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## CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

### ANNOUNCEMENT OF ANNUAL RESULTS 2017

The Board of Directors (the “Board”) of China Aerospace International Holdings Limited (the “Company”) is pleased to announce the audited results and financial statements of the Company and its subsidiaries (collectively the “Group”) for the financial year ended 31 December 2017.

#### SUMMARY OF RESULTS

The audited consolidated results of the Group for the year ended 31 December 2017 and the comparative figures of the same period in 2016 are as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Turnover	3	3,661,325	3,087,848
Cost of sales		(2,637,087)	(2,296,492)
Gross profit		1,024,238	791,356
Other income	4	68,082	53,632
Other gains and losses	4	(34,759)	(19,481)
Selling and distribution expenses		(53,482)	(57,925)
Administrative expenses		(337,674)	(312,660)
Research and development expenses		(79,192)	(63,089)
Fair value changes of investment properties		405,283	1,412,301
Finance costs		(57,217)	(53,440)
Share of results of associates		6,075	1,880
Share of results of joint ventures		(9,629)	(29,909)
Profit before taxation	5	931,725	1,722,665
Taxation	6	(264,908)	(519,413)
Profit for the year		666,817	1,203,252
Profit attributable to:			
Owners of the Company		486,183	796,108
Non-controlling interests		180,634	407,144
		666,817	1,203,252

	<i>NOTE</i>	2017	2016
Earnings per share	7		
Basic		<b><u>HK15.76 cents</u></b>	<b><u>HK25.81 cents</u></b>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<b><u>666,817</u></b>	<b><u>1,203,252</u></b>

**Other comprehensive income (expense) includes:**

*Items that may be reclassified subsequently to profit or loss:*

Exchange differences arising on translating foreign operations

- subsidiaries	527,885	(370,195)
- associates	10,365	(7,888)
- joint ventures	50,756	(41,618)

Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation

19,564	1,138
<b><u>608,570</u></b>	<b><u>(418,563)</u></b>

*Items that will not be reclassified to profit or loss:*

Revaluation surplus on certain properties transferred to investment properties, net of tax

19,513	—
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Other comprehensive income (expense) for the year

<b><u>628,083</u></b>	<b><u>(418,563)</u></b>
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Total comprehensive income for the year

<b><u>1,294,900</u></b>	<b><u>784,689</u></b>
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Total comprehensive income attributable to:

Owners of the Company

962,167	485,622
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Non-controlling interests

332,733	299,067
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<b><u>1,294,900</u></b>	<b><u>784,689</u></b>
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2017**

	<i>NOTES</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		1,104,487	953,527
Prepaid lease payments		97,390	94,711
Investment properties		9,568,215	8,492,873
Interests in associates		142,725	126,285
Interests in joint ventures		753,230	712,103
Deposit paid for property, plant and equipment		56,975	22,766
Other long term assets		124,653	33,108
Loan to a joint venture		—	27,778
		<u>11,847,675</u>	<u>10,463,151</u>
<b>Current assets</b>			
Inventories		348,216	262,021
Trade and other receivables	9	1,277,204	873,050
Prepaid lease payments		4,176	4,234
Amount due from a related party		851	16
Financial assets at fair value through profit or loss		13,720	25,675
Pledged bank deposits		20,098	6,158
Bank balances and cash		1,063,168	1,150,271
		<u>2,727,433</u>	<u>2,321,425</u>
<b>Current liabilities</b>			
Trade and other payables	10	1,550,229	1,545,965
Taxation payable		81,241	58,347
Unsecured bank borrowings		19,185	31,111
Other loan		8,594	7,963
Loan from a controlling shareholder		599,520	—
		<u>2,258,769</u>	<u>1,643,386</u>
<b>Net current assets</b>		<u>468,664</u>	<u>678,039</u>
<b>Total assets less current liabilities</b>		<u>12,316,339</u>	<u>11,141,190</u>
<b>Non-current liabilities</b>			
Loan from a controlling shareholder		—	555,556
Loan from a related party		676,379	565,667
Deferred taxation		2,433,748	2,044,833
		<u>3,110,127</u>	<u>3,166,056</u>
		<u>9,206,212</u>	<u>7,975,134</u>

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Capital and reserves</b>		
Share capital	1,154,511	1,154,511
Reserves	<u>5,936,114</u>	<u>5,035,647</u>
<b>Equity attributable to owners of the Company</b>	<b>7,090,625</b>	6,190,158
<b>Non-controlling interests</b>	<u>2,115,587</u>	<u>1,784,976</u>
	<u><b>9,206,212</b></u>	<u>7,975,134</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 DECEMBER 2017*

**1. BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap. 622) (the "Hong Kong Companies Ordinance"). The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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

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

Amendments to HKAS 7 "Disclosure initiative"

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

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

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning on 1 January 2017 and have not been early adopted by the Group.

### 3. SEGMENT INFORMATION

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

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

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

#### For the year ended 31 December 2017

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

**For the year ended 31 December 2016**

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

The accounting policies of the operating segments are the same as the Group's accounting policies. 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, interest expenses, gain on disposal of an associate, loss on deregistration of a subsidiary and other corporate income and corporate expenses. This is the measure reported to the President for the purpose of resource allocation and performance assessment.

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

#### 4. OTHER INCOME AND OTHER GAINS AND LOSSES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The Group's other income mainly comprises:		
Interest income	14,824	30,282
Sales of scrap materials	9,141	6,028
Government subsidies in respect of research expenses	4,379	867

The Group's other gains and losses mainly comprise:

Net exchange gain (loss)	4,396	(22,079)
Net (loss) gain from change in fair value of financial assets at fair value through profit or loss	(11,955)	8,506
(Allowance for) reversal of allowance for doubtful debts	(4,127)	2,738
Loss on disposal/written off of property, plant and equipment	(2,669)	(7,491)
Loss on disposal of prepaid lease payments	(840)	—
Gain on disposal of an associate	—	3
Loss on deregistration of a subsidiary	(19,564)	(1,138)

#### 5. PROFIT BEFORE TAXATION

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

## 6. TAXATION

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

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in the People's Republic of China (other than Hong Kong) (the "PRC") is 25%. Four subsidiaries (2016: two subsidiaries) of the Company operating in the PRC are eligible as High and New Technology Enterprise and the income tax rate of these subsidiaries is 15%.

Taxation arising in other jurisdiction, representing withholding tax on dividend income, is calculated at the rate prevailing in the relevant jurisdiction.

## 7. EARNINGS PER SHARE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<u>486,183</u>	<u>796,108</u>
	2017 Number of shares	2016 Number of shares
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic earnings per share	<u>3,085,022,000</u>	<u>3,085,022,000</u>

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

## 8. DIVIDENDS

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

A final dividend of HK3 cents per share in respect of the year ended 31 December 2017 (2016: HK2 cents) has been proposed by the board of directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.



## 9. TRADE AND OTHER RECEIVABLES

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

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

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

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 90 days	<b>840,166</b>	687,412
Between 91 - 180 days	<b>60,286</b>	30,377
Between 181 - 365 days	<b>14,524</b>	332
	<b>914,976</b>	718,121

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

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

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$74,810,000 (2016: HK\$30,709,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. There are no balances included in other receivables which have been past due.

## 10. TRADE AND OTHER PAYABLES

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

Other payables included an amount of HK\$54,000,000 (2016: HK\$54,000,000) received on behalf of China Aerospace Science & Technology Corporation and payables to contractors for investment properties of HK\$388,294,000 (2016: HK\$540,031,000).

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

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

## **CHAIRMAN'S STATEMENT**

### **OVERVIEW**

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

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

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

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

### **BUSINESS REVIEW**

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

#### **Hi-tech Manufacturing**

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

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

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

### **Shenzhen Aerospace Science and Technology Plaza**

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

### **The Complex Zone of the Launching Site in Hainan**

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

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

As of 31 December 2017, the equity attributable to the Company was HK\$686,154,000; whereas the loss attributable to the Company was HK\$10,566,000 in 2017.

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

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

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

## **PROSPECTS**

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

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

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

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS PERFORMANCE**

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

### **PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY**

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

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

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

### **DIVIDENDS**

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

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

## RESULTS OF CORE BUSINESSES

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

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

### Hi-tech manufacturing

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

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

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

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

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

### **The Complex Zone of the Launching Site in Hainan**

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

### **Shenzhen Aerospace Science & Technology Plaza**

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

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

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

In 2017, Aerospace Digitnexus Information Technology (Shenzhen) Limited\* (航天數聯信息技術(深圳)有限公司) (“Aerospace Digitnexus”) recorded a turnover of HK\$94,171,000 and an operating profit of HK\$9,176,000. During the year, except for continuing to maintain and complete the prevailing projects of internet of things, the clearance centre in Kaiping of Aerospace Digitnexus ran smoothly and continued to develop an e-commerce logistics service platform. Its subsidiary, Jiangmen Aerospace Digitnexus Technology Limited\* (江門航天數聯科技有限公司), also started a RFID traceable agricultural products project, planning to integrate and upgrade the agricultural product sector with regional landmarks throughout the country and to provide traceable tracking of delivery time and location information of products. In 2018, Aerospace Digitnexus will continue to put effort in optimizing its product techniques, and doing well on the development in internet of things applications and cold-chain logistics warehouse management while integrating with mature products in the market and form market influence speedily in order to maintain constant operating profit.

## **ASSETS**

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

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

Company was HK\$2.30.

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

## LIABILITIES

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

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

## OPERATING EXPENSES

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

## CONTINGENT LIABILITIES

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

## FINANCIAL RATIOS

	2017	2016
Gross Profit Margin	<b>27.97%</b>	25.63%
Return on Net Assets	<b>7.24%</b>	15.09%

  

	31 December 2017	31 December 2016
Assets- Liabilities Ratio	<b>36.84%</b>	37.62%
Current Ratio	<b>1.21</b>	1.41
Quick Ratio	<b>1.05</b>	1.25

## LIQUIDITY

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

## CAPITAL EXPENDITURE AND INVESTMENT COMMITMENT

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

## FINANCIAL RISKS

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



## **HUMAN RESOURCES AND REMUNERATION POLICIES**

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

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the year.

## **CORPORATE GOVERNANCE**

During 2017, the Company had complied with the provisions of the *Corporate Governance Code and Corporate Governance Report* as set out in Appendix 14 of the Listing Rules.

## **DIRECTORS' AND EXECUTIVE'S INTERESTS IN SHARES**

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

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

## **AUDIT COMMITTEE**

In 2017, the Audit Committee of the Company comprises Mr Luo Zhenbang (Chairman) and Ms Leung Sau Fan, Sylvia, both being Independent Non-Executive Directors, and Mr Mao Yijin, being a Non-Executive Director. The major functions of the Audit Committee include serving as a focal point for communication between the Directors and external auditor, 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 also reviewed, discussed and approved the financial statements for the year ended 31 December 2017.

## **REMUNERATION COMMITTEE**

In 2017, the Remuneration Committee comprises Ms Leung Sau Fan, Sylvia (Chairman) and Mr Wang Xiaojun, both being Independent Non-Executive Directors, and Mr Xu Liangwei, being a Non-Executive Director. The Remuneration Committee takes the role of advisory and proposes to the Board on the emoluments of the Directors and senior management with regard to the operating results of the Company, the individual performance and the comparable market information.

## **NOMINATION COMMITTEE**

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

## **DIVIDEND**

The Board has recommended a final dividend of HK3 cents per share for the year ended 31 December 2017 (2016: HK2 cents) payable to the shareholders whose names appear on the Register of Members of the Company on Wednesday, 6 June 2018.

## **STATEMENT OF COMPLIANCE**

The financial information relating to the years ended 31 December 2016 and 2017 included in the Announcement does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Hong Kong Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 to the Hong Kong Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Company and the subsidiaries for both years ended 31 December 2016 and 2017. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held on Monday, 28 May 2018. Notice of which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company and dispatched to the shareholders of the Company in such manner as required under the Listing Rules.

## **CLOSURE OF REGISTER OF MEMBERS**

To ensure shareholders the right to attend and vote at the Annual General Meeting and to qualify for the distribution of final dividend, the Register of Members of the Company will be closed and details of which are as follows:

(1) To ensure shareholders the right to attend and vote at the Annual General Meeting:

Latest time for lodging transfers of shares and related documents for registration	4:30 p.m. on Monday, 21 May 2018
Closure of Register of Members	from Wednesday, 23 May 2018 to Monday, 28 May 2018 (both days inclusive)
Record Date	Monday, 28 May 2018

(2) To ensure Shareholders the right to qualify for the distribution of final dividend:

Latest time for lodging transfers of shares and related documents for registration	4:30 p.m. on Friday, 1 June 2018
Closure of Register of Members	from Monday, 4 June 2018 to Wednesday, 6 June 2018 (both days inclusive)
Record Date	Wednesday, 6 June 2018

The Register of Members of the Company will be closed at the abovementioned periods. To ensure shareholders the right to attend and vote at the Annual General Meeting and to qualify for the distribution of final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration on or before 4:30 p.m. on Monday, 21 May 2018 and Friday, 1 June 2018 respectively. Subject to approval by the shareholders at the Annual General Meeting, dividend warrants are expected to be dispatched to the shareholders by post on or around Friday, 22 June 2018.

### APPRECIATION

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

Hong Kong, 23 March 2018

By order of the Board,  
**Gong Bo**  
Chairman

*At the date of this Announcement, the Board of Directors of the Company comprises:*

***Executive Directors***

Mr Li Hongjun (*President*)

Mr Jin Xuesheng

***Non-Executive Directors***

Mr Gong Bo (*Chairman*)

Mr Mao Yijin

Mr Xu Liangwei

***Independent Non-Executive Directors***

Mr Luo Zhenbang

Ms Leung Sau Fan, Sylvia

Mr Wang Xiaojun

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