issuing the bills, and accordingly, no loss allowance is made in the consolidated financial statement.

The following table shows the movement in lifetime ECL (credit-impaired) that has been recognised for trade receivables under the simplified approach.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Individual assessment (continued)

	Lifetime ECL (credit-impaired) HK$'000
At 1 January 2018	31,735
Impairment losses recognised	45,225
Exchange realignment	(2,679)
At 31 December 2018	74,281
Impairment losses recognised	13,658
Impairment losses reversed	(475)
Write-off	(22,704)
Exchange realignment	(1,384)
At 31 December 2019	**63,376**

During the year ended 31 December 2019 and 2018, the impairment allowance mainly related to long aged receivable balances from cross-border e-commerce business.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed into liquidation or when the management considers that the past due balances are not recoverable.

Lease receivables

For lease receivables, the Group makes periodic individual assessment on the recoverability based on the historical credit loss experience. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group measures the loss allowance on 12m ECL basis. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for lease receivables were insignificant and thus no allowance was recognised.

The Group has concentration of credit risk as the lease receivables was due from the Group's two tenants.

Other receivables

In determining the ECL for other receivables, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate. Except for the individual balance of HK$9,633,000 which are attributable to a particular business and fully impaired during the year, the management of the Group has considered the consistently low historical default rate in connection with other general payments, and concluded that credit risk inherent in the Group's remaining balance of other receivables is insignificant.

Amount due from a related party

For amount due from a related party, the balance is assessed individually and the management of the Group considers the loss allowance is insignificant.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Pledged bank deposits, short-term bank deposits and bank balances

The management of the Group considers the pledged bank deposits, short-term bank deposits and bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management of the Group considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, loss allowance is considered as insignificant.

Liquidity risk

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

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

Liquidity tables

	Weighted average interest rate %	On demand and less than 1 month HK$'000	1 month to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2019							
Financial liabilities							
Trade and other payable	–	427,821	566,915	–	–	994,736	994,736
Other loan	–	7,990	–	–	–	7,990	7,990
Loan from a controlling shareholder	5.00 p.a	–	–	647,544	–	647,544	557,414
Loan from a related party	4.41 p.a	–	–	–	1,215,935	1,215,935	879,710
Lease liabilities	4.68 p.a	2,792	30,311	60,636	31,546	125,285	109,225
		438,603	597,226	708,180	1,247,481	2,991,490	2,549,075

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

	Weighted average interest rate %	On demand and less than 1 month HK$'000	1 month to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2018							
Financial liabilities							
Trade and other payable	–	430,461	417,857	–	–	848,318	848,318
Other loan	–	8,163	–	–	–	8,163	8,163
Loan from a controlling shareholder	5.00 p.a.	–	–	690,030	–	690,030	569,476
Loan from a related party	4.41 p.a.	–	–	–	1,281,883	1,281,883	898,747
		438,624	417,857	690,030	1,281,883	2,828,394	2,324,704

c. Fair value measurements of financial instruments

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

The fair value of financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market bid prices.

The classification of the Group's financial assets at 31 December 2019 and 2018 using the fair value hierarchy is Level 1 (see note 23). The directors of the Company consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their carrying amounts.

40. RELATED PARTY TRANSACTIONS

Balances of related parties of the Group have been disclosed in respective notes. In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following related party transactions:

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significantly influenced by the PRC government (hereinafter collectively referred to as "government-related entities"). The Company's controlling shareholder, CASC, is a state-owned enterprise under the direct supervision of the State Council of the PRC. During the year, except as disclosed below, the Group did not have any individually significant transactions with other government-related entities in its ordinary and usual course of business.

(a) Transactions with the CASC and its subsidiaries

(i) As at 31 December 2019, deposits placed with Aerospace Finance by the Group amounted to RMB14,000 (equivalent to approximately HK$16,000) (2018: RMB5,044,000 (equivalent to approximately HK$5,745,000)) and are included in amount due from a related party.

(ii) During the year ended 31 December 2013, the Group entered into a long-term loan agreement with CASC for an amount of RMB500,000,000 for a period of five years from the first drawdown date. The loan had been renewed for another five years during the year ended 31 December 2018. As at 31 December 2019, the Group has drawn down RMB500,000,000 (equivalent to approximately HK$557,414,000) (2018: RMB500,000,000 (equivalent to approximately HK$569,476,000). Such loan carries a fixed interest rate of 5% per annum and the interest incurred to CASC for the year ended 31 December 2019 is RMB25,347,000 (equivalent to approximately HK$28,766,000) (2018: RMB25,347,000 (equivalent to approximately HK$30,128,000)).

(iii) During the year ended 31 December 2016, the Group entered into a facility with Aerospace Finance, for advances up to RMB1,300,000,000 for a period of 12 years from the first drawdown date. The property ownership certificates of a portion of Shenzhen Aerospace Science & Technology Plaza with a valuation amount of approximately RMB1,902,504,000 has been mortgaged in favour of Aerospace Finance by Shenzhen Aerospace Technology Investment Company Limited ("Shenzhen Aerospace"). As at 31 December 2019, the Group has drawn down RMB789,100,000 (equivalent to approximately HK$879,710,000) (2018: RMB789,100,000 (equivalent to approximately HK$898,747,000)). The interest paid to loans drawn from the facility in the current year amounted to RMB35,283,000 (equivalent to approximately HK$40,042,000) (2018: RMB30,056,000 (equivalent to approximately HK$35,726,000)).

(b) Transactions with other government-related entities

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

The Group has deposits placements, borrowings and other general banking facilities, with certain banks which are government-related entities in its ordinary course of business. Other than the substantial amount of bank balances, the facility with these banks and sales transactions, remaining transactions with other government-related entities are individually insignificant.

(c) Compensation of key management personnel

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

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Unsecured bank borrowings HK$'000	Other loan HK$'000 *(note 28)*	Loan from a controlling shareholder HK$'000 *(note 29)*	Loan from a related party HK$'000 *(note 30)*	Interest payable HK$'000	Deposits received from potential investors of subsidiaries HK$'000	Dividend payable HK$'000	Dividend payable to non-controlling interests of a subsidiary HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2018	19,185	8,594	599,520	676,379	985	–	178	–	–	1,304,841
Financing cash flows	(19,018)	–	–	267,443	(66,598)	6,106	(92,474)	(19,018)	–	76,441
Interest expenses	–	–	–	–	66,598	–	–	–	–	66,598
Dividend declared	–	–	–	–	–	–	92,551	–	–	92,551
Dividend declared to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	19,018	–	19,018
Exchange realignment	(167)	(431)	(30,044)	(45,075)	271	–	–	–	–	(75,446)
At 31 December 2018	–	8,163	569,476	898,747	1,256	6,106	255	–	–	1,484,003
Adjustment upon application of HKFRS 16	–	–	–	–	–	–	–	–	135,511	135,511
At 1 January 2019 (restated)	–	8,163	569,476	898,747	1,256	6,106	255	–	135,511	1,619,514
Financing cash flows	–	–	–	–	(68,808)	3,688	(30,835)	(18,665)	(32,585)	(147,205)
New leases entered	–	–	–	–	–	–	–	–	2,377	2,377
Interest expenses	–	–	–	–	68,808	–	–	–	6,230	75,038
Dividend declared	–	–	–	–	–	–	30,850	–	–	30,850
Dividend declared to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	18,665	–	18,665
Partial disposal of an existing subsidiary	–	–	–	–	–	(6,099)	–	–	–	(6,099)
Exchange realignment	–	(173)	(12,062)	(19,037)	(29)	(72)	–	–	(2,308)	(33,681)
At 31 December 2019	–	7,990	557,414	879,710	1,227	3,623	270	–	109,225	1,559,459

42. FINANCIAL INFORMATION OF THE COMPANY

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

	2019 HK$'000	2018 HK$'000
Non-current assets		
Property, plant and equipment	**1,139**	1,224
Right-of-use assets	**13,413**	—
Interests in subsidiaries	**2,119,079**	2,002,675
Amounts due from subsidiaries	**1,411,289**	1,421,938
Interests in joint ventures	**15,000**	15,000
	3,559,920	3,440,837
Current assets		
Other receivables	**3,005**	3,426
Amounts due from subsidiaries	**36,529**	32,643
Bank balances and cash	**63,928**	69,537
	103,462	105,606
Current liabilities		
Other payables	**66,294**	77,383
Lease liabilities	**4,865**	—
Amounts due to subsidiaries	**749,688**	720,077
Taxation payable	**80**	80
	820,927	797,540
Net current liabilities	**(717,465)**	(691,934)
Non-current liabilities		
Lease liabilities	**8,941**	—
Net assets	**2,833,514**	2,748,903
Capital and reserves		
Share capital	**1,154,511**	1,154,511
Reserves *(note 42(b))*	**1,679,003**	1,594,392
	2,833,514	2,748,903

The Company's statement of financial position are approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Liu Meixuan *Director*	**Jin Xuesheng** *Director*

42. FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Reserves

	Share premium HK$'000 *(note a)*	Special capital reserve HK$'000 *(note a)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	—	630,977	—	974,008	1,604,985
Profit and total comprehensive income for the year	—	—	—	81,958	81,958
Dividend recognised as distribution	—	—	—	(92,551)	(92,551)
At 31 December 2018	—	630,977	—	963,415	1,594,392
Profit and total comprehensive income for the year	**—**	**—**	**—**	**115,461**	**115,461**
Dividend recognised as distribution	**—**	**—**	**—**	**(30,850)**	**(30,850)**
At 31 December 2019	**—**	**630,977**	**—**	**1,048,026**	**1,679,003**

Notes:

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

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

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

42. FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Reserves (continued)

Notes: (continued)

(a) (continued)

The Company provided an undertaking that in the event of the Company makes any future recoveries in respect of the assets, in respect of which provisions for impairment were made in the financial statements of the Company for the 7 years ended 31 December 2004 "Non-Permanent Loss Assets" beyond the written down value in the Company's audited financial statements as at 31 December 2004, all such recoveries beyond that written down value will be credited to a special capital reserve in the accounting records of the Company and that so long as there shall remain outstanding any debt of or claim against the Company which, if the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective were the date of the commencement of the winding up of the Company would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an undistributable reserve of the Company for the purposes of Sections 290 and 298 of the Companies Ordinance or any statutory re-enactment or modification thereof provided that:

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

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

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

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

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

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

(b) The Company's reserves available for distribution to shareholders as at 31 December 2019 comprised the retained profits of HK$1,048,026,000 (2018: HK$963,415,000).

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2019

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2019 %	held by the Company 2018 %	held by subsidiaries 2019 %	held by subsidiaries 2018 %	attributable to the Company 2019 %	attributable to the Company 2018 %	Principal activities
Incorporated and operating in Hong Kong:								
CASIL Clearing Limited	HK$10,000,000	100	100	–	–	100	100	Provision of treasury services
CASIL Electronic Products Limited	HK$15,000,000	100	100	–	–	100	100	Distribution of plastic and metal products and moulds
CASIL Semiconductor Limited	HK$15,000,000	100	100	–	–	100	100	Distribution of liquid crystal displays
China Aerospace Industrial Limited	HK$1,000,000	100	100	–	–	100	100	Property investment
Chee Yuen Industrial Company Limited	HK$20,000,000	100	100	–	–	100	100	Distribution of plastic and metal products and moulds
Digilink Systems Limited	HK$60,000,000	100	100	–	–	100	100	Investment holding
Hong Yuen Electronics Limited	HK$5,000,000	100	100	–	–	100	100	Distribution of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	100	100	–	–	100	100	Distribution of intelligent battery chargers and electronic components
Jeckson Electronics Company Limited	HK$10,000,000	100	100	–	–	100	100	Distribution of intelligent battery charges and electronic components
Registered and operating in the PRC:								
Chee Yuen Plastic Products (Huizhou) Company Limited#	HK$72,000,000	–	–	100	100	100	100	Manufacturing of plastic and metal products and moulds
China Aerospace (Huizhou) Industrial Garden Limited##	US$12,000,000	90	90	–	–	90	90	Property investment
Conhui (Huizhou) Semiconductor Company Limited#	HK$90,400,000	–	–	100	100	100	100	Manufacturing and distribution of liquid crystal displays and LCD modules
東莞康源電子有限公司#	HK$405,020,000	–	–	100	100	100	100	Manufacturing and distribution of printed circuit boards

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2019

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company 2019 %	held by the Company 2018 %	held by subsidiaries 2019 %	held by subsidiaries 2018 %	attributable to the Company 2019 %	attributable to the Company 2018 %	Principal activities
Registered and operating in the PRC: (continued)								
Huizhou Jeckson Electric Company Limited##	US$1,000,000	–	–	90	90	90	90	Manufacturing of intelligent battery chargers and electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited###/##	US$720,000	–	–	–	90	–	90	Electroplating of metals
志源表面處理(惠州) 有限公司#	RMB60,000,000	–	–	100	100	100	100	Electroplating of metals
志源電子科技(惠州) 有限公司#	RMB10,500,000	–	–	100	100	100	100	Distribution of packing products
Shenzhen Chee Yuen Plastics Company Limited#	HK$25,000,000	–	–	100	100	100	100	Manufacturing and distribution of plastic products
航科新世紀科技發展(深圳)有限公司#	US$50,000,000	100	100	–	–	100	100	Investment holding
深圳市航天高科投資管理有限公司##	RMB700,000,000	–	–	60	60	60	60	Property investment
深圳市航天高科物業管理有限公司	RMB5,000,000	–	–	100	100	60	60	Property management
航天數聯信息技術(深圳)有限公司##	HK$100,340,000	–	–	72.13	72.13	72.13	72.13	Development and sale of software and related products, and warehouse and logistic services

\# Wholly foreign-owned enterprises registered in the PRC

\## Sino-foreign joint equity enterprises registered in the PRC

\### Deregistered during the year ended 31 December 2019

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

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

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Shenzhen Aerospace (深圳市航天高科投資管理有限公司) and its subsidiary	PRC	40%	40%	110,482	126,676	2,134,374	2,087,918
Individually immaterial subsidiaries with non-controlling interests				(10,974)	(10,611)	820	8,192
				99,508	116,065	2,135,194	2,096,110

Summarised financial information in respect of Shenzhen Aerospace and its subsidiary is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2019 HK$'000	2018 HK$'000
Current assets	424,339	507,927
Non-current assets	8,875,665	8,942,429
Current liabilities	(124,597)	(353,024)
Non-current liabilities	(3,839,473)	(3,877,540)
Equity attributable to owners of the Company	3,201,560	3,131,875
Non-controlling interests	2,134,374	2,087,917
Income	511,711	567,586
Expenses	(235,507)	(250,897)
Profit for the year	276,204	316,689

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

	2019 HK$'000	2018 HK$'000
Profit attributable to owners of the Company	165,722	190,013
Profit attributable to the non-controlling interests	110,482	126,676
Profit for the year	276,204	316,689
Other comprehensive expense attributable to owners of the Company	(68,798)	(163,814)
Other comprehensive expense attributable to the non-controlling interests	(45,866)	(109,209)
Other comprehensive expense for the year	(114,664)	(273,023)
Total comprehensive income attributable to owners of the Company	96,924	26,199
Total comprehensive income attributable to the non-controlling interests	64,616	17,467
Total comprehensive income for the year	161,540	43,666
Net cash inflow from operating activities	392,583	165,049
Net cash outflow used in investing activities	(88,802)	(155,243)
Net cash outflow from financing activities	(309,213)	(45,150)
Effect of foreign exchange rate changes	1,947	5,931
Net cash outflow	(3,485)	(29,413)
Total dividends paid	45,398	47,545
Dividends paid to non-controlling interests of Shenzhen Aerospace and its subsidiary	18,159	19,018

44. PARTICULARS OF ASSOCIATES

Details of the Group's associates at 31 December 2019 and 2018 are as follows:

Name of associates	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
		2019 %	2018 %	
Registered and operating in the PRC:				
航天新商務信息科技有限公司*	RMB63,800,000	15.7	15.7	Provision of information service
深圳瑞華泰薄膜科技股份有限公司 (Shenzhen Rayitek)(formerly known as 深圳瑞華泰薄膜科技有限公司) and its subsidiary	RMB135,000,000	31.17	31.17	Manufacturing and distribution of polyimide films and related composite materials

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

45. PARTICULARS OF JOINT VENTURES

Details of the Group's joint ventures at 31 December 2019 and 2018 are as follows:

Name of joint ventures	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:			
China Aerospace New World Technology Limited	HK$30,000,000	50	Investment holding
Registered and operating in the PRC:			
Hainan Aerospace	RMB1,200,000,000	50	Land development

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

46. EVENT AFTER REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in the PRC and Hong Kong and spread across different countries in early 2020. The subsequent quarantine measures as well as the travel restrictions imposed by the government of various countries have had a negative impact on the operations of the Group since February 2020, as most of the Group's operations are located in the PRC and Hong Kong and the major suppliers/customers of the Group are located in the PRC, Hong Kong and overseas. The Group has had to stop its manufacturing activities since February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group had resumed its manufacturing activities since late February 2020, they can only be operating at normal capacity in mid-March 2020. In addition, the operation of certain associates and most of the Group's investment properties are also located in the PRC, the outbreak of COVID-19 may affect the recoverability of the Group's receivables, the fair value of the investment properties and the carrying amount of associates. Given the dynamic nature of these circumstances and unpredictability of future development, including government policies and measures in response to COVID-19, the management of the Group is still unable to estimate the potential financial impact to the Group and the actual effects, if any, will be reflected in the Group's consolidated financial statements in the future.

APPENDIX I FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2019 HK$'000 *(Note 1)*	2018 HK$'000 *(Note 2)*	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	3,450,824	3,690,804	3,661,325	3,087,848	2,765,720
Profit before taxation	547,064	665,364	931,725	1,722,665	2,647,413
Taxation	(109,206)	(145,184)	(264,908)	(519,413)	(1,021,090)
Profit for the year	437,858	520,180	666,817	1,203,252	1,626,323
Attributable to:					
Owners of the Company	338,350	404,115	486,183	796,108	984,696
Non-controlling interests	99,508	116,065	180,634	407,144	641,627
	437,858	520,180	666,817	1,203,252	1,626,323

ASSETS AND LIABILITIES

	At 31 December				
	2019 HK$'000 *(Note 1)*	2018 HK$'000 *(Note 2)*	2017 HK$'000	2016 HK$'000	2015 HK$'000
Non-current assets	11,656,155	11,518,775	11,847,675	10,463,151	8,981,919
Current assets	3,049,116	2,800,505	2,727,433	2,321,425	2,993,724
Current liabilities	(1,369,666)	(1,248,674)	(2,258,769)	(1,643,386)	(2,494,379)
Non-current liabilities	(3,954,619)	(3,890,239)	(3,110,127)	(3,166,056)	(2,278,002)
Total equity	9,380,986	9,180,367	9,206,212	7,975,134	7,203,262
Attributable to:					
Owners of the Company	7,245,792	7,084,257	7,090,625	6,190,158	5,705,770
Non-controlling interests	2,135,194	2,096,110	2,115,587	1,784,976	1,497,492
	9,380,986	9,180,367	9,206,212	7,975,134	7,203,262

Notes:

(1) In 2019, the Group has applied HKFRS 16. Accordingly, certain information for the years ended 31 December 2015, 2016, 2017 and 2018 may not be comparable to the year ended 31 December 2019 as such information was prepared under HKAS 17.

(2) In 2018, the Group had applied HKFRS 9 and HKFRS 15. Accordingly, certain information for the years ended 31 December 2015, 2016 and 2017 may not be comparable to the years ended 31 December 2018 and 2019 as such information was prepared under HKAS 39 and HKAS 18.

APPENDIX II INVESTMENT PROPERTIES

Location	Lot number	Existing use	Approximate gross floor area/ site area (sq. m)	Group's interest (%)
MEDIUM TERM LEASES IN HONG KONG				
Units 402, 405 to 407 on 4th Floor the whole of 17th Floor and Car Park Nos. P1, L3, LD1, LD2 and LD5 on Ground Floor, Car Park Nos. P17, P18 and P24 on 1st Floor and Car Park Nos. P34, P36 and P37 on 2nd Floor China Aerospace Centre 143 Hoi Bun Road Kwun Tong Kowloon	Kwun Tong Inland Lot. No. 528	Industrial	3,290	100
Unit A on 2nd Floor of Tsun Win Factory Building, No. 60 Tsun Yip Street, Kwun Tong Kowloon	Kwun Tong Inland Lot No. 10	Industrial	230	100
MEDIUM TERM LEASES IN THE PRC				
China Aerospace Industrial Estate Zhong Kai Development Zone Huizhou City Guangdong Province The PRC	—	Industrial	118,867	90
South of Bin Hai Avenue and the East of Hou Hai Bin Road Nanshan District Shenzhen Guangdong Province The PRC	—	Retail and office	157,825	60
LONG TERM LEASEHOLD IN THE PRC				
Level 8, Zhong Hai Building Zhong Hai Hua Ting North Zone No. 399 Fu Hua Road Futian District Shenzhen Guangdong Province The PRC	—	Office	1,043	100