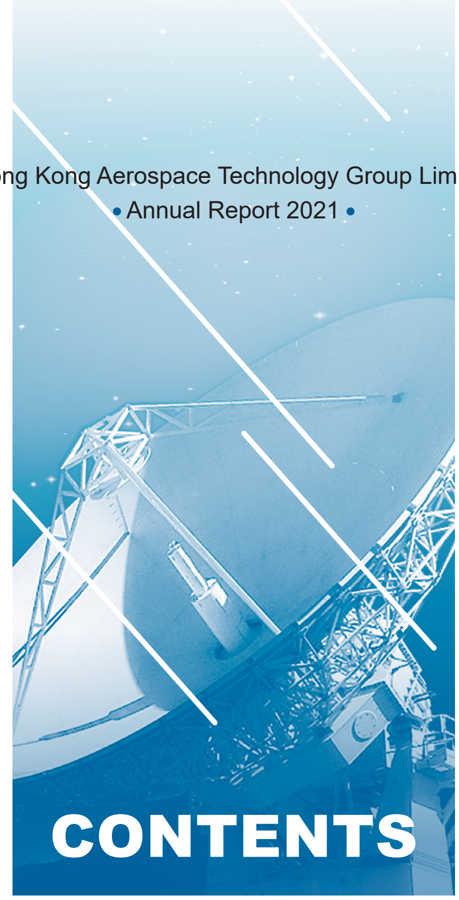
香港航天科技集團有限公司

HONG KONG AEROSPACE TECHNOLOGY GROUP LIMITED

(Incorporated in the Cayman Island with limited liability)

Stock Code: 1725.HK

ANNUAL REPORT 2021



CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sun Fengquan *(Co-Chairman and Chief Executive Officer)*
(appointed on 4 June 2021)
Dr. Lam Lee G. *(Co-Chairman)*
(re-designated as executive director on 3 January 2022)
Mr. Lam Kin Fung Jeffrey
(appointed on 16 July 2021)
Ms. Ku Ka Lee Clarie *(Vice Chairman)*
(appointed on 16 July 2021)
Mr. Ma Fujun
Ms. Chen Xiaoyuan
(resigned on 16 July 2021)
Mr. Cheng Bin
(resigned on 16 July 2021)
Mr. Liao Pin-tsung
(resigned on 16 July 2021)

NON-EXECUTIVE DIRECTORS

Dr. Yip Chung Yin
(appointed on 16 July 2021)
Mr. Lam John Cheung Wah
(appointed on 1 October 2021)
Dr. Lam Lee G.
(appointed on 13 May 2021, re-designated as executive director on 3 January 2022)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Brooke Charles Nicholas
(appointed on 16 July 2021)
Professor Chan Ka Keung, Ceajer
(appointed on 3 January 2022)
Mr. Hung Ka Hai Clement
(appointed on 16 July 2021)
Mr. Leung Kwong Ho
(appointed on 4 June 2021)
Dr. Yuen Kwok Keung
(appointed on 3 January 2022)
Mr. Chan Chung Kik Lewis
(resigned on 16 July 2021)
Mr. Chow Kit Ting
(resigned on 16 July 2021)
Mr. Wu Chi-luen
(resigned on 16 July 2021)
Mr. Lo Chi Chung William
(resigned on 3 January 2022)

AUDIT COMMITTEE

Mr. Hung Ka Hai Clement *(Chairman)*
(appointed as member on 16 July 2021 and chairman on 3 January 2022)
Mr. Brooke Charles Nicholas
(appointed as member on 16 July 2021)
Professor Chan Ka Keung, Ceajer
(appointed as member on 3 January 2022)
Mr. Leung Kwong Ho
(appointed as member on 4 June 2021, ceased as member on 16 July 2021, re-appointed as member on 3 January 2022)
Mr. Lo Chi Chung William
(appointed as chairman on 16 July 2021, ceased as chairman on 3 January 2022)
Mr. Chan Chung Kik Lewis
(ceased as member on 4 June 2021)
Mr. Chow Kit Ting
(ceased as member on 16 July 2021)
Mr. Wu Chi-luen
(ceased as chairman on 16 July 2021)

NOMINATION COMMITTEE

Mr. Sun Fengquan *(Chairman)*
(appointed as chairman on 4 June 2021)
Dr. Lam Lee G.
(appointed as member on 3 January 2022)
Mr. Hung Ka Hai Clement
(appointed as member on 16 July 2021)
Dr. Yuen Kwok Keung
(appointed as member on 3 January 2022)
Mr. Ma Fujun
(ceased as chairman on 4 June 2021)
Mr. Leung Kwong Ho
(appointed as member on 4 June 2021, ceased as member on 16 July 2021, re-appointed as member on 3 January 2022)
Mr. Lo Chi Chung William
(appointed as member on 16 July 2021, ceased as member on 3 January 2022)
Mr. Chan Chung Kik Lewis
(ceased as member on 4 June 2021)
Mr. Chow Kit Ting
(appointed as member on 4 June 2021, ceased as member on 16 July 2021)
Mr. Wu Chi-luen
(ceased as member on 4 June 2021)

CORPORATE INFORMATION

REMUNERATION COMMITTEE

Professor Chan Ka Keung, Ceajer *(Chairman)*
(appointed as chairman on 3 January 2022)
Dr. Lam Lee G.
(appointed as member on 4 June 2021)
Mr. Brooke Charles Nicholas
(appointed as member on 16 July 2021)
Dr. Yuen Kwok Keung
(appointed as member on 3 January 2022)
Mr. Hung Ka Hai Clement
(appointed as chairman on 16 July 2021, ceased as chairman on 3 January 2022)
Mr. Leung Kwong Ho
(appointed as chairman on 4 June 2021, ceased as chairman on 16 July 2021)
Mr. Chan Chung Kik Lewis
(ceased as member on 16 July 2021)
Mr. Chow Kit Ting
(ceased as member on 4 June 2021)
Mr. Wu Chi-luen
(ceased as chairman on 4 June 2021)

AUTHORISED REPRESENTATIVES

Mr. Sun Fengquan
(appointed on 4 June 2021)
Ms. Cheng Ka Yan
(appointed on 4 June 2021)
Mr. Ma Fujun
(resigned on 4 June 2021)
Ms. Jian Xuegen
(resigned on 4 June 2021)

COMPANY SECRETARY

Ms. Cheng Ka Yan
(appointed on 4 June 2021)
Ms. Jian Xuegen
(resigned on 4 June 2021)

REGISTERED OFFICE IN CAYMAN ISLANDS

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13th Floor
St. John's Building
33 Garden Road
Central, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC" or "China")

Block A2
Yingzhan Industrial Park
Longtian Community
Longtian Street, Pingshan District
Shenzhen, Guangdong
PRC

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited
China Merchants Bank Shenzhen Huanggang Branch

CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

CORPORATE INFORMATION

LEGAL ADVISERS

King & Wood Mallesons
Michael Li & Co.

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited (the "Stock Exchange")
Stock code: 1725.HK

STOCK CODE

1725

STOCK NAME

HK Aero Tech

CORPORATE WEBSITE ADDRESS

www.hkatg.com

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Hong Kong Aerospace Technology Group Limited (the "Company" and together with its subsidiaries, the "**Group**"), I would like to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2021 (the "**Reporting Period**").

The Company is an investment holding company. The Group is principally engaged in (i) electronics manufacturing services ("**EMS**") business which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to the customers in respect of the assembling and production of printed circuit board assemblies (the "**PCBA**") and fully-assembled electronic products; and (ii) aerospace business, currently under the "Golden Bauhinia Constellation" project, which includes (1) smart city with satellite big data applications and solutions; (2) satellite measurement and controlling; (3) satellite manufacturing; and (4) satellite launching.

BUSINESS REVIEW

During the Reporting Period, trade friction between the United States of America ("**USA**") and China became more and more tightened, bringing uncertainties to the future development of the world economy, and slowing down the economic growth of both China and the rest of the world. Further, the outbreak of the novel coronavirus (COVID-19) (the "**Novel Coronavirus Outbreak**") in early 2020 continued to affect social and economic activities seriously nationwide. Under the strict infection prevention and containment measures imposed by the China government, the Novel Coronavirus Outbreak in China gradually came under control and the economy in China gradually recovered in the second half year of 2020. However, during the Reorting Period, the sudden outbreak of variants of the coronavirus in different provinces across China still has adverse impacts on the business performance of the Group.

During the Reporting Period, a turnover of approximately RMB650.2 million was recorded by the Group, representing an increase of approximately 18.7% as compared with that for the corresponding period in 2020; while the loss attributable to equity holders of the Company of approximately RMB53.1 million was recorded as compared with a profit attributable to equity holders of the Company of approximately RMB17.3 million for the corresponding period in 2020 was mainly due to the the additional administrative expenses incurred in the aerospace businesses and the decrease in gross profit in the EMS business for the Reporting Period.

CHAIRMAN'S STATEMENT

Business Strategies and Outlook

Looking ahead, the global recovery is set to decelerate amid the continued flare-ups of variants of the coronavirus despite the phased easing of the trade friction between the USA and China. The COVID-19 pandemic and quarantine policies will continue to be key factors determining the pace of China's economic recovery, bringing uncertainty to the market and economic environment. The Board is positive on the prospect of the aerospace business in 2022 in view of the growth potential after the establishment of the satellite intelligent manufacturing center at Advanced Manufacturing Centre and implementation of the "Golden Bauhinia Constellation" project. The Group will strive to sustain long-term growth with the aerospace business and the EMS business by implementing the following business strategies:

— develop the "Golden Bauhinia Constellation" project, in order to provide aerospace data services in Guangdong-Hong Kong-Macao Greater Bay Area, to establish a dynamic monitoring service system not affected by weather conditions. Such aerospace data will facilitate cities in Greater Bay Area to achieve fine management and ecological environment construction of the full-cycle monitoring in the fields of agricultural monitoring, disaster prevention and mitigation, comprehensive urban governance, watershed control and so on;

— commence satellite launching business, in order to collect satellite data for the use in the Guangdong-Hong Kong-Macau Greater Bay Area;

— set up a satellite intelligent manufacturing center; a monitoring and operation control, application and data center for satellites to generate new revenue under aerospace business;

— continue to make efforts to expand the customer base to broaden the sources of revenue and diversify business risk;

— continue to strengthen the research and development capabilities so that we can explore more business opportunities; and

— continue to carefully review and extensively investigate into the current situation in relation to costs and resources deployment to enhance the production efficiency.

Gratitude

On behalf of the Company, I would like to express my sincere gratitude to all our valued shareholders, customers, suppliers, banks and to our management and employees for their continuous trust and support to our Group.

By order of the Board

Sun Fengquan
Co-Chairman & Chief Executive Officer

Hong Kong, 31 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

Revenue by Customers' Geographical Location

The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Mainland, the PRC	**427,918**	439,782
USA	**116,579**	26,997
India	**8,446**	25,075
Australia	**54,576**	4,477
South Korea	**19,362**	22,698
Austria	**10,728**	14,810
Hong Kong	**7,707**	8,655
Brazil	**1,077**	517
Others *(Note)*	**3,837**	4,814
	650,230	547,825

Note: Others include United Kingdom, Mexico, Germany and Vietnam.

Revenue by Product Type

During the Reporting Period, revenue of the EMS business was generated by two principal product types. The table below summarises the amount of revenue generated and as a percentage of total revenue from each product category for the Reporting Period and for the year ended 31 December 2020 respectively:

	Revenue for the year ended 31 December			**% of total revenue for the year ended 31 December**		
	2021	2020	Change	**2021**	2020	Change
	RMB'000	*RMB'000*	%			
PCBAs	**331,805**	258,612	28.3	**51.0**	47.2	3.8
Fully-assembled electronic products	**318,425**	289,213	10.1	**49.0**	52.8	(3.8)
Total	**650,230**	547,825	18.7	**100**	100.0	–

PCBAs

Based on the usage of the final electronic products which embedded with PCBAs, PCBAs can be broadly applied to electronic end products for three principal industries, namely, banking and finance, telecommunications and smart device. The revenue generated from the sales of PCBAs increased by approximately 28.3% from approximately RMB258.6 million for the year ended 31 December 2020 to approximately RMB331.8 million for the Reporting Period, primarily due to the increased orders from new customers developed during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Fully-assembled electronic products

The fully-assembled electronic products that are embedded with PCBAs primarily manufactured by the Company in-house mainly include mobile phones, mPOS, photovoltaic inverters, tablets and street lamp controller, which are sold under the respective brands of the customers or the brands of their ultimate customers. The revenue generated from sales of fully-assembled electronic products increased by approximately 10.1% from approximately RMB289.2 million for the year ended 31 December 2020 to approximately RMB318.4 million for the Reporting Period primarily due to the significant increase in orders of mobile phones and tablets.

Gross Profit and Gross Profit Margin by Product Type

Gross profit of the Group for the Reporting Period was approximately RMB37.1 million, representing a decrease of approximately RMB12.5 million or 25.2% as compared with approximately RMB49.6 million for the year ended 31 December 2020. Overall gross profit margin decreased from 9.1% for the year ended 31 December 2020 to 5.7% for the Reporting Period.

	Gross profit for the year ended 31 December			Gross profit margin for the year ended 31 December		
	2021	2020	Change	**2021**	2020	Change
	RMB'000	*RMB'000*	*(%)*	***%***	*%*	*(%)*
PCBAs	**34,480**	37,266	(7.5)	**10.4**	14.4	(4.0)
Fully-assembled electronic products	**2,636**	12,328	(78.6)	**0.8**	4.3	(3.5)
Total	**37,116**	49,594	(25.2)	**5.7**	9.1	3.4

PCBAs

The gross profit derived from the sales of PCBAs decreased by approximately 7.5% to approximately RMB34.5 million for the Reporting Period (2020: approximately RMB37.3 million). The gross profit margin decreased to approximately 10.4% for the Reporting Period (2020: approximately 14.4%), which primarily resulted from the increase in cost of raw materials.

Fully-assembled electronic products

The gross profit derived from the sales of fully-assembled electronic products decreased by approximately 78.6% to approximately RMB2.6 million for the Reporting Period (2020: approximately RMB12.3 million). The gross profit margin decreased to approximately 0.8% for the Reporting Period (2020: approximately 4.3%), which was mainly due to the Group having continuously offered a more competitive price with lower gross profit margin for the largest customer during the Reporting Period.

Other Income

Other income of the Group for the Reporting Period of approximately RMB3.6 million comprises discretionary government grants and sundry income. The significant decrease of other income is mainly due to the decrease of government grants received for the Reporting Period by approximately 73.0% from approximately RMB12.6 million for the year ended 31 December 2020 to approximately RMB3.4 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly comprised (i) employee benefit expenses which include salaries and allowance, social insurance contributions and staff welfare expenses for sales staff; (ii) transportation charges; (iii) sales commission paid to the sales agents in respect of customer introduction and (iv) other expenses. For the Reporting Period, selling and distribution expenses amounted to approximately RMB16.6 million (2020: approximately RMB13.2 million), representing an increase of approximately 25.3% as compared to the year ended 31 December 2020. Selling and distribution expense against revenue ratio slightly increased from approximately 2.4% for the year ended 31 December 2020 to 2.5% for the Reporting Period. The increase in the selling and distribution expense was mainly due to: (i) increased employee benefit expenses for EMS business and (ii) increased advertising expenses for the aerospace business.

Administrative Expenses

Administrative expenses mainly represented (i) employee benefit expenses which include salaries and allowance, social insurance contributions and staff welfare expenses of administrative staff; (ii) legal and professional fees; and (iii) other expenses. For the Reporting Period, administrative expenses amounted to approximately RMB69.6 million (2020: approximately RMB23.0 million), representing a significant increase of approximately 203.2% as compared to the year ended 31 December 2020. The increase in administrative expenses was mainly due to: (i) additional salaries and allowance incurred in the aerospace business; (ii) charitable donation contributed to support the rescue and reconstruction works after the flood disaster in Henan Province, the PRC; and (iii) increased operating administrative expense for the newly incorporated subsidiaries in Xiamen, the PRC and Germany.

Other Losses, Net

Other gains of approximately RMB2.5 million represented the fair value gains from derivative financial instruments which is newly acquired by the Group at the end of 2020. Other losses represented exchange differences increased from approximately RMB1.2 million for the corresponding period in 2020 to approximately RMB3.1 million for the Reporting Period.

Net impairment losses on financial assets

Net impairment losses on financial assets represented the provision of impairment of trade and bills receivables. For the Reporting Period, net impairment losses on financial assets significantly decrease to approximately RMB0.1 million (2020: net impairment RMB5.1 million) due to the improvement of aging of the trade and bills receivables.

Finance Costs, Net

The finance costs mainly comprised interest expenses on bank borrowings, finance lease liability and lease liabilities while the finance income mainly represented interest income on cash and cash equivalents and pledged bank deposits. For the Reporting Period, the net finance costs of the Group were approximately RMB0.7 million (2020: approximately RMB0.1 million) representing an increase of approximately 489.8% as compared to the year ended 31 December 2020. The increased net finance cost was primarily due to the increased interest expenses in relation to lease for right-of-use assets, especially properties.

Income Tax Expense

Income tax expense amounted to approximately RMB6.1 million for the Reporting Period (2020: approximately RMB3.0 million), representing an increase of approximately 103.7% as compared to the year ended 31 December 2020. The significant increase in income tax expense is mainly due to the profit generated by a relatively new subsidiary namely Eternity Technology (Xiamen) Company Limited, which was incorporated in late 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss/Profit Attributable to Equity Holders of the Company

As a result of the factors discussed above, loss attributable to equity holders of the Company amounted to approximately RMB53.1 million for the Reporting Period as compared with profit attributable to equity holders of the Company of approximately RMB17.3 million for the corresponding period in 2020.

LIQUIDITY AND CAPITAL RESOURCES

The Group funds its capital expenditure and working capital requirement for the conduct of its normal course of business by using a mix of internal resources and bank and other borrowings. The management of the Group closely monitors the Group's liquidity position to ensure the Group has a sufficient level of cash and banking facilities to meet its funding needs.

Net Current Assets

The Group had net current assets of approximately RMB55.6 million as at 31 December 2021 (2020: approximately RMB142.0 million). The current ratio of the Group decreased from approximately 1.5 as at 31 December 2020 to approximately 1.1 as at 31 December 2021.

Borrowings, the Pledge of Assets and Restricted Cash

The bank and other borrowings of the Group amounted to approximately RMB202.6 million as at 31 December 2021 (31 December 2020: approximately RMB26.7 million). The weighted average interest rate per annum of the Group's bank and other borrowings as at 31 December 2021 was 6.42% (31 December 2020: 4.35%). As at 31 December 2021, the bank and other borrowings were secured by properties, plant and equipment, pledged bank deposit, land-use rights, a corporate guarantee provided by the Company and a personal guarantee by the Director, Mr. Ma Fujun. As at 31 December 2020, the bank borrowings were secured by pledged bank deposit, land-use rights, certain equipment and a corporate guarantee provided by the Company. As at 31 December 2021, the bank deposits amounting to RMB27.5 million were pledged in banks for the facilities granted by banks to the Group and a performance bond to a new customer. As at 31 December 2020, the bank deposits amounting to RMB33.7 million were pledged in banks for the facilities granted by banks to the Group, a performance bond to a new customer and security for the USD forward exchange contracts. As at 31 December 2021, the cash and cash equivalents, pledged bank deposits, short term bank deposits and restricted cash and bank and other borrowings were mainly denominated in Renminbi ("**RMB**"), Hong Kong Dollars ("**HK$**") and United States Dollars ("**USD**") and Euros ("**EUR**").

The Group had unutilised banking facilities of approximately RMB376.2 million as at 31 December 2021 (31 December 2020: approximately RMB235.6 million).

Gearing Ratio

The gearing ratio, which is calculated by total borrowings divided by total equity, was approximately 51.7% and 10.7% as at 31 December 2021 and 31 December 2020, respectively. During the Reporting Period, the bank borrowings and other borrowing increased by approximately RMB175.9 million which was mainly due to the increased borrowings for the construction of the production plants in Huizhou, Guangdong, the PRC and the development of aerospace business.

Capital Structure

As at 31 December 2020, the Company's issued share capital was HK$3,000,000 and the number of issued shares of the Company was 300,000,000 ordinary shares of HK$0.01 each.

On 29 October 2021 , the Company and Mr. Ma Alexander (the "**Subscriber**"), an individual investor, entered into a subscription agreement (the "**Subscription Agreement**") under which the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe, 9,000,000 new Shares at the subscription price of HK$26.41 per Share (the "**Subscription**"). The Directors consider that the Subscription provided an opportunity to raise capital for the Company.

The subscription shares were allotted and issued under the general mandate. The Subscription was completed on 9 November 2021. The closing market price was HK$33.00 per Share at the date of the Subscription Agreement. The gross proceeds from the Subscription was approximately HK$237.7 million and the net proceeds (after deducting the relevant expenses of the Subscription) from the Subscription was approximately HK$237.4 million which was intended to be used by the Company on phase I of the establishment of the satellite intelligent manufacturing center at Advanced Manufacturing Centre located at Tseung Kwan O Industrial Estate, Hong Kong. After deducting the relevant expenses of the Subscription, the net subscription price was approximately HK$26.38 per Share. As at 31 December 2021, approximately 73.4% of the net proceeds from the Subscription had been utilised on the first phase of the establishment of the satellite intelligent manufacturing center at the Advanced Manufacturing Centre located at Tseung Kwan O Industrial Estate, Hong Kong and the Company intended to utilise all of the remaining balance on the same purpose during the year ending 31 December 2022. Details of the Subscription are set out in the announcements published by the Company on 29 October 2021 and 9 November 2021.

As at 31 December 2021, the Company's issued share capital was HK$3,090,000 and the number of issued shares of the Company was 309,000,000 ordinary shares of HK$0.01 each.

Foreign Exchange Exposure and Exchange Rate Risk

The Group's assets, liabilities and transactions are mainly denominated in RMB, HK$, USD and EUR, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than the respective functional currencies of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The management closely monitors the foreign currency exposure from time to time. At the end of 2020, the Group entered into certain USD forward exchange contracts with a bank amounting to approximately US$15.0 million to hedge its exposure to USD exchange rate risk. All of the USD forward exchange contracts matured during the Reporting Period.

Capital Expenditure

For the Reporting Period, the Group had capital expenditure of approximately RMB327.6 million (2020: RMB56.3 million). The capital expenditure was mainly related to the construction of production plant in Huizhou, Guangdong, the PRC, the additions of a land-use right, office equipment, plant and machinery, satellites and intangible assets.

USE OF PROCEEDS

The business objectives and planned use of proceeds as stated in the prospectus dated 3 August 2018 published by the Company (the "**Prospectus**") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the share offer made pursuant to the Prospectus (the "**Share Offer**") received by the Company (the "**Net Proceeds**"), after deducting related underwriting fees and estimated expenses payable by the Company in connection with the Share Offer were approximately HK$96.7 million. As disclosed in the Company's announcement dated 16 July 2020 (the "**Change in Use of Proceeds Announcement**"), having carefully considered the latest business environment and development needs of the Group, the Board had resolved to change the proposed use of part of the unutilised Net Proceeds in the amount of approximately HK$40.6 million originally allocated for (i) expand the production capacity and enhance the production efficiency; (ii) lease new premises to align with the production capacity expansion, convert the existing warehouse into an intelligent warehouse and set up an additional intelligent warehouse; and (iii) upgrade the ERP system and enhance the capabilities in information technology, to construction of a production base in Huizhou, Guangdong, the PRC. For details, please refer to the Change in Use of Proceeds Announcement. As at 1 January 2021, the remaining balance of the Net Proceeds amounting to approximately HK$17.2 million has been fully utilised for construction of a production base in Huizhou, Guangdong, the PRC during the Reporting Period.

DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2021 (2020: Nil).

The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme.

As at 31 December 2021, the Group had 662 employees with a total remuneration of approximately RMB84.8 million during the Reporting Period (2020: approximately RMB47.5 million). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

CAPITAL COMMITMENT

As at 31 December 2021, the Group's capital commitment amounted to approximately RMB340.7 million (2020: RMB44.6 million). The capital commitment was mainly related to i) the acquisitions of machinery and equipment and construction of Huizhou factory to expand the production capacity and enhance the production efficiency; ii) the acquisitions of satellites for future development of aerospace business; and iii) the establishment of the Group's Hong Kong satellite manufacturing centre and testing centre at Tseung Kwan O Industrial Estate, Hong Kong.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2021 (2020: Nil).

CHANGE IN CONTROLLING SHAREHOLDER OF THE COMPANY AND MANDATORY UNCONDITIONAL CASH OFFER

On 15 April 2021, Rich Blessing Group Limited ("**Rich Blessing**") and Hong Kong Aerospace Technology Holdings Limited (formerly known as Hong Kong Aerospace Technology Group Limited) ("**HKATH**") entered into the sale and purchase agreement (the "**SPA**"), pursuant to which Rich Blessing agreed to sell and HKATH agreed to purchase 191,250,000 Shares, representing 63.75% of the then issued share capital of the Company.

Immediately before the completion of the SPA, HKATH was interested in 21,600,000 Shares, representing 7.20% of the then issued share capital of the Company. Immediately following completion of the SPA which took place on 21 April 2021, HKATH is interested in an aggregate of 212,850,000 Shares, representing 70.95% of the then issued share capital of the Company. As a result, HKATH became the controlling shareholder of the Company.

On 22 April 2021, the Company and HKATH jointly announced that Kingston Securities Limited, for and on behalf of HKATH, made a mandatory unconditional cash offer (the "**Offer**") to acquire all the issued Shares (other than those already owned and/or agreed to be acquired by HKATH and/or parties acting in concert with it) in accordance with the Hong Kong Code on Takeovers and Mergers.

Taking into account the valid acceptances in respect of 100 Shares under the Offer, immediately upon the close of the Offer on 3 June 2021, HKATH is interested in an aggregate of 212,850,100 Shares, representing approximately 70.95% of the then issued share capital of the Company.

FULLY EXEMPT CONNECTED TRANSACTIONS IN RELATION TO ACQUISITIONS OF THE ENTIRE EQUITY INTEREST IN (1) GANG HANG KE (SHENZHEN) SPACE TECHNOLOGY CO. LTD.*; AND (2) HONG KONG AEROSPACE SATELLITE TRACKING AND CONTROL LIMITED (FORMERLY KNOWN AS HONG KONG SATELLITE LIMITED)

On 16 June 2021, Hong Kong Aerospace Development Limited ("**HKADL**") and HKATH entered into the equity transfer agreement dated 16 June 2021 (the "**First Acquisition Agreement**"), pursuant to which HKADL has agreed to acquire, and HKATH has agreed to sell, the entire equity interest of Gang Hang Ke (Shenzhen) Space Technology Co., Ltd.* (港航科(深圳)空間技術有限公司) ("**SZ Gang Hang Ke**") at a consideration of RMB1,000,000.

On 16 June 2021, Supreme Class International Limited ("**SCIL**") and HKATH entered into the sale and purchase agreement dated 16 June 2021 (the "**Second Acquisition Agreement**"), pursuant to which SCIL has agreed to acquire, and HKATH has agreed to sell, the entire issued shares of Hong Kong Aerospace Satellite Tracking and Control Limited (formerly known as Hong Kong Satellite Limited) ("**HKASTC**") at the consideration of HK$20,000.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Details of the First Acquisition Agreement and the Second Acquisition Agreement are set out in the announcement published by the Company on 16 June 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments or capital assets as at 31 December 2021.

MATERIAL ACQUISITIONS, DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND SIGNIFICANT INVESTMENTS

Saved as disclosed in this report, there were no material acquisitions, disposals of subsidiaries, associates and joint ventures and significant investments during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

On 24 January 2022, SZ Gang Hang Ke and China Great Wall Industry Corporation ("**CGWIC**") entered into the second satellite launching service confirmation agreement (the "**Confirmation**"), setting out the terms of the proposed satellite launch and the target launch period which shall fall within the third quarter of 2022. Details of the Confirmation are set out in the announcement published by the Company on 24 January 2022.

On 14 March 2022, the Company and College of Engineering of City University of Hong Kong entered into the letter of intent (the "**LOI**") in relation to the strategic cooperation in the research and development of advanced satellite technology and related applications in Hong Kong, covering communication systems, antenna technology, advanced materials, data processing and energy management. Details of the LOI are set out in the announcement published by the Company on 14 March 2022.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company as at the date of this annual report are set out as follows:

EXECUTIVE DIRECTORS

Mr. Sun Fengquan ("Mr. Sun")

Mr. Sun, aged 57, was appointed as an executive director, the Co-Chairman of the Board and the chief executive officer of the Company on 4 June 2021.

Mr. Sun has over 30 years of experience in business management. From 2015 to 2019, he was the chairman of Hong Kong Financial Assets Management Limited. From 1993 to 2013, he was the chairman of Far East International Capital Management Limited. From 1990 to 1993, he was the deputy manager of Jincheng Asset Management Limited.

Dr. Lam Lee G. *BBS* ("Dr. Lam")

Dr. Lam, aged 62, was appointed as a non-executive director of the Company and Co-Chairman of the Board respectively on 13 May 2021 and 4 June 2021, and re-designated as an executive director of the Company on 3 January 2022.

Dr. Lam has extensive international experience in corporate management, strategy consulting, corporate governance, direct investment, investment banking and asset management. He is Senior Advisor, Macquarie Group Asia, and a member of the Governance Committee of the Hong Kong Growth Portfolio and the Development Bureau Common Spatial Data Advisory Committee of the Hong Kong Special Administrative Region ("**HKSAR**") Government, Convenor of the Panel of Advisors on Building Management Disputes of the HKSAR Government Home Affairs Department, a member of the Court of the City University of Hong Kong, the Metropolitan University of Hong Kong Lee Shau-Kee School of Business and Administration International Advisory Board and the Tencent Finance Academy (Hong Kong) Advisory Board, Chairman of the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) Sustainable Business Network (ESBN), Vice Chairman of Pacific Basin Economic Council (PBEC), and a member of the Hong Kong Trade Development Council Belt and Road and Greater Bay Area Committee.

Dr. Lam holds a BSc in sciences and mathematics, an MSc in systems science and an MBA from the University of Ottawa in Canada, a post-graduate diploma in public administration from Carleton University in Canada, a post-graduate diploma in English and Hong Kong Law and an LLB (Hons) in law from Manchester Metropolitan University in the UK, a LLM in law from the University of Wolverhampton in the UK, a PCLL in law from the City University of Hong Kong, a Certificate in Professional Accountancy from the Chinese University of Hong Kong SCS, an MPA and a PhD from the University of Hong Kong. A former member of the Hong Kong Bar, Dr. Lam is a Solicitor of the High Court of Hong Kong, an Accredited Mediator of the Centre for Effective Dispute Resolution (CEDR), a Fellow of Certified Management Accountants (CMA) Australia, the Hong Kong Institute of Arbitrators, the Hong Kong Institute of Directors and the Institute of Corporate Directors Malaysia (ICDM) and an Honorary Fellow of Certified Public Accountants (CPA) Australia, the Hong Kong Institute of Facility Management and the University of Hong Kong School of Professional and Continuing Education. In 2019, Dr. Lam was awarded by the Hong Kong Government a Bronze Bauhinia Star for serving the public.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Lam is currently an independent non-executive director of each of CSI Properties Limited (Stock Code: 497), Vongroup Limited (Stock Code: 318), Mei Ah Entertainment Group Limited (Stock Code: 391), Elife Holdings Limited (Stock Code: 223), Haitong Securities Company Limited (Stock Code: 6837, 600837 on the Shanghai Stock Exchange), Hang Pin Living Technology Company Limited (Stock Code:1682), Kidsland International Holdings Limited (Stock Code: 2122), Greenland Hong Kong Holdings Limited (Stock Code: 337), and Huarong International Financial Holdings Limited (Stock Code: 993) and a non-executive director of each of Sunwah Kingsway Capital Holdings Limited (Stock Code: 188), China LNG Group Limited (Stock Code: 931), National Arts Entertainment and Culture Group Limited (Stock Code: 8228) and Mingfa Group (International) Company Limited (Stock Code: 846) (re-designated from independent non-executive director on 23 April 2020), the shares of all of which are listed on the Stock Exchange. Dr. Lam is also an independent non-executive director of Asia-Pacific Strategic Investments Limited (Stock Code: 5RA), Alset International Limited (Stock Code: 40V), Beverly JCG Limited (Stock Code: VFP), and Thomson Medical Group Limited (Stock Code: A50), the shares of all of which are listed on the Singapore Exchange. Dr. Lam is an independent non-executive director of AustChina Holdings Limited (Stock Code: AUH), whose shares are listed on the Australian Securities Exchange and TMC Life Sciences Berhad (Stock Code: 0101), whose shares are listed on the Bursa Malaysia, and a non-executive director of Jade Road Investments Limited (Stock Code: JADE), whose shares are listed on the London Securities Exchange.

In the past three years, Dr. Lam was an independent non-executive director of Aurum Pacific (China) Group Limited (Stock Code: 8148) up to 1 March 2021, Huarong Investment Stock Corporation Limited (Stock Code: 2277, privatized on 12 November 2020) up to 31 December 2020, Hsin Chong Group Holdings Limited (Stock Code: 404) up to 27 September 2019 (the shares of which were delisted on the Stock Exchange in December 2019), and Glorious Sun Enterprises Limited (Stock Code: 393) up to 31 August 2019, and he was also a non-executive director of Tianda Pharmaceuticals Limited (Stock Code: 455) up to 26 August 2021, China Shandong Hi-Speed Financial Group Limited (Stock Code: 412) up to 14 May 2020 and Green Leader Holdings Group Limited (Stock Code: 0061) up to 22 July 2019 and the shares of all of which are listed on the Stock Exchange. He was an independent non-executive director of each of Sunwah International Limited (Stock Code: SWH, a company listed on the Toronto Stock Exchange) up to 30 June 2021, Top Global Limited (Stock Code: BHO, a company previously listed on Singapore Exchange and privatized on 17 August 2021) up to 31 August 2021.

Mr. Lam Kin Fung Jeffrey *GBS, JP* ("Mr. Lam")

Mr. Lam, aged 70, was appointed as an executive director of the Company on 16 July 2021. He is the managing director of Forward Winsome Industries Limited. Mr. Lam holds a bachelor's degree in mechanical engineering from Tufts University in the United States, was conferred university fellow of Tufts University in 1997 and The Hong Kong Polytechnic University in 2000.

Mr. Lam is a member of the National Committee of the Chinese People's Political Consultative Conference. He is also a member of the Legislative Council of the HKSAR, a non-official member of the Executive Council of the HKSAR, a general committee member of the Hong Kong General Chamber of Commerce and a honorary member of the Court of The Hong Kong Polytechnic University, a director on the board of Heifer International Hong Kong and a director of the Hong Kong Mortgage Corporation Limited. Until March 2022, he was the chairman of the Independent Commission Against Corruption (ICAC) Complaints Committee. Mr. Lam also holds a number of other public and community service positions.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam was awarded the Young Industrialist Award of Hong Kong in 1989 and the Outstanding Achievement Award — Hong Kong Toy Industry in 1999. In 1996, he was appointed Justice of the Peace and became a member of the Most Excellent Order of the British Empire. Mr. Lam was awarded the Silver Bauhinia Star in 2004 and the Gold Bauhinia Star in 2011.

Mr. Lam has been appointed as an independent non-executive director of the following listed companies whose shares are listed on the Stock Exchange:

— C C Land Holdings Limited (stock code: 1224) since June 1988;
— Wynn Macau, Limited (stock code: 1128) since September 2009;
— China Overseas Grand Oceans Group Limited (stock code: 81) since May 2010;
— Chow Tai Fook Jewellery Group Limited (stock code: 1929) since November 2011;
— CWT International Limited (stock code: 521) since October 2013;
— i-CABLE Communications Limited (stock code: 1097) since September 2017;
— Analogue Holdings Limited (stock code: 1977) since May 2018;
— Wing Tai Properties Limited (stock code: 369) since June 2018; and
— China Strategic Holdings Limited (stock code: 235) since December 2020.

Ku Ka Lee Clarie ("Ms. Ku")

Ms. Ku, aged 65, was appointed as an executive director of the Company and the Vice Chairman of the Board respectively on 16 July 2021 and 23 July 2021. She was the former Deputy Secretary for Financial Services & the Treasury. During her public service tenure, she had taken up various senior positions dealing with issues on trade and industrial development, energy, housing, anti-drug abuse and district administration.

During 2001 and 2002, Ms. Ku was selected as the global President of the Financial Action Task Force (FATF) on Anti-money Laundering. After the September 11 attacks, she steered and led the FATF member jurisdictions, as well as other international organizations such as the IMF, World Bank and UN Security Council to formulate policies on counter terrorist financing. In 2007, Ms. Ku served as the Founding CEO of the China-United States Exchange Foundation and remains a Counsellor of the Foundation after completed the term of appointment. Ms. Ku has since taken up various leadership roles in the finance and business sectors.

The Chief Executive of HKSAR Hon C.H. Tung awarded Ms. Ku the Chief Executive's Commendation for Public Service. Ms. Ku was an official Justice of Peace. In 1998, She was appointed as a board member of the Singapore National Council Against Drug Abuse and received a special award from the Singapore Minister for Home Affairs in 2003.

Ms. Ku is active in community services, and sits on the Boards of private and public organizations both locally and internationally. From 2013 to 2019, she was appointed as a non-official member of the Basic Law Promotion Steering Committee and Convener of its Industrial, Commercial and Professional Committee.

Ms. Ku holds a Master of Laws from University of London; a Master of Science in Management from Stanford University and a Postgraduate Diploma in English and Hong Kong Law. She also completed graduate programs at Oxford University, Tsinghua University, China National School of Administration and Harvard Business School. Her written articles and speeches were published in international and local journals and magazines, including books.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma Fujun (馬富軍) ("Mr. Ma")

Mr. Ma, aged 48, was first appointed as a director of the Company on 15 March 2017, and was re-designated as executive director of the Company on 28 February 2018. He also held the positions as the chairman of the Board and chief executive officer of the Company until 4 June 2021.

Mr. Ma has over 18 years of experience in electronics engineering. He attended Xi'an University of Technology from September 1994 to July 1997 and obtained a Junior College Education Degree in Mechatronic Engineering in July 1997. From March 2001 to May 2011, Mr. Ma served as the general manager, legal representative and chairman of the board of directors of Shenzhen Active Tactics Electronics Company Limited.

NON-EXECUTIVE DIRECTORS

Dr. Yip Chung Yin *JP* ("Dr. Yip")

Dr. Yip, aged 59, was appointed as a non-executive director of the Company on 16 July 2021. He is the managing director of G.E.W. International Corporation Limited ("**GEW**"). GEW is an electrical appliances manufacturer with original equipment manufacturing (OEM), original design manufacturing (ODM) and original brand manufacturing (OBM) business. Dr. Yip has over 35 years' experience in the electrical appliances manufacturing industry, and holds a Bachelor Degree in Mechanical Engineering and a Master Degree in Business Administration, both from Rutgers University in the United States in 1987 and an Engineering Doctorate Degree from University of Warwick in the United Kingdom in 2008. Dr. Yip has been appointed as an industrial fellow from University of Warwick in 2013. In 1999, Dr. Yip received The Hong Kong Young Industrialists Award which shows the recognition of his personal achievements and commitment to the community. Currently, Dr. Yip is the Honorary President of the Federation of Hong Kong Industries after stepping down as Chairman of the Federation of Hong Kong Industries in July 2021 and Deputy Chairman of Vocational Training Council. Dr. Yip also holds a number of other public and community service positions.

Mr. Lam John Cheung-wah ("Mr. John Lam")

Mr. John Lam, aged 67, was appointed as a non-executive director of the Company on 1 October 2021. He has over 30 years of experience in banking, finance and investment. Mr. John Lam obtained a Bachelor Degree in Business Management from Ryerson Polytechnical Institute (currently known as Ryerson University) in Toronto, Canada.

Mr. John Lam was the vice chairman and an executive director of Nan Fung Property Holdings Limited from 2013 to 2021 and is currently an advisor to the company. He is also an independent non-executive Director of Wing Lee Property Investments Limited (stock code: 864), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), since February 2013.

Mr. John Lam is a Fellow of the Institute of Canadian Bankers and a Fellow of Royal Institution of Chartered Surveyors. He is the vice president of China Real Estate Chamber of Commerce Hong Kong and International Chapter Limited, vice president of Guangzhou Foreign Investment Enterprises Chamber of Commerce, director of the Hong Kong Federation of Guangzhou Associations, and a member of the 13th Guangzhou Committee of Chinese People's Political Consultative Conference.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Brooke Charles Nicholas *GBS, JP* ("Mr. Brooke")

Mr. Brooke, aged 80, was appointed as an independent non-executive director of the Company on 16 July 2021. He is currently the chairman of Professional Property Services Limited. Mr. Brooke holds a Bachelor of Science degree and a Diploma in Business Administration from University of London, United Kingdom. He is a Chartered Surveyor, a global past President of Royal Institution of Chartered Surveyors (RICS) and a fellow of The Hong Kong Institute of Surveyors (HKIS).

Mr. Brooke is a recognised authority on land administration and planning matters and
has over 40 years of experience within the property industry, both as a principal and an advisor. He has been involved in a large number of projects in various geographical locations, playing a major role in the development and funding of complex mixed-use projects and the identification of innovative solutions to public and private sector initiatives.

Mr. Brooke is also a keen advocate of the importance of innovation and technology in Hong Kong and was closely involved with the establishment of the Hong Kong Science and Technology Parks Corporation; joined their board in May 2001 and led the development of all three phases of Hong Kong Science Park until he stepped down as chairman in June 2014. He led the development of the Park as an exemplar of the benefits that can be derived from green and smart technologies.

Mr. Brooke recently stepped down as the Asia Pacific Chairman of the Urban Land Institute ("**ULI**"), of which he is also a lifetime trustee. ULI's mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

Mr. Brooke is the principal advisor to the APEC Policy Partnership on Science, Technology and Innovation (PPSTI) which provides guidance to APEC and its 21 member economies on the priorities and projects to be pursued in responding to the challenges faced in the current rapidly changing world.

Mr. Brooke is the immediate past chairman of the Hong Kong Harbourfront Commission and was the deputy Chairman of the Hong Kong Town Planning Board and a former member of the Hong Kong Housing Authority. He is also an honorary member of Hong Kong Institute of Architects and the American Institute of Architects (Hong Kong Chapter) and an honorary fellow of Hong Kong University of Science & Technology and the University College of Estate Management (UCEM), United Kingdom.

Mr. Brooke was awarded the Gold Bauhinia Star (GBS) on 1 July 2018 in recognition of his distinguished public and community service.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Professor Chan Ka Keung, Ceajer *GBS, JP* ("Prof. K.C. Chan")

Prof. K.C. Chan, aged 65, was appointed as an independent non-executive director of the Company on 3 January 2022. He is the chairman and a non-executive director of WeLab Bank Limited and Senior Advisor of WeLab Holdings Limited, a leading fintech company in Asia with one of the first virtual banks established in Hong Kong.

Prof. K.C. Chan was appointed as Secretary for Financial Services and the Treasury of the Government of the HKSAR from July 2007 to June 2017. Prior to that, he was Dean of Business and Management in the Hong Kong University of Science and Technology ("**HKUST**"). He is currently Adjunct Professor at HKUST Business School.

Prof. K.C. Chan received his bachelor's degree in economics from Wesleyan University and his M.B.A. and Ph.D. in finance from the University of Chicago. He specialized in assets pricing, evaluation of trading strategies and market efficiency and has published numerous articles on these topics.

Prof. K.C. Chan is a member of the Competition Commission and a director of the One Country Two Systems Research Institute. In the past, he held a number of public service positions including Chairman of the Consumer Council, a director of the Hong Kong Futures Exchange, a non-executive director of The Hong Kong Mortgage Corporation Limited, and a member of the Commission on Strategic Development. Commission on Poverty, the Exchange Fund Advisory Committee, the Hang Seng Index Advisory Committee, and the Hong Kong Council for Academic Accreditation.

Prof. K.C. Chan is currently an independent non-executive director of NWS Holdings Limited (stock code: 659), Langham Hospitality Investments and Langham Hospitality Investments Limited (stock code: 1270), Guotai Junan International Holdings Limited (stock code: 1788) and China Overseas Land & Investment Limited (stock code: 688), all of which are Hong Kong listed public companies. He is also an independent non-executive director of CMB International Capital Corporation Limited and Greater Bay Area Homeland Investments Limited as well as a non-executive director of Trivium Holdings Limited.

Mr. Hung Ka Hai Clement ("Mr. Hung")

Mr. Hung, aged 66, was appointed as an independent non-executive director of the Company on 16 July 2021. He obtained a bachelor of arts degree from the University of Huddersfield (now known as University of Lincoln), United Kingdom in 1980. Mr. Hung had served Deloitte China for 31 years where he had assumed various leadership roles before serving as chairman of Deloitte China from 2014 to 2016. He retired from Deloitte China with effect from June 2016. While working with Deloitte China, Mr. Hung assumed various leadership roles, including the managing partner of Deloitte Shenzhen office and Guangzhou office. He was also a member of the China management team of Deloitte China. Mr. Hung was head of audit of South China and deputy managing partner of South China (including Hong Kong, Macau, Shenzhen, Guangzhou, Xiamen and Changsha). He was also a board member of Deloitte Global.

Mr. Hung served as the Guangzhou Institute of Certified Public Accountants consultant from 2004 to 2014 and is a life member of The Institute of Chartered Accountants in England and Wales. He also served as a member of the Political Consultative Committee of Luohu District, Shenzhen, China from 2006 to 2011. After his retirement as the chairman of Deloitte China, he was appointed as an expert consultant of The Ministry of Finance in the People's Republic of China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Hung is serving or has, in the past three years, served as a director of each of the following listed companies whose shares are listed on the Stock Exchange:

— an independent non-executive director of Gome Finance Technology Co., Ltd. (formerly known as Sino Credit Holdings Limited) (stock code: 628) since 31 October 2016;

— an independent non-executive director of Sheng Ye Capital Limited (stock code: 6069, the listing of the shares of which has been transferred to the Main Board from GEM of the Stock Exchange (stock code: 8469) with effect from 24 October 2019) since 19 June 2017;

— a non-executive director of High Fashion International Limited (stock code: 608) since 1 December 2017;

— an independent non-executive director of Aoyuan Healthy Life Group Company Limited (stock code: 3662) since 22 February 2019;

— an independent non-executive director of China East Education Holdings Limited (stock code: 667) since 25 November 2018;

— an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 993) on 13 December 2019;

— an independent non-executive director of Skyworth Group Limited (stock code: 751) since 18 March 2020;

— an independent non-executive director of Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (stock code: 112) from 24 February 2017 to 3 March 2017 and a non-executive director of the company from 3 March 2017to 30 June 2017. He was re-designated as an independent non-executive director of the company on 30 June 2017 and subsequently resigned with effect from 30 September 2018;

— an independent non-executive director of SMI Holdings Group Limited (stock code: 198) from 16 January 2017 to 15 March 2017 and re-designated as a non-executive director of the company on 15 March 2017. He subsequently resigned with effect from 28 February 2019;

— an independent non-executive director of Zhongchang International Holdings Group Limited (formerly known as Henry Group Holdings Limited) (stock code: 859) from 12 January 2018 to 15 June 2020; and

— an independent non-executive director of Tibet Water Resources Ltd. (stock code: 1115) from 31 December 2019 to 30 June 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung Kwong Ho *SBS, JP* ("Mr. Leung")

Mr. Leung, aged 75, was appointed as an independent non-executive director of the Company on 4 June 2021. He has served Hong Kong and international organisations for over 50 years, with experience in energy, transport infrastructure, building; and management experience in design, construction, asset management and etc. He graduated from The University of Hong Kong in 1967 in mechanical engineering.

Mr. Leung has also served various organisations, including China Light & Power Co., Ltd, GEC (Hong Kong) Ltd., HUD Engineering Ltd., Parsons Brinckerhoff (Asia) Ltd., Acer Consulting Ltd (later became Hyder Consulting Ltd), and Hsin Chong Construction Group Ltd. His roles were mainly management and had taken the positions of manager, director, and managing director, etc. Subsequently, he was the chief executive officer of Kowloon-Canton Railways for almost seven years.

Mr. Leung has previously served as President of The Hong Kong Institution of Engineers, Hon Secretary of The Hong Kong Academy of Engineering Sciences, Member of Town Planning Board, Chairman of the Energy Advisory Committee, Member of the Airport Authority Hong Kong, and member of the board of Lingnan University of Hong Kong.

Currently, he serves as Deputy Chairman of The Hong Kong Institute of Directors, member of the Audit Committee of The University of Hong Kong, Chairman of Drinking Water Safety Committee, board member of The Hong Kong Quality Assurance Agency, and member of the Election Committee for the HKSAR (from 1997 to present).

Mr. Leung was also presented with the following Honours and Declarations: Silver Bauhinia Star, Justice of Peace, Hon University Fellow of The University of Hong Kong, and Hon Fellow of Lingnan University Hong Kong.

Dr. Yuen Kwok Keung *GBM, JP* ("Dr. Yuen")

Dr. Yuen, aged 57, was appointed as an independent non-executive director of the Company on 3 January 2022.

Dr. Yuen is a Senior Counsel. Dr. Yuen received a Bachelor of Laws degree from University of Hong Kong in 1985, a Master of Law degree from City University of Hong Kong in 1997 as well as an Honorary Doctor of Laws degree from Hong Kong Shue Yan University in 2018 and City University of Hong Kong in 2021 respectively. Dr. Yuen has extensive legal experience.

Dr. Yuen is an independent non-executive director of China Shenhua Energy Company Limited (stock code: 1088), a senior barrister with Temple Chambers and he is also committee member of the International Commercial Expert Committee of the International Commercial Court of the Supreme People's Court of the People's Republic of China, the co-chair of the Hong Kong International Arbitration Centre, chairman of the Hong Kong Mediation Accreditation Limited and a member of the Exchange Fund Advisory Committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Yuen served as Secretary for Justice of the HKSAR (2012-2018), Recorder of the High Court (2006-2012), a member of the Judicial Officers Recommendation Commission (2009-2018), chairman of the Hong Kong Bar Association (2007-2009), a non-official member of the Advisory Committee on Corruption of the Independent Commission Against Corruption (2009-2012), and a non-executive director of Mandatory Provident Fund Schemes Authority (2010-2012).

COMPANY SECRETARY

Ms. Cheng Ka Yan ("Ms. Cheng"), aged 37, has over 11 years of accumulated working experience in accounting, audit, company secretaryship, corporate finance management and financial reporting. Ms. Cheng is an independent non-executive director and audit committee member of Bortex Global Limited (stock code: 8118.HK), the shares of which are listed on GEM of the Stock Exchange since 30 December 2020, and she has been re-designated as audit committee chairman since 10 March 2022.

Ms. Cheng had also worked for various listed companies, she was a company secretary and financial controller for Hong Kong Casin Holdings Limited from March 2017 to May 2018, which is a fellow subsidiary of Casin Real Estate Development Group Co Ltd (財信地產發展集團股份有限公司) (stock code: 838.SZ), the securities of which are listed on The Shenzhen Stock Exchange. Ms. Cheng was the company secretary and financial controller of DIT Group Limited (formerly known as China Minsheng Drawin Technology Group Limited, stock code: 726.HK) from May 2016 to April 2017 and the company secretary and accounting manager of Imagi International Holdings Limited (stock code: 585.HK) from April 2014 to April 2016, the share of both of which are listed on the Main Board of the Stock Exchange. Before that, Ms. Cheng worked for Deloitte Touche Tohmatsu from July 2010 to January 2014.

Ms. Cheng graduated from The Hong Kong Polytechnic University and obtained a Master's degree in Corporate Governance in September 2017 and a Bachelor of Business Administration degree in Accountancy in June 2007. She is also a member of The Hong Kong Chartered Governance Institute and The Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the trust of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance codes to meet the legal and commercial standards by focusing on areas such as internal control, adequate disclosure and accountability to all shareholders.

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") in force during the Reporting Period as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the Reporting Period except the following deviation:

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separated and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Sun, the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Sun' s experience and expertise in the aerospace industry, and the importance of Mr. Sun in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are five Independent Non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the Reporting Period.

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1 of the CG Code. During the Reporting Period, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provisions A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive officer and Mr. Sun currently holds both of the chairman and chief executive officer positions, as explained in the paragraph headed "Corporate Governance Practices" above in the Corporate Governance Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, law, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

The Company annually assesses the independence of each independent non-executive Director during their terms of appointment. The Company has received from each of the independent non-executive Directors a written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent during the year.

THE BOARD

The Board currently comprises five executive Directors, namely Mr. Sun Fengquan (Co-Chairman and Chief Executive Officer), Dr. Lam Lee G. (Co-Chairman), Mr. Lam Kin Fung Jeffrey, Ms. Ku Ka Lee Clarie (Vice Chairman) and Mr. Ma Fujun; two non-executive Directors, namely Dr. Yip Chung Yin and Mr. Lam John Cheung-wah; and five independent non-executive Directors, namely Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer, Mr. Hung Ka Hai Clement, Mr. Leung Kwong Ho and Dr. Yuen Kwok Keung. The number of independent non-executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 15 to 23 of this annual report.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the executive Directors possess extensive experience in corporate management and professional knowledge, while the five independent non-executive Directors possess professional knowledge and broad experience in accounting, law, finance and business. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders of the Company and the Company.

CORPORATE GOVERNANCE REPORT

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2021. Save as disclosed in Note 2.1(a) to the consolidated financial statements, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 99 to 105. The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company. In addition, the Board has also delegated various responsibilities to the Board committees and directed and monitored senior management of the Group in pursuit of the Group's strategic decision. Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings. The Company provides the Board with information and explanations that are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

With effect from 13 May 2021, (i) Dr. Lam has been appointed as a non-executive Director; and (ii) Mr. Liao Pin-tsung has been appointed as an executive Director.

With effect from 4 June 2021, (i) Mr. Sun has been appointed as an executive Director, the co-chairman of the Board and the chief executive officer of the Company; (ii) Dr. Lam has been appointed as the co-chairman of the Board; (iii) Mr. Leung has been appointed as an independent non-executive Director and (iv) Mr. Ma has resigned as the chairman of the Board and the chief executive officer of the Company.

With effect from 16 July 2021, (i) each of Mr. Lam and Ms. Ku has been appointed as an executive Director; (ii) Dr. Yip has been appointed as a non-executive Director; (iii) each of Mr. Brooke, Mr. Hung and Mr. Lo Chi Chung William has been appointed as an independent non-executive Director; (iv) each of Mr. Liao Pin-tsung, Ms. Chen Xiaoyuan and Mr. Cheng Bin has resigned as an executive Director; and (v) each of Mr. Wu Chi-luen, Mr. Chan Chung Kik, Lewis and Mr. Chow Kit Ting has resigned as an independent non-executive Director.

With effect from 23 July 2021, Ms. Ku has been appointed as the vice chairman of the Board.

With effect from 1 October 2021, Mr. John Lam has been appointed as a non-executive Director.

With effect from 3 January 2022, (i) each of Professor K.C Chan and Dr. Yuen has been appointed as an independent non-executive Director; (ii) Mr. Lo Chi Chung William has resigned as an independent non-executive Director; and (iii) Dr. Lam has been re-designated as an executive Director.

All Directors are appointed for a specific term. Each of the Directors has entered into a letter of appointment with the Company for a period of three years commencing from the above respective date of appointment.

According to Article 84(1) of the Articles of Association of the Company (the "**Articles**"), at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Article 84(2) of the Articles further provides that Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Article 83(3) of the Articles provides that the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to the above provisions of the Articles, all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("**AGM**").

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of a diverse Board with a balance of skills, experience and diversity of perspectives to enhance the quality of its performance. All Board appointments will be considered against selection criteria.

The Company seeks to achieve board diversity through the consideration of a range of diversity perspectives in the Board members' selection process, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board currently consists of one female Director. It will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

The nomination committee will review and monitor the implementation of the Board Diversity Policy, to ensure the effectiveness of the Board Diversity Policy and discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

PROCEEDINGS OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board may meet for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business and, unless so fixed at any other number, shall be two. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal.

CORPORATE GOVERNANCE REPORT

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company during the Reporting Period:

	Attendance/Number of Meetings Held				
Name of Directors	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	General Meeting
Executive Directors					
Mr. Sun Fengquan	3/3*	–	–	–	–
Dr. Lam Lee G.	3/3	–	–	–	2/2
Mr. Lam Kin Fung Jeffrey	2/2	–	–	–	–
Ms. Ku Ka Lee Clarie	2/2	–	–	–	–
Mr. Ma Fujun	5/5*	–	1/1*	–	2/2*
Ms. Chen Xiaoyuan	3/3	–	–	–	2/2
Mr. Cheng Bin	3/3	–	–	–	2/2
Mr. Liao Pin-tsung	1/1	–	–	–	2/2
Non-executive Directors					
Dr. Yip Chung Yin	2/2	–	–	–	–
Mr. Lam John Cheung-wah	–	–	–	–	–
Independent non-executive Directors					
Mr. Leung Kwong Ho	2/2	1/1	–	–	–
Mr. Brooke Charles Nicholas	2/2	1/1	–	–	–
Mr. Hung Ka Hai Clement	3/3	–	–	–	–
Mr. Lo Chi Chung William	2/2	1/1*	–	–	–
Mr. Chan Chung Kik Lewis	3/3	1/1	1/1	1/1	2/2
Mr. Chow Kit Ting	3/3	1/1	–	1/1	2/2
Mr. Wu Chi-luen	3/3	1/1*	1/1	0/1*	2/2

* representing chairman of the board, the committees and general meeting

Pursuant to code provision A.2.7 of the CG Code, the Chairman should hold meetings with independent non-executive Directors without the presence of other Directors at least annually. The Company held one meeting on 19 March 2021 in accordance with the CG Code.

The Board has established three committees, namely, the audit committee ("**Audit Committee**"), the remuneration committee ("**Remuneration Committee**") and the nomination committee ("**Nomination Committee**"), for overseeing aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which were posted on the Stock Exchange (www.hkex.com.hk) and the Company website (www.hkatg.com). All committees should report to the Board on their decisions or recommendations made.

All Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

AUDIT COMMITTEE

The Audit Committee was established on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. During the Reporting Period, the Audit Committee comprises three members, being independent non-executive Directors, namely, Mr. Lo Chi Chung William (Chairman), Mr. Brooke Charles Nicholas, and Mr. Hung Ka Hai Clement. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

During the year ended 31 December 2021, the Audit Committee has held two meetings for discussion on the audit and financial reporting related matters. At the meetings, the Audit Committee had reviewed the final results for the year ended 31 December 2020, the interim results for the six months ended 30 June 2021 and the Group's internal controls for the year ended 31 December 2020. Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are circulated to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Audit Committee are available on the websites of the Company and of the Stock Exchange.

The external auditor was invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting.

The Group's final results for the Reporting Period had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is completed and accurate, and has complied with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management as well as other employee benefit arrangements based on their experience, level of responsibility and general market conditions. During the Reporting Period, the Remuneration Committee comprises one non-executive Director, namely Dr. Lam Lee G. and two independent non-executive Directors, namely Mr. Hung Ka Hai Clement (Chairman) and Mr. Brooke Charles Nicholas.

During the year ended 31 December 2021, the Remuneration Committee has held one meeting. Full minutes of the Remuneration Committee meetings are kept by the company secretary. At the meeting, the Remuneration Committee had reviewed and made recommendation to the Board on the remuneration policies of the Directors and the senior management as well as the remuneration packages for the year ended 31 December 2021 and the performance of the Directors. Draft and final versions of the minutes of the Remuneration Committee meetings are circulated to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction. The terms of reference of the Remuneration Committee are available on the website of the Company and of the Stock Exchange.

NOMINATION COMMITTEE

The Nomination Committee was established on 25 July 2018 with Terms of Reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. During the Reporting Period, the Nomination Committee consists of one executive Director, namely Mr. Sun Fengquan (Chairman) and two Independent non-executive Directors, namely Mr. Hung Ka Hai Clement and Mr. Lo Chi Chung William.

During the year ended 31 December 2021, the Nomination Committee has held one meeting. At the meeting, the Nomination Committee had reviewed the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, reviewed the Board Diversity Policy, made recommendation to the Board on retirement and re-election of directors and other matters of the Company. Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings are circulated to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction. The terms of reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

Nomination Policy

The Company has adopted a Nomination Policy for the Nomination Committee to consider and make recommendations to Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

Selection Criteria

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

(1) reputation for integrity;

(2) accomplishment and experience in the business in which the Group is engaged in;

(3) commitment in respect of available time and relevant interest;

(4) diversity in all its aspects, including but not limited to race, gender, age (18 years or above), educational background, professional experience, skills and length of service;

(5) qualifications which include professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(6) the number of existing directorships and other commitments that may demand the attention of the candidate;

(7) requirement for the Board to have independent non-executive Directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in Rules 3.08, 3.09 and 3.13 of the Listing Rules;

(8) Board Diversity Policy of the Company and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

(9) such other perspectives appropriate to the Company's business.

Director Nomination Procedure

Subject to the provisions in the Articles and the Listing Rules, if the Board recognises the need for an additional Director or a member of senior management, the following procedure will be followed:

(1) The Nomination Committee and/or Board will identify potential candidates based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors;

(2) The Nomination Committee and/or the company secretary of the Company will then provide the Board with the biographical details and details of the relationship between the candidate and the Company and/or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Act of the Cayman Islands and other regulatory requirements for any candidate for appointment to the Board;

(3) The Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointment;

(4) The Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(5) In the case of the appointment of an independent non-executive Director, the Nomination Committee and/or the Board should obtain all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rules 3.08, 3.09 and 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and

(6) The Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of Directors' remunerations during the Reporting Period are set out in Notes 9 and 35 to the consolidated financial statements.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

5. to review the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

The Corporate Governance Policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its Corporate Governance Policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of the Group's operations with applicable laws and regulations.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code provision A.6.5, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2021, the Company had arranged to provide trainings to all the Directors.

For the Reporting Period, all of the Directors, being Mr. Sun Fengquan, Dr. Lam Lee G., Mr. Lam Kin Fung Jeffrey, Ms. Ku Ka Lee Clarie, Mr. Ma Fujun, Dr. Yip Chung Yin, Mr. Lam John Cheung-wah, Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer, Mr. Hung Ka Hai Clement, Mr. Leung Kwong Ho, Dr. Yuen Kwok Keung, Ms. Chen Xiaoyuan, Mr. Cheng Bin, Mr. Liao Pin-tsung, Mr. Chan Chung Kik Lewis, Mr. Chow Kit Ting, Mr. Wu Chi-luen and Mr. Lo Chi Chung William, participated in training on corporate governance, director's duties, environment, social and governance, and/or kept up with relevant regulatory update.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged PricewaterhouseCoopers, as the external auditor for the year ended 31 December 2021. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the year ended 31 December 2021, auditor's remuneration related to audit services amounted to approximately RMB3.4 million and those for non-audit services, which includes internal control review and environmental, social & governance assessment, amounted to approximately RMB0.38 million.

INTERNAL CONTROL

The Company does not have an internal audit department and is currently of the view that there is no immediate need to set up an internal audit department within the Group in light of the size, nature and complexity of the Group's business and structure. The Board is responsible for maintaining an adequate internal control system to safeguard the investments of the shareholders and Group's assets and reviewing the effectiveness of such through Audit Committee on an annual basis. The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues and makes recommendations. An annual review of the effectiveness of the system of internal controls of the Group will be conducted.

The Company has engaged Pricewaterhouse Coopers to carry out an annual review on the internal control system and risk management system of the Group for the year ended 31 December 2021. The review involves all material monitoring aspects, including but not limited to finance, operation, compliance and risk management. The adviser has conducted analysis and independent assessment on the adequacy and the effectiveness of the internal control system and risk management of the Group, and has submitted the findings and recommendations to the Audit Committee and the Board. The Board is of the view that the internal control measures in place are adequate and effective to safeguard the interest of shareholders and the Group's assets.

DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

Ms. Cheng has been appointed as the company secretary and financial controller of the Company since 4 June 2021. In the opinion of the Board, Ms. Cheng possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. During the year ended 31 December 2021, Ms. Cheng confirmed that she has participated in no less than 15 hours of relevant professional training. The Company will provide the funds for Ms. Cheng to participate in no less than 15 hours of appropriate professional training for each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 58 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 85 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by that person (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Hong Kong branch share registrar and transfer office of the Company provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if then notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgement of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

INVESTORS RELATIONS

The Company believes that effective communication with the investors is essential for enhancing investors' relations and understanding of the Group's business operations, performances and strategies. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the websites of the Company and Stock Exchange, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office. The Company also maintains a website at www.hkatg.com where up- to-date information and updates of the Company's operations, performances and strategies are available to public access. The Board reviewed the implementation and effectiveness of the abovementioned arrangements during the Reporting Period. The corporate website was updated on a regular basis and the Shareholders could access the latest information of the Company through the corporate website. Information released by the Company to the Stock Exchange was also posted on the corporate website as soon as reasonably practicable thereafter. The Shareholders were provided with the opportunities to communicate with the Directors directly at general meetings. Enquires from the Shareholder will be responded within a specific timeframe. Based on the above, the Board was of the view that the arrangements regarding shareholders' communication were effective.

Dividend Policy

The Company has adopted a Dividend Policy that aims to provide the guidelines for the Board to determine whether dividends are to be declared and paid to the Shareholders and the level of dividend to be paid. Under the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others,

(1) the Group's actual and expected financial performance;

(2) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(3) retained earnings and distributable reserves of the Company and each of the members of the Group;

(4) the Group's liquidity position;

(5) interest of shareholder;

(6) taxation consideration;

(7) potential effect on creditworthiness;

(8) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(9) any other factors that the Board deems appropriate.

The declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and is also subject to any restrictions under the Companies Act of the Cayman Islands, the Listing Rules, the laws of Hong Kong and the Company's memorandum and Articles and any other applicable laws and regulations. The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Company will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Constitutional Documents

On 25 July 2018, the Company has adopted an amended and restated memorandum and articles of association which had been uploaded to the websites of the Company and the Stock Exchange. Save as disclosed above, there had been no changes in the constitutional documents of the Company during the year ended 31 December 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE ESG REPORT

1.1 Introduction

This Environmental, Social and Governance Report (the "**Report**") is the fourth Environmental, Social and Governance Report of Hong Kong Aerospace Technology Group Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**" or "**we**"). The Report aims to highlight the environmental and social performance of the Group for the financial year from 1 January 2021 to 31 December 2021 (the "**year**") and its response to the concerns of key stakeholders. For details of the Group's corporate governance, please refer to the Corporate Governance Report contained in this annual report.

1.2 Basis of Preparation

The Report was prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide (the "**Guide**") set out in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and based on the actual situation of the Group. For the disclosure requirements and content of the Guide, please refer to Appendix II: Guide Content Index in the Report.

1.3 Scope of Report

The Report covers the environmental and social policies and performance in relation to the Group's electronics manufacturing services ("**EMS**") and aerospace business, of which (i) EMS business includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery, and after-sale services to the customers in respect of the assembling and production of printed circuit board assemblies (the "**PCBA**") and fully-assembled electronic products; and (ii) aerospace business (currently under the Golden Bauhinia Constellation project) includes (1) smart city with satellite big data applications and solutions; (2) satellite measurement and controlling; (3) satellite manufacturing; and (4) satellite launching. We regularly review the scope of the Report to ensure that significant impacts on the Group's overall business portfolio are covered.

The Report has been prepared through the identification of material issues with a comprehensive materiality analysis involving stakeholder engagement and based on their most significant impact on the Group's sustainability and the areas of greatest interest or concern to stakeholders. Details of the process are set out in the sections headed "Stakeholder Engagement" and "Materiality Analysis" in the Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.4 Principles of Preparation

The Report has been prepared in accordance with the following principles:

Materiality	Regular stakeholder engagement and materiality assessment process to identify material ESG matters and ensure that these matters are reflected in the Group's reports
Consistency	Unless otherwise stated, data collection and calculation methods disclosed in the Report are consistent throughout the year to allow for meaningful comparisons at any time
Quantification	The data presented in the Report has been checked and verified, and the relevant calculation methods and standards used have been disclosed

1.5 Feedback

We attach great importance to the views of stakeholders. If you have any comments or suggestions on the Report or the Group's overall sustainability, please contact us by email at ir@hkatg.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

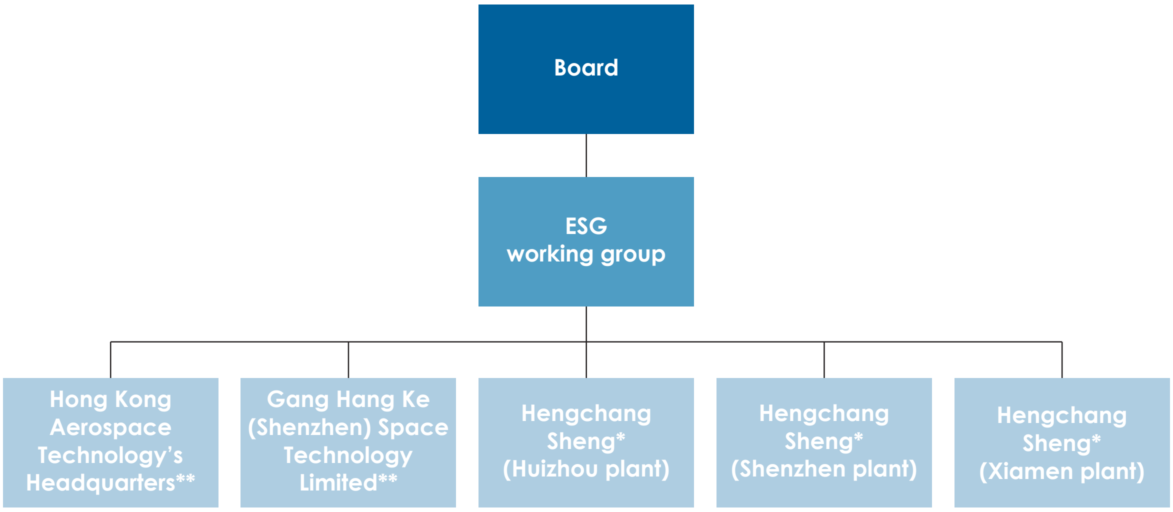
2. ESG RESPONSIBILITIES

Adhering to the concept of "people-oriented, science and technology innovation, aerospace exploration and contribution to society", the Group continued deepening the informatisation, refinement and intelligentisation of cities. Real-time dynamic monitoring through satellites enhances the effectiveness of urban management and improves the quality of life of citizens. We are committed to promoting Hong Kong's re-industrialisation, opening up new industrial paths for Hong Kong's social and economic development, and pushing the global aerospace industry onto the fast track.

2.1 ESG Framework

The Group is committed to improving its business practices in sustainability, establishing a sound ESG mechanism, striving to harmonise with the environment and society, and creating long-term stable environmental, social and corporate values.

The Board of Directors of the Group attaches great importance to sustainability performance. The Board is responsible for the Group's strategic direction and is ultimately responsible for ESG matters. The Group has established an ESG working group to carry out its work on sustainability, in order to ensure effective ESG management. The Group's ESG structure is as follows:



* Shenzhen Hengchang Sheng Technology Co., Ltd. ("**Hengchang Sheng**"), a subsidiary of the Group, is responsible for the EMS business, with electronics manufacturing plants in Shenzhen, Huizhou and Xiamen.

** Hong Kong Aerospace Technology's Headquarters and Gang Hang Ke (Shenzhen) Space Technology Limited are responsible for the aerospace business of the Group.

The terms of reference of the Board and ESG working group in ESG are as follows:

Board	• To oversee the Group's ESG performance; • To assess ESG-related risks and opportunities; • To review the Group's ESG management approach, strategy, priorities and objectives; and • To approve the content of the Group's ESG reports.
ESG working group	• To assist the Board in its work and report to the Board on ESG-related matters; • To formulate and oversee the Group's ESG strategy, approach, policies and objectives, etc.; • To assess and identify material ESG risks associated with the Group's businesses; • To review the Group's ESG disclosures; • To set annual sub-objectives based on the Group's ESG objectives; • To report to the Board on sustainability activities annually; • To research, discuss and make decisions on specific sustainability topics; • To formulate annual work schedule and action plan; and • To prepare ESG reports.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have identified the priorities for the UN Sustainable Development Goals (SDGs) related to the Group's operations and integrated them into ESG strategies to better guide ESG-related activities.

SDGs		The Group's actions that are aligned with SDGs
3 GOOD HEALTH AND WELL-BEING	Goal 3 — good health and well-being	We identified occupational safety and health risks in the workplace, striving to provide a hazard-free working environment to ensure that employees are aware of and effectively implement safe working procedures. Amid the novel coronavirus (COVID-19) pandemic, we implemented a series of guidelines and measures to ensure the safety of employees, and spared no effort to prevent and control the pandemic.
5 GENDER EQUALITY	Goal 5 — gender equality	Employee remuneration was determined based on the employee's educational background, professional knowledge and technical level, experience and personal performance, regardless of their gender.
8 DECENT WORK AND ECONOMIC GROWTH	Goal 8 — decent work and economic growth	A satellite manufacturing centre was set up in Hong Kong, creating more technology jobs and giving more young people the opportunity to stay and develop in Hong Kong.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Goal 9 — industry, innovation and infrastructure	Via the Golden Bauhinia Constellation project, we provided 11 city clusters in the Greater Bay Area with special applications and services for regional dynamic monitoring driven by communications and navigation needs, offering users with overall smart city solutions.
11 SUSTAINABLE CITIES AND COMMUNITIES	Goal 11 — sustainable cities and communities	Considering environmental and social interests at the level of products, services and corporate management models, we helped society address the challenges of sustainable development and climate change.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Goal 12 — responsible consumption and production	Efforts were made to strengthen customer relationship management and improve customer satisfaction. We improved the quality of electronic products and reduced the energy consumption during production through the research and development of advanced processes and the use of automation functions.

3. STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We fully integrate the Group's business activities with the creation of value for stakeholders. Stakeholder engagement is the process by which the Company keeps in touch with its customers, employees, shareholders, investors, suppliers and the wider community where it operates. We believe that stakeholder engagement is the basis for formulating sustainable development strategies and a prerequisite for the Company to achieve long-term sustainable growth.

The Group adopted an open policy and encouraged stakeholders to make suggestions or express opinions through various communication channels. We have established stakeholder engagement procedures, enabling us to identify which sustainability issues are most important to stakeholders, and report on our sustainability approach, performance and activities to address material concerns of the stakeholders and priority goals.

The following table sets out the stakeholder concerns and the way we engage with them, including but not limited to:

Stakeholders	Concerns	Communication channels	Responses
Shareholders and investors	• Corporate development plan • Legal and compliance operation • Return on investment	• General meetings • Annual reports and interim reports • Announcements, circulars and press releases • Periodic meetings • Reply to media enquiries • Press conferences	• Periodic disclosure of business information • Maintaining good profitability • Constantly improving corporate governance
Customers	• Product research & development and technological innovation • Product quality and reliability • Customer support • After-sales services • Legal and compliance operation	• Investigaions and visits • Customer meetings • Customer service hotline and email	• Strictly controlling research & development, procurement, production and other parts • Perfecting quality management system • Quick response to customer requests • Committed to providing high-quality customer service standards • Customer satisfaction poll

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Concerns	Communication channels	Responses
Employees	• Equal employment opportunities • Smooth career development path • Safe and healthy working environment • Perfect education and training system	• Performance appraisal • Occupational health and safety training • Business and product training • Regular meetings between the management and employees • Suggestion box, email and bulletin board • Newsletter	• Holding employee activities • Paying attention to employee health • Offering training opportunities • Ensuring a safe working environment
Suppliers	• Integrity and fairness • Stable supply demand • Fair pricing	• Annual business review meetings • Regular supplier review and performance review • Purchasing arrangements	• Open tender • Establishing supplier management system • Responsible procurement initiatives • Improving management efficiency • Building a culture of integrity
Governmental bodies	• Compliance with laws and regulations • Tax payment in accordance with laws • Environmental protection • Economic development	• Meetings and interviews • Participating in government projects	• Complying with laws and regulations • Expanding new markets, and increasing sales and tax revenue
Community	• Charity • Pandemic prevention and control in community	• Information reporting • Community notices	• Disaster relief • Cooperation on pandemic prevention and control in community

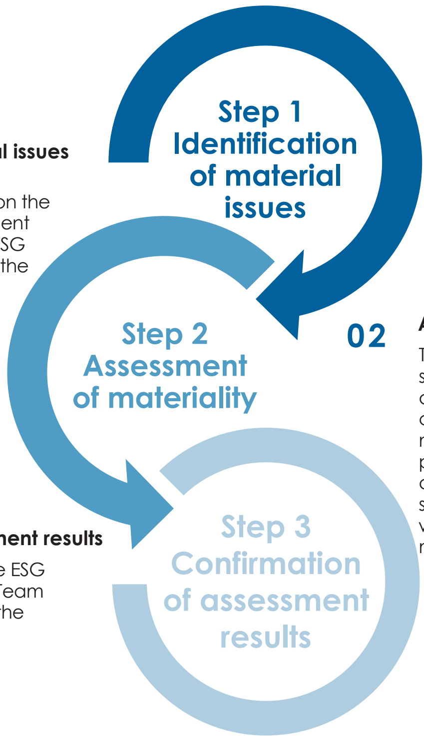
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.1 Materiality Assessment

During the year, the Group conducted a materiality assessment by interviewing both internal and external stakeholders and clarified the highlights of the ESG report. The specific assessment steps are as follows:

01 Identification of material issues

The Group identified 15 ESG-related issues based on the actual business development and in accordance with ESG management trends and the Guide.



02 Assessment of materiality

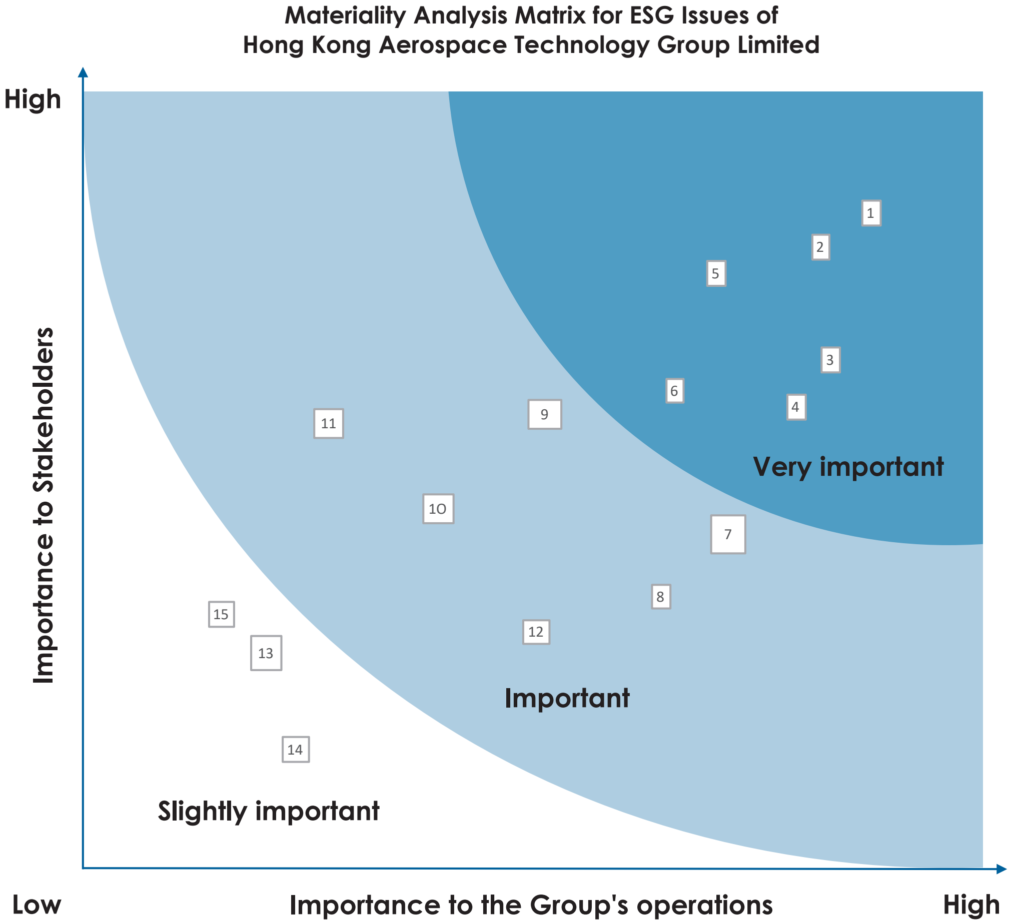
The Group invited internal and external stakeholders such as employees, customers and suppliers to participate in interviews and conference calls, and assessed the materiality of each issue from the two perspectives of "Importance to business development" and "Importance to stakeholders". The results of the interviews were analysed to generate the final materiality matrix (see figure below).

03 Confirmation of assessment results

The management and the ESG Management Promotion Team reviewed and confirmed the assessment results.

According to the matrix below, five issues were identified as the most important to stakeholders and the Group, including product quality, product innovation, occupational health and safety, greenhouse gas emissions and technology application. Materiality assessment procedures enable us to prioritise relevant sustainability issues and oversee the Group's sustainability progress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



No.	Material issues	No.	Material issues	No.	Material issues
1	Product quality	6	User privacy	11	Data security
2	Product innovation	7	Energy consumption	12	Customer satisfaction
3	Occupational health and safety	8	Employee benefits	13	Compliance with laws and regulations concerning environmental protection
4	Greenhouse gas emissions	9	Training and education	14	Energy conservation measures
5	Technology application	10	Supply chain management	15	Community investment

4. ADHERING TO THE MISSION OF INTEGRITY AND COMPLIANCE OPERATION

The Group firmly believes that integrity and compliance operation is an important basis to develop businesses. We strictly complied with laws and regulations, including the Criminal Law of the PRC and the Anti-unfair Competition Law of the PRC, to protect the economic interests of employees, customers and the Group, and promote the creation of an open, fair and just business environment.

The Group's annual anti-fraud and anti-corruption training has covered all employees (including executive Directors, full-time employees and contract workers), and its subsidiaries promoted integrity through channels such as bulletin board and employee manual, and standardised employee behaviour via speeches, commitments and so forth. During the year, the Group did not violate any laws and regulations on bribery, fraud, money laundering, etc., and there was no concluded lawsuits regarding corrupt practices brought against the Group or its employees.

Corruption and other violations of regulations and disciplines will cause huge negative impacts and economic losses to corporate brand and business development. In order to further enhance the anti-corruption awareness among all employees, the Group continuously perfected the internal anti-corruption system and strengthened the integrity education for employees, so as to build a strong defense against corruption.

Every employee must abide by the code of conduct and ethics established by the Group, and is strictly prohibited from receiving any form of gifts from suppliers or customers in any way in the name of the Group. In the meantime, anti-corruption training activities were organised from time to time, with self-learning package provided for the Group's management at all levels to enhance their understanding of anti-corruption laws and regulations and raise their awareness of corruption, conflicts of interest and other integrity challenges.

Due to the continuous changes in the business environment, the Group reviewed and updated its internal anti-corruption system, code of conduct and other compliance policies and operating procedures from time to time in accordance with relevant laws, regulations and policies, combined with its business characteristics and organisational structure, in order to ensure the sustainable development of the Group's businesses and the compliance of its internal management.

The Group has established a whistleblowing mechanism whereby employees can contact their superiors directly if they find any unethical or illegal behaviour. The Group required relevant departments and personnel to keep confidential the identity of the whistleblower and the reported matters, and to investigate, collect evidence and follow up the reported matters. The Group imposed administrative or economic penalties on relevant personnel for cases of integrity and disciplinary violations that have been verified. If it is a major incident or a violation of the law, it will be transferred to the judicial organ for filing and handling, so as to create a sound and fair business environment.

5. RESILIENT DEVELOPMENT WITH GREENNESS AND LOW CARBON

With the adoption of the Paris Climate Agreement by the United Nations, climate change has become an issue that governments and businesses around the world must pay attention to. The Chinese government is also accelerating the implementation of measures for nationally determined contributions, aiming to peak carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060. The Group, which values the importance of environmental protection and low carbon to its sustainable development, strives to be green and low-carbon in all aspects of business development, expecting to contribute to China's carbon neutrality goal.

In order to ensure effective management and actively practice the business philosophy of greenness and low carbon, the Group put forward the internal environmental management policy — "Total employee involvement for creating green production, legal pollution prevention and control for protecting environment", which aims to guide and promote the optimisation in environmental protection and energy conservation, resource efficiency and environmental management.

As far as the Group's electronics manufacturing business is concerned, the main electronics manufacturing plants passed the relevant ISO management system certification, and the PCBA processing process and the production of wireless data terminal products got certified by the ISO14001 environmental management system. We hope that through the above measures, we will ensure optimal control over water and energy conservation and emission reduction during the entire process of production.

The Group strictly complied with certain environmental protection provisions of the Chinese laws, including the Environmental Protection Law of the PRC, the Environmental Impact Assessment Law of the PRC, the Law on the Prevention and Control of Water Pollution of the PRC, the Law on the Prevention and Control of Atmospheric Pollution of the PRC, the Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the PRC and the Law on the Prevention and Control of Noise Pollution of the PRC. During the year, the Group did not violate any relevant environmental laws and regulations.

5.1 Response to Climate Change

Great importance has been attached to the impact of climate change on the Group's business operations. To this end, we gradually identified climate change risks and opportunities that are closely related to the Group's business development by referring to the list of risks recommended by the Task Force on Climate-related Financial Disclosures (TCFD). At the same time, we have developed and implemented a series of management measures to address these potential climate risks, so as to maintain sufficient development resilience in the face of climate risks.

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5.1.1 Identification and Management of Climate Change Risks

The Group compared the risk list of TCFD with the climate risks related to the Group, and sorted out four climate risk issues according to the types of physical risks and transition risks. By analysing the impact of various risk issues, we formulated corresponding management measures for effective management and control. An overview is shown below:

Types of risks	Sources of risks	Impact	Management measures
Physical risks	Extreme weather (extreme high temperature, extreme precipitation, typhoons, etc.)	Frequent extreme weather may lead to plant equipment abnormalities, casualties, supply chain disruptions and so on, resulting in production suspension or reduction and asset loss.	• Regular emergency rehearsals • Protection and maintenance of machinery and equipment • Continuous optimisation of response procedures to improve the resilience of plant operations
Transition risks	Climate-related policies/ regulations	Uncertainties over new regulations (greenhouse gas emissions reductions, carbon taxes, etc.) will increase operating expenses.	• Annual self-inspection on greenhouse gas emissions in plants • Attention paid to changes in relevant regulations for regular reviews and establishment of countermeasures in advance
	Rising raw material costs in the upstream industry	Due to extreme weather, raw material suppliers may reduce production and halt transportation, which may result in delays in the shipment of raw materials. In response to climate change, participants in the supply chain are gradually using green and environmentally-friendly materials, resulting in an increase in the Group's operating costs.	• The sources of raw materials are diversified to ensure smooth supply in the event of risks due to the cooperation with a single supplier, and to improve bargaining and services
	Downstream requirements for low-carbon and eco-friendly products	Due to more stringent environmental regulations on products (such as restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS Directive) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH)) and some customers' preference to eco-friendly and low-carbon products, additional costs are required to control the risk of excessive hazardous substances and meet customer expectations.	• Conduct strict control over incoming materials and quality inspection to prevent the inflow and outflow of hazardous substances • Continuously improving the inspection level for hazardous substances in plants by increasing inspection items and frequency

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.2 Emission Management

5.2.1 Air Pollution Prevention and Control

During the year, the Group's operations mainly involved the combustion of gasoline consumed by its own vehicles, resulting in the emission of sulfur compounds, nitrogen oxides and suspended particulate matters. Besides, in the process of glue bonding and wave soldering for PCBA patch in the Group's electronics manufacturing business segment, a very small amount of exhaust with a low concentration was produced. For the treatment of such exhaust, gas filtration devices have been installed above wave soldering and reflow soldering machines to collect exhaust, which will be discharged through the exhaust funnel at high altitude. Due to the production characteristics of microelectronic products, relevant environmental protection departments inspected the direct exhaust system in plants, after which the Group's exhaust emissions met the standards stated in the Emission Limits for Air Pollutants, a local regulation of Guangdong Province, and did not cause a significant pollution emission impact on the surrounding atmospheric environment.

In order to improve the air quality of the natural environment, we upgraded our existing equipment to improve the efficiency of exhaust treatment. At the same time, we were subject to regular testing by relevant external environmental protection authorities and agencies to ensure that all exhaust emissions are in compliance with regulations.

Improving the treatment efficiency of organic exhaust gas by upgrading the exhaust gas treatment system in the existing production process and installing exhaust gas collection and filtering devices in the wave soldering machines

Regularly accepting the exhaust gas emission testing of the factory's direct exhaust outlet by external environmental protection departments and agencies every year, and ensuring that the exhaust emission indicators meet the requirements of the relevant standard

5.2.2 Greenhouse Gas Emissions

We believe accurate control over companies' greenhouse gas emissions is an important step in tackling climate change and global warming.

The greenhouse gas emissions generated by the Group can be classified into two scopes. Scope 1 emissions are direct emissions, including greenhouse gas emissions from the use of motor vehicles (diesel and gasoline); Scope 2 emissions are mainly indirect emissions from purchased electricity. A detailed overview is shown in the table below:

Scope of greenhouse gas emissions	Year ended 31 December 2019 Emissions (tCO2e)	Intensity (tCO2e/ person)	Year ended 31 December 2020 Emissions (tCO2e)	Intensity (tCO2e/ person)	**Year ended 31 December 2021 Emissions (tCO2e)**	**Intensity (tCO2e/ person)**
Scope 1 Direct emissions	86.24	0.135	87.59	0.137	**196.78**	**0.294**
Scope 2 Indirect emissions	5,142.00	8.060	5,197.00	8.146	**5,434.61**	**8.136**
Total	5,228.24	8.268	5,284.59	8.328	**5,631.39**	**8.430**

During the year, the Group's greenhouse gas emissions totalled 5,631.39 tonnes , an increase of 6% from 2020. The increase was mainly due to the expansion of the Group's businesses during the year, as the increased electricity consumption in the additional plants in Huizhou and Xiamen led to an increase in Scope 2 indirect emissions.

The Group has set the goal of reducing per capita greenhouse gas emissions, in a bid to cut greenhouse gas emissions more effectively. Continuous efforts will be made to promote the implementation of internal energy conservation and emission reduction measures and strengthen the management of corporate carbon emissions. The motor vehicles used by the Group shall be subject to annual inspection as stipulated by the transport authorities, and substandard vehicles will be taken off the road. As required by the local governments, we did not use leaded gasoline to ensure that our vehicle use and emissions meet the standards. In addition, employees were encouraged to go green to contribute to the carbon reduction of the Group and even the Earth. Meanwhile, we educated employees to save electricity, water and office paper. We posted signs of energy and water conservation in the office area of each department, controlled the amount of office paper consumed and used the office automation system for paperless office to raise environmental awareness and promote participation towards environmental protection among all employees.

Moreover, in terms of the electronics manufacturing business, the Group regularly checks the greenhouse gas emissions of the electronics manufacturing plant every year in accordance with the requirements of Shenzhen's carbon emission permits trading, so as to accurately know the greenhouse gas emissions generated by the entire plant and at the same time provide the basis for reduction.

The Group attaches great importance to data about greenhouse gas emissions and continuously reviews its emission reduction initiatives. Greenhouse gas emissions will be monitored on a regular basis and quantitative verifications will be conducted to manage carbon emissions of the Group. Active efforts will be made to explore and introduce feasible energy-saving and carbon-reduction technologies to achieve its annual carbon-reduction goal.

5.2.3 Wastewater Discharge Management

The Group's satellite manufacturing plant has not yet been put into operation, and its electronics plants do not produce or discharge any industrial wastewater during the production process. Water consumption mainly comes from daily office operations, employee dormitories and canteens, and the domestic wastewater generated will be discharged to the municipal wastewater pipes for treatment. In order to control water pollution, we strictly abided by the local wastewater discharge regulations. According to the report of a third-party testing agency, the domestic wastewater discharged from the plants has met the third-level standard for the second period in the Discharge Limits for Water Pollutants (DB44/26-2001), the local regulation of Guangdong Province, after pretreatment in the septic tank, which is in line with the relevant requirements of discharge.

5.3 Waste Management

The Group conducted classification and management in accordance with the Waste Disposal Routine to ensure the compliance with relevant laws and regulations in waste disposal, including the Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the PRC and the Measures on the Management of Hazardous Waste Manifests. During the year, no irregularities were found in the Group's waste management.

The Group strictly followed the waste disposal process. We strive to optimise the waste management system by harmlessly disposing of, reducing and recycling wastes. To this end, we promoted the internal system of the Code for Waste Disposal Operation in each electronics manufacturing plant where warehouse managers and storekeepers jointly implemented this system to carry out orderly and effective waste classification and management. At the same time, the Group has also included waste disposal into the performance appraisal of warehouses, so as to raise the material safety awareness and improve the sense of responsibility of storekeepers. For those who do not operate in strict accordance with the requirements, we will deal with them according to the performance appraisal requirements.

During the year, the waste generated by the Group was divided into two categories, hazardous waste and non-hazardous waste.

5.3.1 Hazardous Waste Generation and Intensity

The hazardous wastes generated by the Group during the year were mainly the hazardous wastes generated in electronics manufacturing, including exhaust and wastewater, used oil, waste lamp tubes and empty barrels. The total hazardous wastes generated is 0.055 tonnes. As the solid waste and liquid waste produced during the assembly and production of circuit board assemblies will cause harm to the environment if not properly disposed of, we attach great importance to the hazardous waste management inside and outside plants, in a bid to strictly prevent pollution and harm.

In terms of hazardous waste management, the Group selected and entrusted a qualified hazardous waste collector for handling. In strict accordance with the requirements of the Measures on the Management of Hazardous Waste Transfer, the Group conducted identification of hazardous waste, established a management ledger for hazardous waste and truthfully recorded hazardous waste manifests, and verified in time the storage, utilisation and disposal of relevant hazardous waste by the entrusted hazardous waste collector, to ensure enhanced supervision and management of hazardous waste transfer and prevent environmental pollution.

5.3.2 Non-hazardous Waste Disposal

During the year, the Group generated minimal amount of non-hazardous waste. The major non-hazardous waste generated by the Group was packaging materials generated from the production process and domestic waste generated by employees and in offices. In strict accordance with the Regulations on Domestic Waste Classification in Shenzhen, the Group placed classified waste recycling bins in its electronic manufacturing plant, employee dormitories and office areas. Most of the non-hazardous waste generated by the Group were recycled or sold to recycling companies. Meanwhile, employees were reminded to use resources efficiently and put waste according to classification requirements, so as to avoid waste of resources and littering of waste. During the year, no irregularities were found in the Group's disposal of its non-hazardous waste.

5.3.3 Future Waste Reduction Goals and Measures

The Group aims to improve the utilisation of recyclable resources and reduce the generation of waste. Efforts will be made to continuously optimise the waste management system, actively explore techniques to reduce the generation of hazardous waste and non-hazardous waste, and strengthen the ability to effectively collect, classify, quantify, store and dispose of waste. We will continue strengthening the education and training on waste reduction, classification and recycling to raise the awareness of waste management among all employees and the management.

The Group will take the following measures to strengthen the effective disposal of hazardous waste and non-hazardous waste:

Disposal of hazardous waste

- Strictly register the transfer sheet for disposal of hazardous waste
- Continue to improve the collection, sorting, storage and disposal of hazardous waste
- Optimize the recording of waste disposal

Disposal of non-hazardous waste

- Improve recyclable waste transfer areas for more efficient sorted storage
- Properly maintain records of recyclable resources
- Enhance recycling feasibility of recyclable waste

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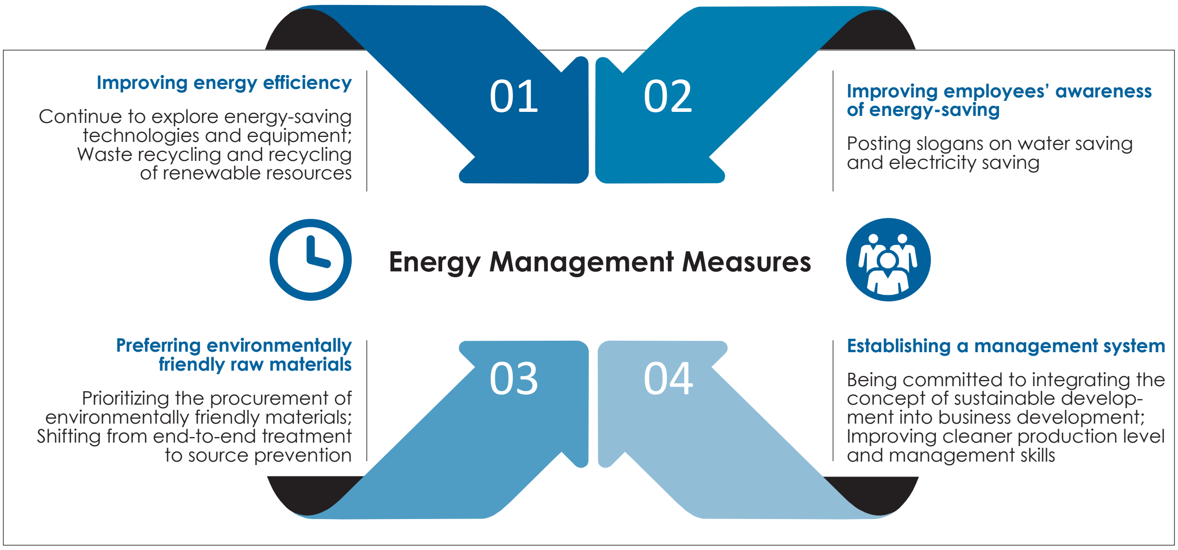
5.4 Resource Usage Management

The Group, with great importance attached to the scientific and rational use of water, electricity and paper resources, strictly complied with laws and regulations, including the Environmental Protection Law of the PRC and the Energy Conservation Law of the PRC. In order to conserve resources and promote sustainable development, the Group took energy management measures (including but not limited to) as follows:



5.4.1 Packaging Material Usage Management

As for the aerospace business, the Group devotes itself to the research and design of low-power, low-mass and small-size satellites through continuous optimisation of satellite payloads, in a bid to reduce consumables and energy consumption. In the procurement of parts and components, the Group gave priority to selecting environmentally-conscious suppliers and eco-friendly products. Cleaner production was promoted via use of minimal raw materials and replacement of single-use products with reusable or recyclable products.

The Group formulated the internal guidance document of Resource and Energy Management Procedures for its electronics manufacturing business. The plant management department is responsible for the management of consumables. The packaging materials used by the Group in its EMS business mainly include cartons, anti-static shielding bags and cotton cushion gaskets for packaging and transportation of electronic products. The Group used standard cartons whenever possible in order to minimise the use of packaging materials. All original cartons shall be used for shipment unless specifically requested by customers. If the original packaging was not suitable for product protection or repackaging was required for small orders, the Group used cushion gaskets for packaging and transportation of electronic products, anti-static shielding bags and cartons for packaging. We follow the 3R principle (Reduce, Recycle and Reuse). All trays, unused cartons and inflatable bags can be reused or recycled to achieve the highest efficiency and maximum recycling of resources with the lowest investment. During the year, the Group's electronics manufacturing plants remained at a medium level in their efforts to support the circular economy, and strove to strengthen their recycling capacity.

5.4.2 Water Resources Management

Clean water is a valuable resource and one of the resources we are committed to saving. The Group only uses tap water. There are no wells or boreholes in our electronics plants. We have not encountered any problem in sourcing water. As water is a precious resource, the Group is aware of the importance of water conservation. A variety of measures have been taken to effectively save water. For instance, Employees were encouraged to report any water leakage immediately to the plant management department for maintenance. Sensor faucets and dual-flush energy-saving toilets were installed in the washrooms. Signs of water conservation were put up in each washroom to remind employees to turn off the faucet after use to raise awareness of water conservation among them.

During the year, the use of water resources of the Group includes water for production and household purposes. We set a target of reducing per capita water use intensity over the next five years based on water consumption during the year, and improved monitoring of water use.

Water consumption	Consumption (tonne)	Intensity(tonne/person)
	30006.45 tonnes	44.92 tonnes

Total water consumption and intensity in 2021

Water consumption in 2021 increased significantly from 2020, largely because of the first-time inclusion of water use data from Shenzhen Hengchang Sheng Technology Co., Ltd. (its plants in Shenzhen, Huizhou and Xiamen) and an increase in the water consumption due to improved productivity of the newly-added Huizhou and Xiamen plants, with expansion of the Group's electronics manufacturing business .

5.4.3 Energy Management

As the satellite manufacturing centre of the Group is still under construction, the specific measures for recycling of plastic waste, packaging and other materials from actual satellite manufacturing were not involved during the year. However, we will adopt measures to reduce, reuse and recycle plastic waste and packaging materials in the coming years, and we will make continuous efforts to explore energy-saving technologies to reduce energy consumption, increase energy efficiency, and contribute to the development of the circular economy.

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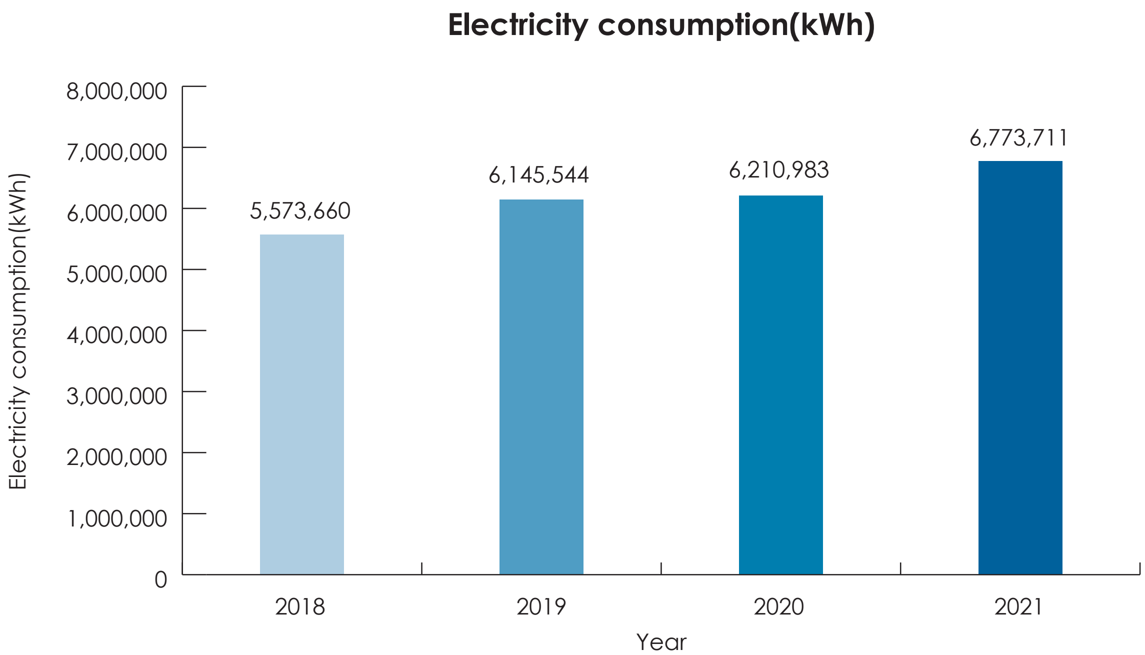
The electricity used to power the equipment in the electronics manufacturing plants of the Group is mainly supplied by the municipal power grid of the cities where it operates. The finance department of the Group regularly calculates the energy costs and reports them to the relevant departments to formulate consumption reduction measures. Currently, we have set a target of reducing energy consumption over the next five years based on data recorded during the year, and have developed a variety of initiatives to reduce energy consumption. The lamps inside the plants have all been replaced with LED lamps. The Group got subsidies for electricity consumption from the government through the efficient use of machinery and equipment. An air conditioner's temperature should not be set lower than 25 degrees Celsius. It cut off the power of the machinery and equipment when they did not work. Humidifiers were added in workshops to reduce the use of air conditioners. Employees were required to turn off the computer monitor when they left their seat for long periods of time. The production department actively cut the scrap rate.

Energy		Consumption (kWh)	Intensity (kWh/person)
	Electricity	6,773,711	10,140

Total electricity consumption and intensity in 2021



For the year, the Group's electricity consumption totalled 6,773,711 kWh, an increase of 8.3% from 2020. It was primarily due to the fact that the electricity consumption of plants and offices increased with the further development and expansion of the Group's aerospace and EMS businesses.

For details of total energy consumption and intensity, please refer to Appendix I: ESG KPIs Table.

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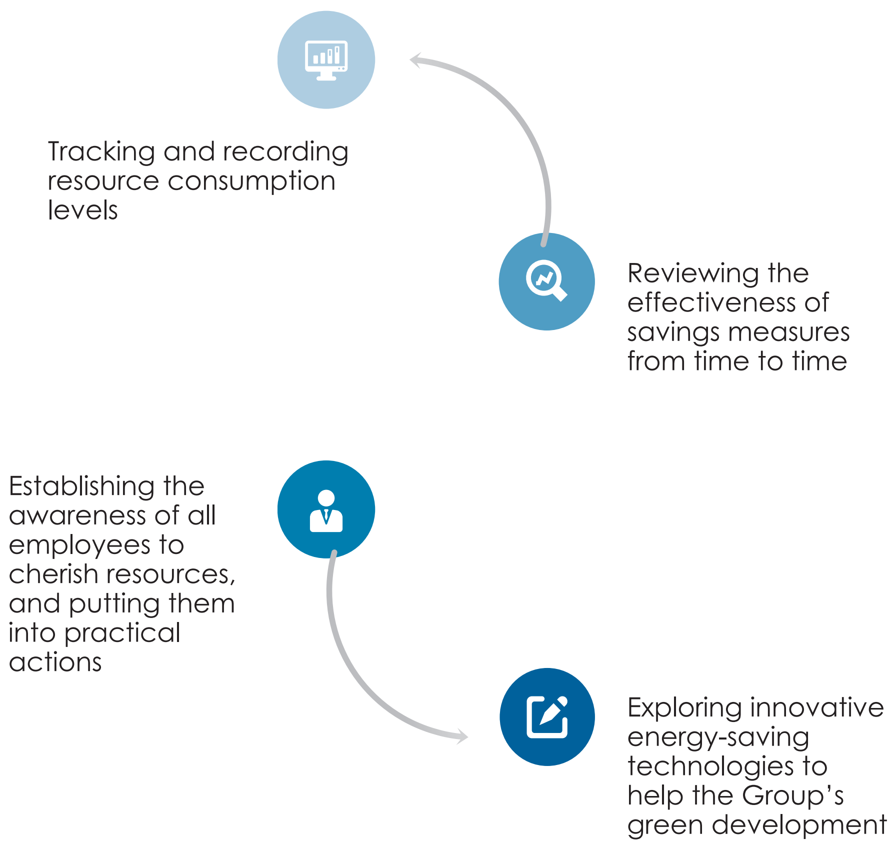
5.4.4 Office Paper Management

For public office equipment such as photocopiers, printers and fax machines, we encouraged all departments to improve the utilisation of paper to avoid waste. Meanwhile, employees were encouraged to use double-sided printing or circulate documents electronically whenever possible. We distributed daily notices, announcements, project tender notices and electronic financial reports in the form of e-newsletters and emails. In addition, waste paper containers were placed at various locations to recycle paper and enhance recycling of paper resources.

5.5 Environment and Natural Resources

During the year, neither the Group's aerospace business nor EMS business activities had a significant adverse impact on the environment and natural resources. In order to use resources and energy in a scientific and reasonable way and reduce production and office costs, the Group formulated the internal Resource and Energy Management Procedures, requiring the management department to conduct statistical management of electricity consumption, consumables and water consumption, and to assume the responsibility over the maintenance and repair of production equipment.

To further improve the use of resources and promote its healthy and sustainable development, the Group will take the following actions on an ongoing basis:



6. WORKING WITH EMPLOYEES TO CREATE AN INCLUSIVE WORKPLACE

The Group has always regarded employees as its greatest wealth, and adheres to the philosophy that human resources are the foundation of its sustainable development. We give a top priority to the health and legal rights and interests of every employee, establish a sound employee health and safety management system, and set up a sustainable talent development system, in order to realise the value of employees and create a healthy and positive career development platform. The Group signs employment contracts with its employees based on the principles of fairness, voluntariness, mutual consent and good faith. The Group strictly complied with the Labour Law of the PRC, the Labour Contract Law of the PRC and the Employment Ordinance of Hong Kong, in a bid to improve the transparency of recruitment criteria, create a harmonious and orderly working environment, and meet the needs of development.

Compensation and Benefits

The compensation of an employee of the Group is determined with reference to the market level and the qualifications and experience of the employee. Discretionary bonuses were awarded based on individual performance of the employee during the year to motivate him/her to contribute to the development of the Company. In accordance with the Social Insurance Law of the the PRC and the Regulations on Management of Housing Provident Fund, the Group is required to make contributions to five social insurances plus one mandatory housing fund, namely pension, medical, workplace injury, unemployment and maternity insurances and housing provident fund, for employees in Mainland China. In addition, it contributes to the social insurance fund for Mainland China's regular employees in accordance with relevant Chinese regulations and local social insurance payment policies. The Group also contributes to the Mandatory Provident Fund for its employees in Hong Kong in accordance with Hong Kong laws. Its compensation policies and systems are reviewed regularly to ensure that employees' compensation is aligned with the market level and to guarantee fair treatment for employees.

Talent Selection

The Group described qualifications and duties for different jobs as criteria for recruiting employees. The Company's recruitment channels include campus recruitment, online recruitment, open recruitment, internal recommendation and headhunting. Each candidate must meet the job requirements in terms of academic qualifications and relevant working experience.

Promotion and Development

The Group, which pays attention to whether employees' performance meets the job requirements and their expectations for personal career development, has established evaluation measures and a promotion mechanism, which not only establishes a good career development platform for employees, but also lays a solid foundation and provides sufficient motivation for its sustainable development.

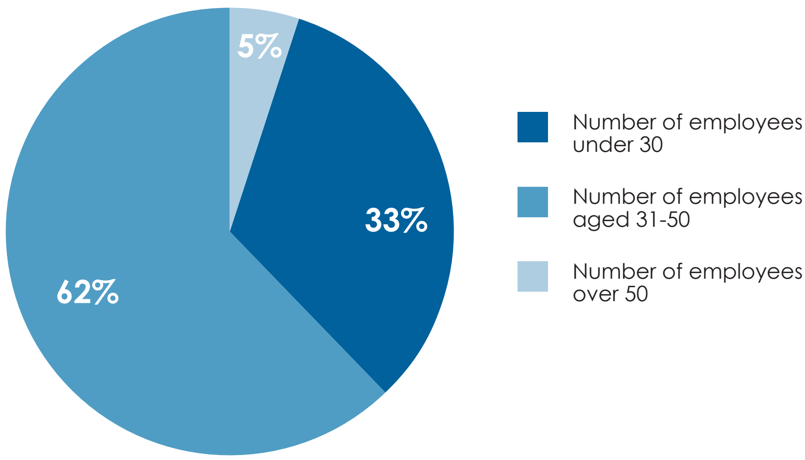
6.1 Employee Composition

The Group is well aware that professionals are the key to its sustainable development. Upholding the spirit of corporate social responsibilities, we optimised our employment management to attract more talents and provide quality job opportunities. As at the year ended 31 December 2021, the Group had a total of 668 employees, all of whom were full-time employees. The number and percentage of employees by gender, employment type, age group and geographical region are as follows:

Details of employees are as follows:

668 Total employees	**370** Number of male employees	**298** Number of female employees

Percentage of employees by age group



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

656 Full-time employees	**12** Part-time employees
55 Management	**613** Ordinary employees

Percentage of employees by geographical region

640 Mainland, the PRC	**25** Hong Kong	**3** Overseas

The Group recorded a low employee turnover rate of 3.6% in 2021. For details of the employee turnover rate by gender, age group and geographical region, please refer to Appendix I: ESG KPIs Table.

6.2 Health and Safety

We recognise that the physical and mental health of each employee is vital to our future development. The Group strictly complied with the laws and regulations of Mainland China and Hong Kong, including the Law on Prevention and Treatment of Occupational Diseases of the PRC, the Production Safety Law of the PRC and the Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong). During the year, the Group recorded no work-related deaths, work-related injuries and days lost due to work-related injuries in the past three years. The Group reported no major safety accidents or violations of laws and regulations on work safety for the year.

For the aerospace business, the Group actively promotes the concept of work-life balance, strictly institutes the five-day week and provides employees with special care arrangements such as paid annual leave, marriage leave and festive holidays that are better than those stipulated in the Employment Ordinance.

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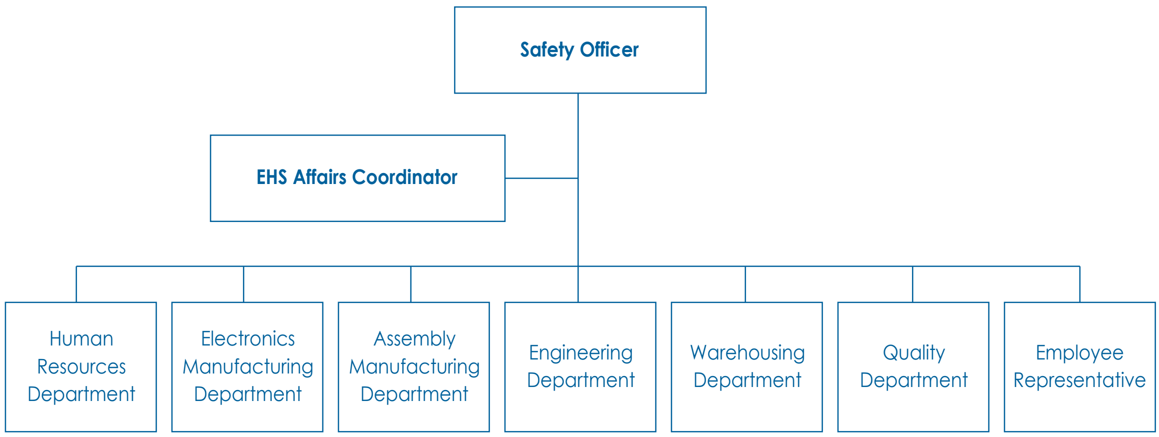
As far as the electronics manufacturing business is concerned, the Group has established the Safety Committee of Environmental, Health and Safety Management System (EHS) in order to ensure the health and safety of employees in electronics manufacturing plants. The committee insists on implementing EHS standards. It has established a complete occupational health and safety management system by holding regular meetings to grasp the progress of review of engineering safety incidents, promoting the improvement of the work safety management system, maintaining close dialogue with employees and regularly evaluating various facilities. It strives to promote the well-being and health of employees in an all-round way and create a healthy and safe working environment.



EHS Safety Committee in electronics manufacturing plants

We have also established fire control procedures, occupational disease prevention and control procedures and environmental and occupational health and safety operation procedures, in a bid to provide a safe, healthy and comfortable working environment for all employees. We follow the Procedures for Identification and Evaluation of Environmental Factors and the Management Procedures for Hazard Identification, Risk Assessment and Determination of Control Measures to identify and evaluate important environmental factors and unacceptable risks involved in the Group's electronics manufacturing business, so as to conduct orderly and powerful response management to ensure the health and safety of employees.

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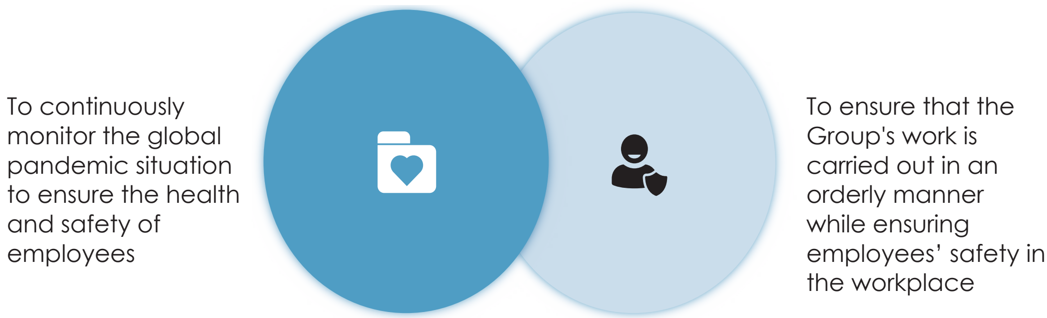
6.2.1 Normalised Management of the Pandemic

COVID-19 has now entered the stage of normalised prevention and control. In order to further implement the Group's prevention and control work in the normalised management of the pandemic and ensure the physical and mental health and safety of all employees, the Group has set forth two strategic objectives in coping with the health crisis:



During the year, the Group established the following series of initiatives (including but not limited to):

6.2.2 Safety Education

Safety education is essential to ensure that employees are fully aware of safety risks and to guarantee their health and safety. In terms of the aerospace business, the Group regularly organises training sessions to enhance employees' occupational safety- and health-related knowledge, such as occupational health and safety seminars, in a bid to ensure that employees acquire the latest knowledge of safety measures to effectively ensure employees' occupational safety and health.

As for the electronics manufacturing business, the Group will provide three-level safety education and five training programmes for onboarding and job transfer. The three-level safety education mainly includes induction education, workshop education and on-the-job education, while the five training programmes mainly target employee safety, policy documents, inflammable, combustible and dangerous goods, health and hygiene, as well as power safety. The Group provides various safety education opportunities to ensure that employees clearly understand the key points and methods of occupational health and safety control in their posts. Furthermore, special operators are required to obtain relevant qualification certificates before taking up their posts.

6.2.3 Occupational Disease Prevention and Control

The Group has established risk assessment and approval procedures for general processes and hazardous processes such as new construction, reconstruction and expansion of electronic manufacturing plants. The occupational health and safety measures and equipment were designed, constructed and put into use simultaneously with the main project. In terms of the use of raw materials, the supplier evaluation team of the plants were required to conduct quarterly evaluations of suppliers' quality system and environmental initiatives, and the purchasing department was encouraged to give priority to purchasing environmentally-friendly materials, so as to reduce the harm to the environment from the source. In addition, the Group appointed third-party testing agencies to conduct testing on posts, number of employees that may be endangered, hazardous factors and the scope involved, and provide testing reports. We equipped employees exposed to toxic and harmful substances with protective equipment and arranged annual occupational health check-ups for all employees to identify safety and health risks as early as possible.

Meanwhile, emphasis was put on the health and safety of female employees. In strict compliance with China's Special Rules on the Labour Protection of Female Employees, the Group conducted a risk assessment of the hazards that pregnant and breastfeeding female employees may be exposed to, in a bid to avoid them from engaging in toxic and harmful operations. For instance, we equipped pregnant female employees with anti-radiation aprons to avoid possible effects of computer radiation on the foetus. Pregnant female employees were transferred to other positions to avoid lung injury that may be caused by dust and chemicals in the workshop. In addition, the Group ensured the health and safety of all female employees by proactively avoiding hazard sources.

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6.2.4 Fire Safety

The Group strictly complied with the Fire Protection Law of the PRC to formulate systems for safety inspection, safety education and accident reporting, clarify the basic principles of accident prevention and the methods and requirements for safety inspection. It also laid down a series of guidance documents for handling fire accidents, including the Measures for Implementation of Fire Rescue and the Emergency Handling Routine. In order to eliminate potential fire hazards, the electronics manufacturing plants of the Group established a safety and fire prevention management organisation, which clarified the persons responsible for safety and fire prevention in each area, and assigned persons to regularly inspect fire-fighting facilities and equipment to ensure that they are complete and up to standard.

Management Department	• Ensuring that the organization effectively conducts fire safety management
Heads of Departments	• Ensuring the smooth development of fire safety management in the department
Director	• Fully responsible for the safety production of the plants, as the main person in charge
Deputy Director	• Assisting in the safe production of the plants
Workshop Manager	• Responsible for safety production in each workshop

Safety and fire prevention management organisation

Fire safety knowledge was popularised among new and old employees to improve their ability to deal with fire emergencies, with a view to further enhance their awareness of fire fighting. Two fire drills were carried out in the electronics manufacturing plant in Shenzhen during the year, with 848 participants. Apart from regular fire drills, the Group has currently increased the management and exercises in response to the normalisation of the pandemic, so as to pay attention to the health of employees and the protection against the pandemic.

6.3 Development and Talent Training

In line with the strategic concept of sustainable development of talents, the Group has continuously enhanced knowledge of its employees in the field of aerospace technology, accelerating its high-quality development in the high-tech industry. The Training Management and Control Procedures were established as the basis for the implementation and management of employee training in all departments related to the electronics manufacturing business, and a training system was set up for all new recruits and in-service employees. The Group evaluated, tracked and monitored the performance of each employee in a fair and objective manner, providing explanation and support for their career goals.

Based on the strategic direction and in line with its development goals, the Group regularly provided targeted and comprehensive training and development opportunities to its employees according to their needs. Specific training contents are as follows:

Orientation training

- Familiarising employees with the Group's objectives, culture, rules and regulations, safety- and product-related knowledge.

Annual/monthly training

- Maximising the use of internal lecturer team resources to hold training lectures, seminars, exchange meetings and other training activities within the Group.

Pre-job/on-the-job training

- Helping new employees or employees who have just been transferred to new posts to familiarise themselves with businesses, workflow, operation methods for machine and equipment, production safety precautions, etc. as soon as possible. The human resources department provided one-on-one or one-to-many training for employees in some posts or assigned technicians to give necessary lectures on theoretical knowledge to familiarise employees with the professional knowledge and skills necessary for their posts, and to solve and guide difficult problems in their work.

Temporary training

- When temporary skills training is needed for key positions or ordinary positions, the human resources department will assign trainers to provide specific skills training for employees at a reasonable time. The human resources department ensures that the trainers use effective teaching materials and assessment methods when conducting temporary training, and sends persons to follow up the training to ensure that employees can effectively improve their professional skills.

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During the year, the average training hours completed per employee of the Group are as follows:

Ordinary employee training hours

Management employee training hours

6.4 Labour Standards

The Recruitment and Onboarding Management Measures were established to clarify the recruitment process and stipulate that job applicants must be at least 18 years old. The human resources department verifies the identities of job applicants against their valid identity documents, relevant permits and certificates, so as to ensure that job applicants can meet the age requirement. In the meantime, the Group strictly complied with the relevant laws and regulations, including the Company Law of the PRC, the Labour Law of the PRC , the Provisions on the Prohibition of Using Child Labor of the PRC and the Employment of Children Regulations of Hong Kong. In addition, the Group formulated the Attendance Management Measures to effectively protect the legitimate rights and interests of employees and prevent any incident that infringe on the rights and interests of employees. If it is found that the applicants had provided false identification information, lied about their age or are forced labourers, the Group will promptly carry out a corresponding investigation and make internal rectification. The Group insists on recruiting employees legally. There were no child labour or forced labour or other irregularities found in the Group in 2021.

The compensation package of the employees of the Group includes salaries, dividends and other subsidies, which are determined based on their rank, qualifications and performance. An annual review system was adopted to assess the performance of its employees, results of which were determined with reference to the salary increase, dividend and promotion system.

In terms of human resources policy, the Group strictly ensures gender equality and equal pay for equal work. Measures to avoid child labour and forced labour are as follows:

- Elimination of child labour — as stated in the Employee Manual, the Group will perform a background check on applicants prior to employment for verification.

- Prohibition of forced labour — any form of punishment and threat at work is prohibited.

- Compensation and benefits — a competitive compensation package is provided based on working hours, promotions, holidays and other benefits and welfare.

- Principles of equal opportunity and non-discrimination — it strives for gender equality in recruitment, promotion, training and development, and employees will not be discriminated against, excluded or given special treatment in the workplace because of their national and ethnic origin, nationality, religion, physical condition, pregnancy, sexual orientation, political status, age or other non-work-related factors.

7. INNOVATION DRIVES FULFILMENT OF QUALITY RESPONSIBILITY

The Group insists on continuous innovation and improvement and a firm commitment to high quality products, which are incorporated in all of its business activities. It ultimately provides customers with industry-leading products and technologies. Guided by its culture of innovation and pioneering spirit, the Group is committed to enhancing product quality and technological innovation across its aerospace and electronics businesses, in the hope of continuously exploring the space and creating a sustainable future.

7.1 Aerospace Business

The Group successfully launched five satellites in April, October and December 2021, Golden Bauhinia Satellites No. 1 (01 and 02), Golden Bauhinia Satellite No. 2, Golden Bauhinia Satellite No. 5 and Golden Bauhinia Satellite No. 1 (03), named after Juhuasuan. The Group will step up efforts on innovation of satellite technologies. It plans to team up with Shandong Institutes of Industrial Technology to establish and operate its first agriculture-focused satellite constellation with a high resolution. The Group is expected to launch approximately eight satellites in 2022 as the first fleet of agriculture-focused satellite constellation. As a member of the International Astronautical Federation, the Group relentlessly explores the space and strives to promote the development of Hong Kong's aerospace industry, develop the city's precision manufacturing sector and empower its re-industrialisation.

As an active response to the government's commitment to peak its carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060, the Group made constant efforts to explore advanced satellite remote sensing technology in space to help monitor carbon neutral status on the Earth and urban sustainable development. The Group and University of Hong Kong signed a memorandum of understanding in August 2021, pursuant to which the parties thereto agreed to conduct scientific research on Earth observation, carbon neutrality and urban sustainable development, including the research on development of global high-resolution and high time-frequency seamless remote sensing data cubes and their urban applications, with a view to establishing high-tech demonstration projects. Adhering to the spirit of exploring space, the Group supported cities in achieving the full-cycle monitoring of fine management and ecological environment construction.

In order to ensure the autonomous and stable operation of in-orbit satellites, the Group provided special applications and services for regional dynamic monitoring driven by real-time communications and navigation needs, offering users with overall smart city solutions. In order to enhance the capabilities of Golden Bauhinia Constellation in smart remote sensing services, the Group collaborated with Huawei Cloud Hong Kong to build the Golden Bauhinia Platform, allowing end users to obtain real-time and accurate browsing, perception and analysis services of satellite data.

Case: It teams up with Huawei Cloud Hong Kong to build the Golden Bauhinia Platform

In July 2021, the Group and Huawei Cloud Hong Kong entered into a cooperation agreement, pursuant to which the parties thereto agreed to act as partners and to jointly establish a remote sensing big data and artificial intelligence ("AI") service platform (the "Golden Bauhinia Platform") in the Guangdong-Hong Kong-Macau Greater Bay Area.

The Golden Bauhinia Platform will be the first ecological platform of remote sensing application in the Greater Bay Area. Its core mission in the future is to connect the remote sensing data from Golden Bauhinia Constellation with cloud computing power and remote sensing AI models to provide end users with smart SAAS-based out-of-the-box remote sensing services. By linking data, computing power and algorithms, the Group cooperated with ecological partners to provide users with quasi-real-time browsing, perception and analysis services of satellite data. The Golden Bauhinia Platform will facilitate cities in Greater Bay Area to achieve fine management and ecological environment construction under the full-cycle monitoring in the fields of agricultural monitoring, disaster prevention and mitigation, comprehensive urban governance, watershed control and so on.

Online deployment for the Golden Bauhinia Platform was completed in November 2021, which will gradually provide services for data management and remote sensing application development in the future.

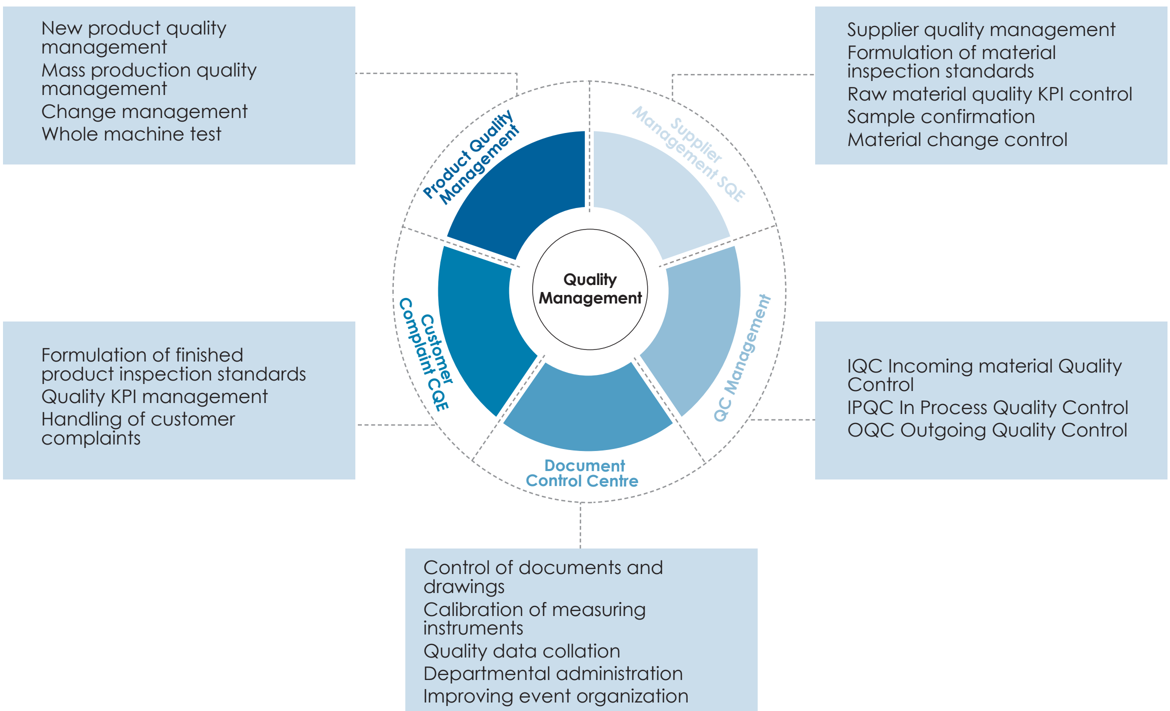
7.2 Quality Control in Electronics Manufacturing

In the electronics manufacturing business segment, the Group, which pursues excellence in product quality, is devoted to providing customers with first-class quality services and guaranteeing highly competitive delivery. We established the quality policy of "Quality first, pursuit of excellence; well done at a time, customer satisfaction" and incorporated the culture of high quality into the core of our businesses to meet customer expectations, with a view to achieve the vision of "becoming an 'intelligent electronics manufacturing' company with leading technologies and excellent quality." The Group received no complaints about its products and services during the year.

7.2.1 Quality Management System

As the Group is well aware that a sound quality management system is the key to achieving zero defect in products, it is committed to continuously applying international quality standard certification systems. The Group's Shenzhen plant was awarded ISO 9001 and SEDEX certificates for quality management system. The Group regularly reviewed and optimised its internal policies to further consolidate the quality management system. We set the quality red lines in the electronics manufacturing plants and implemented a responsibility system. If any violations of the red lines are found, we will pay great attention to and deal with them seriously.

Besides, the Group has established an internal quality management system to ensure the efficiency and high quality of the entire production process, aiming to effectively and comprehensively control the quality of electronic products at each step of manufacturing.



The Group's EMS quality management system

In this internal quality management system, our product quality management department is responsible for keeping product inspection records. These records clearly indicate whether the products have passed the inspection and test in accordance with the relevant acceptance criteria and indicate the person authorised to release the products. Products and services shall not be delivered to customers until all required procedures have been satisfactorily completed. A quality inspection will be conducted on finished products to verify the reliability and compatibility of the products, in a bid to ensure that the products meet the specifications and quality requirements for delivery. The Group wins the trust of customers via after-sales services quality management and ensures that products meet their expectations.

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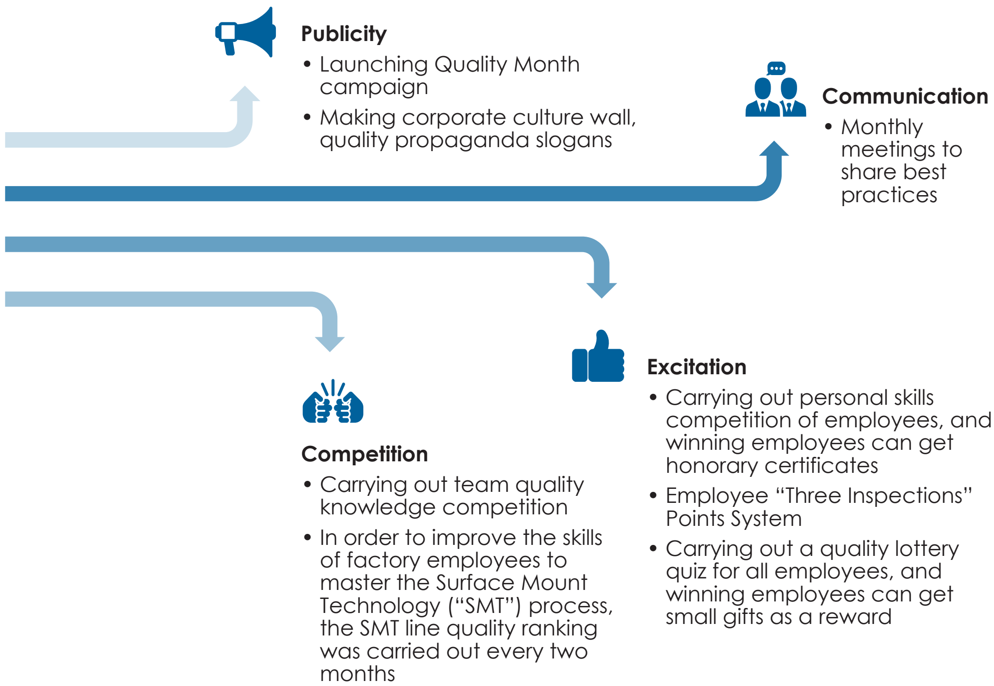
In order to strengthen the quality awareness and uphold the concept of quality first, the Group carried out a series of quality cultural activities and training sessions during the year to improve the quality awareness of all employees in the manufacturing plants.



7.3 Protection of Intellectual Property Rights

The Group strictly complied with relevant laws and regulations, including the Copyright Law of the PRC, the Patent Law of the PRC, the Trademark Law of the PRC, the Patents Ordinance and the Trade Marks Ordinance of Hong Kong, to protect intellectual property rights, as an active response to intellectual property protection. In the actual procurement for satellite-related business, the Group has included intellectual property protection into the terms of contracts with suppliers. We also actively maintained and respected all legal or qualified intellectual property rights registered or created by copyright owners, ensuring that we purchased genuine intellectual property rights when buying and customising products and services.

Moreover, we publicised intellectual property-related laws and regulations and included intellectual property protection into the terms of contracts when selecting suppliers. We actively encouraged employees to protect the intellectual property rights of others. For any materials involving others' patents and intellectual property rights, we encouraged employees to use them prudently after obtaining authorisation, in a bid to reduce the risk of infringing others' intellectual property rights.

During the year, the Group was not aware of any material infringement (i) by the Group of any intellectual property rights owned by any third parties; or (ii) by any third party of any intellectual property rights owned by the Group.

7.4 Customer Service

Great emphasis is placed on customer value. The Group strives to maintain long-term and sustainable cooperative relationships with customers. The Group, which attaches importance to corporate ethics and social responsibilities, strictly complied with relevant laws and regulations, and formulated corresponding internal mechanisms and policies to enhance communication with customers and improve customer experience. During the year, the Group was not aware of any non-compliance incidents that had any significant impact on the Company in relation to the health and safety, advertising, labelling and privacy of the products and services provided.

7.4.1 Customer Data Security

The Group recognises the importance of business data security and customer privacy protection, which is not only related to its reputation, but also closely related to stakeholders (including employees, customers and business partners). The Group strictly complied with all applicable laws and regulations, including the Cybersecurity Law of the PRC and the Cap. 486 Personal Data (Privacy) Ordinance. Using comprehensive risk management methods and technical means, it effectively prevented the illegal use, leakage and sale of confidential internal data or information.

The Group provided targeted training for employees and reiterated the confidentiality obligation in the code of conduct to enhance employees' awareness of prevention. All employees were required to properly handle, store and file all trade secrets and customer personal data. All information was strictly prohibited to be used for other purposes without permission. Currently, firewalls and anti-virus software have been installed in our information technology system to prevent cyber attacks from posing threats to information security. Continuous efforts will be made to update these solutions in the future.

7.4.2 Complaint Handling and Improvement

The Group attaches great importance to customer satisfaction and their requirements for products and services. In order to provide customers with excellent service experience, the Group has developed a set of after-sales service control procedures for the EMS business to clarify the responsibilities of each department, so as to track customer complaints and effectively control returned materials. We will strictly follow the after-sales service control procedures for dealing with customer complaints, in a bid to ensure that customer complaints are responded to and resolved in a timely manner. The Group did not receive any complaints about its products and services and no products sold or shipped were subject to recalls for safety and health reasons during the year.

When we receive customer complaints, the quality control department will establish the Customer Complaints Information Registration Form in time to make detailed registration of each complaint and respond within 24 hours. Then, the quality control department is responsible for registering the returned products and filling in the Inspection Report on Materials Returned by Customers, the production engineering department is responsible for reworking technique, process and operation guidance, and the production department is responsible for repairing and reworking. When necessary, the quality control department takes corresponding corrective and preventive actions according to the Corrective and Preventive Action Procedures, and replies to the customers with the cause analysis and handling results until the customers are satisfied. The quality control department must re-inspect the products that are up to standards after reworking/repairing before shipment.

In order to avoid the occurrence of the similar customer complaints, the quality control department will lead the production engineering department and the production department to formulate and implement improvement measures or preventive measures, and track their effects. The responsible unit shall carry out the improvement measures and preventive measures, while the quality control department shall confirm the improvement results. In the end, the quality control department is responsible for reporting the preventive measures and standardised plans that are approved and improved to the operation general manager to avoid the occurrence of similar customer complaints.

7.5 Certificates

The Group is committed to providing quality services. The Group has also obtained a number of international certificates to support the Company in meeting the most stringent standards in different business areas.

The following are the certificates awarded to the Group's electronics business during the year.

Compliance certification	Description
ISO 9001	ISO 9001 is defined as the international standard that specifies requirements for a quality management system.
ISO 14001	The standard requires companies to establish an environmental management system that covers environmental objectives, policies and procedures to achieve those objectives, terms of reference, employee training activities, document preparation and control over any changes and progress.
ISO 45001	The standard provides a framework for an occupational health and safety management system, which ensures that plants provide the best working environment for employees. This certification is in line with the national best practice.
SMETA	It ensures that plants and manufacturers operate in accordance with relevant requirements for corporate social responsibility.

8. WIN-WIN COOPERATION FOR CREATING CORPORATE VALUE

The Group is willing to share experience with strategic partners, learn from each other, and jointly conduct research and make innovation. In order to improve the specialised application of satellites, the Group cooperated with senior scholars and professors in various fields to establish a satellite application expert committee and an aerospace technology development steering committee on 1 September 2021, aiming to mull over the Group's aerospace technology development and industrial positioning.

In terms of the Group's aerospace business, due to the scarcity of satellite launch services and the limited availability of suppliers in the market, Gang Hang Ke (Shenzhen) Space Technology Limited ("**SZ Gang Hang Ke**") and China Great Wall Industry Corporation ("**CGWIC**") entered into a multiple satellite launching service agreement on 20 August 2021. CGWIC is the sole commercial organisation authorised by the Chinese government to provide commercial launch services, satellite systems and to carry out international space cooperation. As the professional company promoting internationalised development for China's space industry, CGWIC can provide the Group with complete professional commercial launch services and other related services. The Group believes that the strong alliance with CGWIC will have a positive effect on the future development of its aerospace business and will further enhance the aerospace innovation of the Golden Bauhinia Constellation project, which will serve the economic and social development of the Greater Bay Area.

As far as the Group's electronics business is concerned, the manufacturing of integrated circuits is in the middle of the entire integrated circuit industry that connects both upstream and downstream sectors. Our procurement covers a wide range of products and services, including production equipment, maintenance parts for production equipment, raw materials, facilities for plants, fire protection facilities and engineering services. Based on the idea of win-win cooperation with suppliers, the Group strives to help improve the social responsibility management capabilities of companies in the supply chain, reduce the risks brought to us by the supply chain, ensure the stability of production and operation, and ensure the quality of service for customers.

We actively support the development of the local supply chain, and the proportion of domestic suppliers in the raw material supply chain for the electronics business is increasing year by year. The number and percentage of suppliers for the electronics business by geographical region are as follows:

Region	Number	Percentage %
Mainland, the PRC	1828	92.42%
Hong Kong, the PRC	103	5.21%
Taiwan, the PRC	8	0.40%
South Korea	25	1.26%
USA	6	0.30%
Europe	4	0.20%
Others	4	0.20%

In order to support the localisation of supply of raw materials, we continuously cooperated with local raw material suppliers, strengthened the evaluation on local raw materials, and expanded the amount and proportion of local procurement to promote the construction of the local electronic industry chain.

8.1 Supplier Approval and Selection

A supplier approval and evaluation system has been established for the electronics business. The departments involved in the approval and evaluation of new suppliers include the quality control department, the system department, the purchasing department and the using unit, which conduct evaluation from the quality parameters of products and the quality management system of suppliers, the environmental protection/safety/sanitation management of suppliers, labour rights management, business ethics management, warehousing/logistics/after-sales service management of suppliers, production and use status of products, respectively. Suppliers can be included into the Company's list of qualified suppliers only after they have been evaluated, met the relevant qualification requirements and earned a passing score. All contracted suppliers must be in the list of qualified suppliers.

The main aspects from which suppliers are selected are as follows:

1. Quality management & supplier management/incoming quality control and hazardous substance control

2. Warehouse management and hazardous substance management

3. Process control and hazardous substance process management

4. Finished product inspection and shipment control, and hazardous substance control

5. Finished product inspection and shipment control, and hazardous substance control

6. Non-conformity control

7. Instrument and equipment, and reliability testing control

8. Customer complaint handling

9. Training management

10. Labour management, and social ethics, health, safety and environmental standards

11. Process control and hazardous substance process management

In addition to basic items, such as price and quality, social and environmental factors are also specified as mandatory evaluation items. Suppliers shall establish a quality management system and an environmental management system according to the latest ISO 9001, ISO 14001, QC 080000, TL 9000 and TS 16949 standards, and comply with rules about labour and human rights protection, health and safety, chemical management and environmental protection.

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8.2 Supplier Responsibility Management

As far as the electronics manufacturing business is concerned, the Group has established a set of complete and applicable management specifications (QDCSTE: Quality, Delivery, Cost, Service, Technology and Environment) in order to continuously obtain stable materials that meet the requirements for quality, environment, delivery, service and price, and set up a supplier evaluation team consisting of an incoming quality controller (IQC), a supplier quality engineer (SQE) and employees from the purchasing department, so as to ensure that suppliers meet standards in all aspects. The evaluation team assesses the quality system and environmental initiatives of suppliers on a quarterly basis. Suppliers with lower scores need to seek improvements. An overview of the dimensions and indicators for supplier evaluation is shown below:

Evaluation dimensions	Evaluation indicators
Quality (25 points)	• Lot reject rate (LRR) • Defect parts per million (DPPM) • Timeliness of response to material vendor corrective action request (MVCAR) • Effective achievement rate of vendor corrective action report (VCAR)
Delivery (20 points)	• On-time delivery (OTD)
Cost (25 points)	• Does a supplier meet the Company's cost reduction expectations • Does a supplier meet the Company's 60-day settlement expectations • Comparison of cost (price)
Service (10 points)	• Scoring by IQC/SQE, sourcing engineers and procurement merchandisers, respectively
Technology (10 points)	• Scoring by the engineering department
Environment (10 points)	• Environmental protection • RoHS

9. LOVING THE HOMELAND AND SINCERELY GIVING BACK TO SOCIETY

As a global corporate citizen, the Group focuses on conveying love and actively supports charity activities, as a move to fulfill the corporate social responsibilities. In addition, we care deeply about our employees and hold many meaningful activities to allow employees to relax and relieve stress while constantly improving their calibre and enriching their knowledge. The Group will continuously make and show its contributions to the society to advance social progress, bring warmth to more people and exert greater influence.

Case 1: The Group rushed to the front line of flood control and disaster relief in Henan

In July 2021, the Group actively participated in flood control and disaster relief work in Henan and fought against the natural disaster together with people in the province. When disaster relief efforts in Henan were being stepped up across the country, the Group made an all-out effort to collect HK$24 million worth of supplies, including disinfectants and cleaning products, and raise HK$4 million in donations, which were sent to the disaster-hit areas immediately. It helped victims return to normal life as soon as possible and contribute to local reconstruction.

Moreover, the Group's Beijing office sent a delegation to the disaster-hit areas, and set up a joint working group with local rescue forces and departments at all levels in the Mainland to provide supplies for people in the disaster-hit areas and express deepest sympathy to the families of civil servants who died on duty. The Group also cooperated with departments in Henan to follow up the assistance and post-disaster living conditions of the families of those killed in the disaster. It helped them whenever possible.

Case 2: The Company led its employees to visit the PLA Hong Kong Garrison Exhibition Center

The PLA Hong Kong Garrison Exhibition Center located at Ngong Shuen Chau Barracks is a key military venue for the military system to celebrate the 100th anniversary of the founding of the Communist Party of China. The Company actively led its employees to visit the PLA Hong Kong Garrison Exhibition Center located at Ngong Shuen Chau Barracks, in a bid to deepen their understanding of the history and development of the people's army and the country, and enhance their pride in the splendid civilisation and brilliant achievements of the great motherland, the Chinese culture and the Chinese nation.

Appendix I: ESG KPIs Table

Environmental Area

KPIs		Unit	2021	2020	2019
Emissions	Sulphur oxides emissions	Kg	0.8	0.5	0.5
	Nitrogen oxides emissions	Kg	123.3	246.2	426.5
	Particulate Matter emissions	Kg	11.7	17.1	32.8
Greenhouse gas emissions	Greenhouse gas emissions (Scope 1)	Tonnes of CO2 equivalent	211.08	87.59	86.24
	Greenhouse gas emissions (Scope 2)	Tonnes of CO2 equivalent	5,445.44	5,197.00	5,142.00
	Total greenhouse gas emissions	Tonnes of CO2 equivalent	5,656.52	5,284.59	5,228.24
	Greenhouse gas emission intensity	Tonnes of CO2 equivalent/ person	8.47	None	None
Hazardous waste	Total hazardous waste	Tonnes	0.055	None	None
	Hazardous waste intensity	Tonnes/person	0.00008234	None	None
Non-hazardous waste	Total non-hazardous waste	Tonnes	0	None	None
	Non-hazardous waste intensity	Tonnes/person	0	None	None
Use of Resources	Total electricity consumption	kWh	6,773,710.500	6,210,983	6,145,544
	Total energy consumption	kWh in '000s	7,445	None	None
	Energy consumption intensity	kWh in '000s/person	11.15	None	None
Water consumption	Water consumption	Tonnes	30,006.45	28.6	40.4
	Water consumption intensity	Tonnes/person	44.92	None	None

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Description of Environmental Data and Factors

1. The environmental data spans from 1 January to 31 December 2021. The data collection covers Shenzhen Hengchang Sheng Technology Co., Ltd. (its plants in Shenzhen, Huizhou and Xiamen), Hong Kong Aerospace Technology's Headquarters and Gang Hang Ke (Shenzhen) Space Technology Limited.

2. Greenhouse gas emissions (Scope 1) are mainly generated from the fuel consumption of company vehicles, and greenhouse gas emissions (Scope 2) are mainly from purchased electricity. Data sources are the bills of payment and administrative statistics ledgers. Greenhouse gas emissions factors of purchased electricity are from the Baseline Emission Factors in China's Regional Power Grid for 2017 published by the Ministry of Ecology and Environment, and other energy emission factors are from the Reporting Guidance on Environmental KPIs published by The Stock Exchange of Hong Kong Limited.

3. The energy consumed by the Group in 2021 includes fuel for company vehicles and purchased electricity. Data sources are the bills of payment and administrative statistics ledgers. Energy consumption factors are based on the conversion factors provided by the International Energy Agency and the GB/T2589–2008 General Principles for Calculation of the Comprehensive Energy Consumption.

4. The hazardous waste is used oil, waste lamp tubes, waste ink cartridges, exhaust and wastewater, and empty barrels.

5. The water used by the Group was supplied by Yingzhan Electronic Technology (Shenzhen) Co., Ltd. Data sources are financial records and administrative statistics ledgers.

6. The Group's water consumption data in 2021 cover the data from Shenzhen Hengchang Sheng Technology Co., Ltd. (its plants in Shenzhen, Huizhou and Xiamen). Water consumption in 2021 increased significantly from 2020, largely because of the wider coverage of water use data and an increase in the water consumption due to improved productivity of the newly-added Huizhou and Xiamen plants, with expansion of the Group's electronics manufacturing business.

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Social Area

KPIs		2021	
Total workforce by gender, employment type, age group and geographical region			
		Number of employees (persons)	**Percentage (%)**
By gender	Male	370	55%
	Female	298	45%
By employment type	Full-time	656	98%
	Part-time	12	2%
By age group	Under 30 years old	221	33%
	31-50 years old	416	62%
	Above 50 years old	31	5%
By geographical region	Mainland, the PRC	640	96%
	Overseas and Hong Kong, Macau and Taiwan	28	4%
Total employees		668	
Employee turnover rate by gender, age group and geographical region			
		Number of employees leaving (persons)	**Total turnover rate (%)**
By gender	Male	22	5.9%
	Female	2	0.6%
By age group	Under 30 years old	21	9.5%
	31-50 years old	3	0.7%
	Above 50 years old	0	0%
By geographical region	Mainland, the PRC	23	3.6%
	Overseas and Hong Kong, Macau and Taiwan	1	3.6%

Health and Safety			
Number of work-related fatalities occurred in the past three years		0	
Lost days due to work injury		0	
Percentage of employees trained and average training hours completed per employee by gender and employee category			
		Percentage of employees trained	**Average training hours completed per employee**
By gender	Male	100%	29.4
	Female	100%	25.2
By rank	Managers	100%	14.7
	Ordinary employees	100%	20.9
Supply Chain Management			
Number of suppliers	Suppliers in Mainland	1,828	
	Overseas and Hong Kong, Macau and Taiwan	150	
Total suppliers		1,978	
Customer Service Data			
Number of customer complaints (times)		0	
Return visit (times)		0	
Community Investment			
Investment amount (HK$)		28 million	

APPENDIX II: GUIDE CONTENT INDEX

ESG Indicators		Disclosure	Corresponding Sections
A1 General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Disclosed	Resilient Development with Greenness and Low Carbon
A1.1	The types of emissions and respective emissions data.	Disclosed	Appendix I
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	Appendix I
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	Appendix I
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	Appendix I
A1.5	Description of emission target(s) set and steps taken to achieve them.	Disclosed	Resilient Development with Greenness and Low Carbon
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Disclosed	Resilient Development with Greenness and Low Carbon
A2 General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	Resilient Development with Greenness and Low Carbon
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Disclosed	Appendix I
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Disclosed	Appendix I
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Disclosed	Resilient Development with Greenness and Low Carbon
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Disclosed	Resilient Development with Greenness and Low Carbon
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Disclosed	Resilient Development with Greenness and Low Carbon

ESG Indicators		Disclosure	Corresponding Sections
A3 General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Disclosed	Resilient Development with Greenness and Low Carbon
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	Resilient Development with Greenness and Low Carbon
A4 General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Disclosed	Resilient Development with Greenness and Low Carbon
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Disclosed	Resilient Development with Greenness and Low Carbon
B1 General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Disclosed	Working with Employees to Create an Inclusive Workplace
B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Disclosed	Appendix I
B1.2	Employee turnover rate by gender, age group and geographical region.	Disclosed	Appendix I
B2 General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Disclosed	Working with Employees to Create an Inclusive Workplace
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Disclosed	Appendix I
B2.2	Lost days due to work injury.	Disclosed	Appendix I
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Disclosed	Working with Employees to Create an Inclusive Workplace
B3 General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Disclosed	Working with Employees to Create an Inclusive Workplace
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Disclosed	Appendix I
B3.2	The average training hours completed per employee by gender and employee category.	Disclosed	Appendix I

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Indicators		Disclosure	Corresponding Sections
B4 General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Disclosed	Working with Employees to Create an Inclusive Workplace
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Disclosed	Working with Employees to Create an Inclusive Workplace
B4.2	Description of steps taken to eliminate such practices when discovered.	Disclosed	Working with Employees to Create an Inclusive Workplace
B5 General Disclosure	Policies on managing environmental and social risks of the supply chain.	Disclosed	Win-win Cooperation for Creating Corporate Value
B5.1	Number of suppliers by geographical region.	Disclosed	Appendix I
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Disclosed	Win-win Cooperation for Creating Corporate Value
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Disclosed	Win-win Cooperation for Creating Corporate Value
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Disclosed	Win-win Cooperation for Creating Corporate Value
B6 General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Disclosed	Innovation Drives Fulfilment of Quality Responsibility
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Disclosed	Innovation Drives Fulfilment of Quality Responsibility
B6.2	Number of products and service related complaints received and how they are dealt with.	Disclosed	Innovation Drives Fulfilment of Quality Responsibility
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	Innovation Drives Fulfilment of Quality Responsibility

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Indicators		Disclosure	Corresponding Sections
B6.4	Description of quality assurance process and recall procedures.	Disclosed	Innovation Drives Fulfilment of Quality Responsibility
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Disclosed	Innovation Drives Fulfilment of Quality Responsibility
B7 General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Disclosed	Adhering to the Mission of Integrity and Compliance Operation
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	Adhering to the Mission of Integrity and Compliance Operation
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Disclosed	Adhering to the Mission of Integrity and Compliance Operation
B7.3	Description of anti-corruption training provided to directors and staff.	Disclosed	Adhering to the Mission of Integrity and Compliance Operation
B8 General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	Loving the Homeland and Sincerely Giving Back to the Society
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Disclosed	Loving the Homeland and Sincerely Giving Back to the Society
B8.2	Resources contributed (e.g. money or time) to the focus area.	Disclosed	Loving the Homeland and Sincerely Giving Back to the Society

REPORT OF DIRECTORS

The Directors are pleased to present to the Shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) EMS business which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to the customers in respect of the assembling and production of PCBA and fully-assembled electronic products; and (ii) aerospace business, currently under the "Golden Bauhinia Constellation" project, which includes (1) smart city with satellite big data applications and solutions; (2) satellite measurement and controlling; (3) satellite manufacturing; and (4) satellite launching. Details of the principal activities of the Company's subsidiaries are set out in Notes 1 and 29 to the consolidated financial statements.

CHANGE OF COMPANY NAME

The change of name of the Company from "Eternity Technology Holdings Limited" to "Hong Kong Aerospace Technology Group Limited" and the adoption of the Chinese name of "香港航天科技集團有限公司" as the dual foreign name of the Company in place of its existing Chinese name "恒達科技控股有限公司" have become effective on 4 June 2021. The proposed change of company name was passed by the Shareholders at the extraordinary general meeting held on 2 June 2021, the Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 4 June 2021, certifying that the change of name of the Company from "Eternity Technology Holdings Limited 恒達科技控股有限公司" to "Hong Kong Aerospace Technology Group Limited 香港航天科技集團有限公司" has been registered.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report, Financial Summary and the paragraphs below. The Group complies with the requirements under the Hong Kong Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "**SFO**") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

KEY RISK FACTORS

The following lists out the key risks and uncertainties faced by the Group.

Concentration of customers

The Group has a concentration of customers and any decrease or loss of business from these major customers could adversely and substantially affect our operations and financial conditions.

Fluctuations in the price of raw materials

Fluctuations in the price of raw materials may affect the cost of sales and adversely affect the business operations and profitability.

Financial Risks

The financial risks of the Group exposed to are shown in Note 3 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2021 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 106 to 109.

The Board does not recommend payment of final dividend for the year ended 31 December 2021 (2020: nil).

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 December 2021 are set out in Note 29 to the consolidated financial statements.

PROPERTIES, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 22 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holding in the Shares.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity.

CHARITABLE DONATIONS

During the Reporting Period, the Group contributed charitable donations amounting to approximately 7.2 million in cash and supplies to support the rescue and reconstruction works after the flood disaster in Henan Province, the PRC (2020: Nil).

MANAGEMENT CONTRACTS

During the Reporting Period, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, sales to the single largest customer of the Group and the five largest customers of the Group accounted for approximately 20.9% and 67.47% (2020: approximately 43.7% and approximately 75.5%) of the total sales of the year, respectively. During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 13.0% and 30.8% (2020: 8.9% and 26.8%) of the total purchases of the year, respectively. None of the Directors of the Company or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

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

Executive Directors

Mr. Sun Fengquan *(Co-Chairman and Chief Executive Officer)*
Dr. Lam Lee G. *(Co-Chairman)*
Mr. Lam Kin Fung Jeffrey
Ms. Ku Ka Lee Clarie *(Vice Chairman)*
Mr. Ma Fujun
Ms. Chen Xiaoyuan (resigned on 16 July 2021)
Mr. Cheng Bin (resigned on 16 July 2021)
Mr. Liao Pin-tsung (resigned on 16 July 2021)

Non-executive Directors

Dr. Yip Chung Yin
Mr. Lam John Cheung-wah

Independent non-executive Directors

Mr. Brooke Charles Nicholas
Professor Chan Ka Keung, Ceajer
Mr. Hung Ka Hai Clement
Mr. Leung Kwong Ho
Dr. Yuen Kwok Keung
Mr. Chan Chung Kik Lewis (resigned on 16 July 2021)
Mr. Chow Kit Ting (resigned on 16 July 2021)
Mr. Wu Chi-luen (resigned on 16 July 2021)
Mr. Lo Chi Chung William (resigned on 3 January 2022)

Article 84(1) of the Articles provides that every Director shall retire from office once every three years and for this purpose, at each AGM one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third but not less than one-third shall retire from office by rotation. Article 84(2) of the Articles of provides that Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he or she retires. For avoidance of doubt, each Director shall retire at least once every three years.

Article 83(3) of the Articles provides that the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to the above provisions of the Articles, all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("**AGM**").

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of Directors and the senior management of the Group are set out on pages 15 to 23 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the respective date of appointment and will continue thereafter (subject to retirement by rotation and re-election at an AGM at least once every three years in accordance with the Articles) and each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the respective date of appointment (subject to retirement by rotation and re-election at an AGM at least once every three years in accordance with the Articles).

Apart from the foregoing, no Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment or compensation, other than statutory compensation.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 7 January 2022, Mr. Lam John Cheung-wah ("**Mr. John Lam**"), our non-executive Director, and the Company entered into a consultancy agreement in relation to the consultancy services rendered and to be rendered by Mr. John Lam to the Company for a term of one year commencing from 1 August 2021. Pursuant to the consultancy agreement, Mr. John Lam is responsible for introducing potential investors to the Company and Mr. John Lam is entitled to a consultancy fee of HK$2,000,000 during the term thereof.

Save as disclosed above, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries, fellow subsidiaries or controlling shareholder was a party, and in which a Director of the Company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, interests or short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") are as follows:

(i) Interests in the Company

Name of Director	Nature of interest	Number of Shares[1]	Percentage of shareholding *(%)*
Mr. Sun Fengquan ("**Mr. Sun**")	Interest of a controlled corporation[2]	230,850,100(L)	74.71

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) These shares are directly held as to 5.83% by Vision International Group Limited ("**Vision**") and 68.88% by HKATH. The entire issued share capital of HKATH comprises 62.36% ordinary shares (class A) ("**Class A Shares**") and 37.64% ordinary shares (class B) ("**Class B Shares**"), of which 71.41% (comprising of 62.36% Class A Shares and 9.05% Class B Shares) is owned by Vision, which in turn is wholly-owned by Mr. Sun, and the remaining 28.59% Class B Shares is owned by a group comprising 21 individuals, corporate and private equity funds. Therefore, Mr. Sun is deemed or taken to be interested in the Shares held by HKATH under the SFO.

(ii) Interests in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Nature of interest	Number of shares interested[1]		Percentage of shareholding (%)
Mr. Sun[2]	HKATH	Interest of a controlled corporation	Class A:	6,236(L)	
			Class B:	905(L)	
				7,141(L)	71.41
Dr. Lam Lee G. ("**Dr. Lam**")	HKATH	Beneficial owner	Class B:	200(L)	2.00
Dr. Yip Chung Yin ("**Dr. Yip**")[3]	HKATH	Interest of a controlled corporation	Class B:	107(L)	1.07

Notes:

(1) The letter "L" denotes the person's long position in the shares of the relevant associated corporation.

(2) Vision is interested in 7,141 ordinary shares (comprising 6,236 Class A Shares and 905 Class B Shares), representing 71.41% (comprising of 62.36% Class A Shares and 9.05% Class B Shares) of the issued shares of HKATH. Vision is wholly-owned by Mr. Sun. Therefore, Mr. Sun is deemed or taken to be interested in the Shares held by HKATH under the SFO.

(3) Dr. Yip and his family members, through their investment vehicles, are interested in 107 Class B Shares, representing 1.07% of the issued shares of HKATH. Dr. Yip holds one third of the investment vehicles and hence deemed or taken to be interested in the Shares held by HKATH under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at the date of this report, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Saved as disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year was the Group, or the Company's holding company or any subsidiary of its holding company a party to any arrangements to enable the Directors, or any of their spouses or children under the age of 18 to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as the Directors are aware, as at the date of this report, the following corporations/persons (other than the Directors and chief executives of the Company) had interests of 5% or more in the issued Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares held/ interested(1)	Percentage (%)
HKATH	Beneficial owner(2)	212,850,100	68.88
Vision	Interest of a controlled corporation(2)	230,850,100	74.71

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) These Shares are directly held as to 5.83% by Vision and 68.88% by HKATH. Vision is interested in 7,141 ordinary shares (comprising 6,236 Class A Shares and 905 Class B Shares), representing 71.41% (comprising of 62.36% Class A Shares and 9.05% Class B Shares) of the issued shares of HKATH. Therefore, Vision is deemed or taken to be interested in the Shares held by HKATH under the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company, other than the Directors and chief executive of the Company, as at the date of this report which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Reporting Period and up to the date of this report.

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 25 July 2018 (the "**Share Option Scheme**"), which became effective on the Listing Date. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives: (i) motivate the eligible participants to optimise their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible participants of the Scheme may include any employee (full-time or part-time), executives, officers, or directors (including non-executive directors and independent non-executive directors) of the Group, and any advisors, consultants, suppliers, customers, distributers and such other persons who in the sole opinion of the Board, will contribute or have contributed to the Group (together, the "**Eligible Participants**" or each "**Eligible Participant**").

Unless approved by Shareholders in general meeting in the manner stipulated in the Listing Rules, the maximum entitlement for each Participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from the date of adoption of the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised.

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.

As at the date of this report, the total number of shares available for issue under the Scheme was 30,000,000, representing 10% of the issued share capital of the Company as at the Listing Date. The aggregate number of shares which may be issued upon exercise of all outstanding options granted and to be exercised under the Scheme and any other share options schemes of the Company, must not in aggregate exceed 10% of the Company's shares in issue. The 10% limit may be refreshed at any time by obtaining approval of the Company's shareholders in general meeting provided that the total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company, must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption.

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption and the remaining life of the Share Option Scheme is approximately 7 years.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2021 and up to the date of this report.

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the Reporting Period are set out in Note 33 to the consolidated financial statements. For the year ended 31 December 2021, none of these related party transactions are connected transaction which are subject to the reporting, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTIONS

The connected transactions or continuing connected transactions of the Group under Chapter 14A of the Listing Rules entered by the Group with Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司) in the year of 2018 with a term of three years, which was renewed during the Reporting Period, were fully exempt from reporting, disclosure and independent shareholders' approval requirements under the Listing Rules. Details were disclosed in Note 33 to the consolidated financial statements.

On 7 January 2022, Mr. John Lam, our non-executive Director, and the Company entered into a consultancy agreement in relation to the consultancy services rendered and to be rendered by Mr. John Lam to the Company for a term of one year commencing from 1 August 2021. Pursuant to the consultancy agreement, Mr. John Lam is responsible for introducing potential investors to the Company and Mr. John Lam is entitled to a consultancy fee of HK$2,000,000 during the term thereof. The consultancy agreement was conducted on normal commercial terms and was fully exempt from reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules as all the percentage ratios are less than 5% and the total consideration payable to Mr. John Lam together with the director's fee of Mr. John Lam during the Reporting Period is less than HK$3,000,000. Details were disclosed in Note 33 to the consolidated financial statements.

FUTURE PROSPECT AND DEVELOPMENT

With reference to the Business Strategy section of the Chairman's Statement, the Group will continue to strive to system long term growth in the aerospace business and the EMS business, strengthen the production capacity and enhance production efficiency to secure more business opportunities. We will continue to strive a balance among the interests of shareholders, employees and customers, and pursue long-term and sustainable development for the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

* *For identification purpose only*

AUDIT COMMITTEE

The Company established the Audit Committee on 25 July 2018 with terms of reference in compliance with the CG Code to the Listing Rules for the purpose of to making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the internal control procedures of the Group. The Audit Committee now comprises 4 members, all being independent non-executive Directors, namely, Mr. Hung Ka Hai Clement (Chairman), Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer and Mr. Leung Kwong Ho.

The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2021.

AUDITOR

PricewaterhouseCoopers, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 29 June 2022 to seek Shareholders' approval on the appointment of PricewaterhouseCoopers as the Company's auditor until the conclusion of the next AGM and to authorize the Board to fix their remuneration.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management personnel as well as other employee benefit arrangements. The Remuneration Committee now comprises one executive Director, namely Dr. Lam Lee G. and three independent non-executive Directors, namely Professor Chan Ka Keung, Ceajer (Chairman), Mr. Brooke Charles Nicholas and Dr. Yuen Kwok Keung.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee now comprises two executive Directors, namely Mr. Sun Fengquan (Chairman) and Dr. Lam Lee G. and three independent non-executive Directors, namely Mr. Hung Ka Hai Clement, Mr. Leung Kwong Ho and Dr. Yuen Kwok Keung.

CORPORATE GOVERNANCE PRACTICES

Corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules as at the date of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the Model Code during the Reporting Period.

USE OF PROCEEDS

Details of the use of the proceeds from the Listing are set out on page 12 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, to the best knowledge of the Directors, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group.

RELATIONSHIPS WITH STAKEHOLDERS

Employees are the assets of the Group. The Group provides competitive remuneration package and a pleasant workplace environment to attract and motivate the employees. An annual performance evaluation will be conducted annually based on individual's contributions and achievements throughout the year and the Group will make necessary adjustments based on the result of the performance evaluation. The Group provides periodical trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organisations.

The Group understands the importance of maintaining a good relationship with its business partners, including customers, suppliers, bankers and other financial institutions. The Group believes that a healthy relationship can be built up by providing enhanced services to customers, maintaining an effective communication channel to employees and business partners.

REPORT OF DIRECTORS

ENVIRONMENTAL POLICY AND SOCIAL RESPONSIBILITY

The Group understands the importance of environmental sustainability and protection and has adopted policies on pollution prevention, preservation of natural resources and adherence to environmental laws and regulations. Please refer to the ESG Report on pages 38 to 85 for details of our ESG performance.

By order of the Board

Sun Fengquan
Co-Chairman & Chief Executive Officer

Hong Kong, 31 March 2022

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Hong Kong Aerospace Technology Group Limited (formerly known as Eternity Technology Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hong Kong Aerospace Technology Group Limited (formerly known as Eternity Technology Holdings Limited) (the "Company") and its subsidiaries (the "Group"), which are set out on pages 106 to 185, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

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 2021, 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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INDEPENDENT AUDITOR'S REPORT

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1(a) to the consolidated financial statements, which indicates that the Group recorded a net loss of RMB53,075,000 and a net cash outflow from operating activities of RMB176,845,000 for the year ended 31 December 2021. As at 31 December 2021, the Group's bank and other borrowings and lease liabilities repayable within twelve months totalled RMB147,344,000 while the Group's cash and cash equivalents was RMB91,433,000. Furthermore, the Group had significant financial obligations and capital expenditures commitment under various contractual and other arrangements as at 31 December 2021. These conditions, along with other events and conditions as set forth in Note 2.1(a) to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition for the sales of goods and the provision of manufacturing services
- Impairment of contract assets, trade and bills receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition for the sales of goods and the provision of manufacturing services Refer to Notes 2.22 and 5 to the consolidated financial statements. During the year ended 31 December 2021, revenue of approximately RMB650,230,000 was recognised in the Group's consolidated statement of comprehensive income.	Our audit procedures performed on revenue recognition for the sale of goods and provision of manufacturing services included: • We understood, evaluated and validated the key controls in respect of revenue recognition for the sales of goods and the provision of manufacturing services and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We reviewed, on a sample basis, the sales contracts with customers and identified the terms and conditions relating to the timing of transfer of controls of goods or services, to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue from the sales of goods transferred at a point in time is recognised when the control of goods has transferred, being when the Group has delivered the products to the customers and the customers have accepted the products; revenue from the provision of manufacturing services transferred over time is recognised over the period of the contract using the input method with reference to the total actual costs incurred and the total estimated costs on completion for the services. We focused on this area due to the magnitude of revenue transactions occurred. Hence significant audit resources were allocated to audit this area.	• We compared, on a sample basis, revenue transactions recognised during the year with delivery documents, customers' acknowledgement of sales and underlying sales invoices to determine whether revenue from the sales of goods and the provision of manufacturing services had been recognised in accordance with the Group's revenue recognition policies; • We tested, on a sample basis, revenue transactions from the sales of goods recognised before and after the financial year-end to delivery documents, customers' acknowledgement of sales and underlying sales invoices to determine whether revenue from the sales of goods had been recognised in the appropriate financial period; • We tested, on a sample basis, the actual costs incurred from the provision of manufacturing services during the year; • We assessed the total estimated costs on completion from the provision of manufacturing services by comparing with historical data of transactions under similar contracts; • We recalculated, on a sample basis, the revenue recognised from the provision of manufacturing services based on the actual costs incurred and the estimated costs on completion; • We assessed the adequacy of the disclosures related to revenue recognition in the context of the applicable financial reporting framework; and • We also considered whether the judgements made in the selection of significant assumptions and data in determination of revenue recognition would give rise to indicators of possible management bias. Based upon the above procedures performed, we considered that the recognition of revenue from the sales of goods and the provision of manufacturing services was supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of contract assets, trade and bills receivables Refer to Notes 2.10, 2.11, 3.1 and 20 to the consolidated financial statements. As at 31 December 2021, the Group had gross contract assets and trade and bills receivables of approximately RMB149,166,000, against which an allowance for impairment of approximately RMB5,384,000 was recorded. Management applied judgement and estimates to measure the expected credit losses allowance. The contract assets, trade and bills receivables were grouped based on similar credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the geographical locations that the customers are operating in, their ageing category and past collection history. The expected credit loss rates were determined based on historical default rates and were adjusted to reflect forward-looking information in the macroeconomic environment that may affect the ability of the customers to repay. We focused on auditing the impairment of contract assets, trade and bills receivables including the related disclosures because of the magnitude of the impairment of contract assets, trade and bills receivables and the high degree of estimation uncertainty subject to. The inherent risk in relation to the impairment assessment of contract assets, trade and bills receivables is considered significant due to the subjectivity of significant assumptions used and significant judgements involved in data selection for the above estimation.	Our audit procedures performed on impairment of contract assets, trade and bills receivables included: • We obtained an understanding of the management's internal control and assessment process of impairment of contract assets, trade and bills receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We performed retrospective review by comparing previous estimates to actual outcome. We evaluated the outcome of prior period assessment of impairment of contract assets, trade and bills receivables to assess the effectiveness of management's estimation process; • We evaluated and validated the key controls over impairment of contract assets, trade and bills receivables, such as credit control and debt collection; • We assessed the appropriateness of the expected credit loss methodology adopted by management with reference to historical payment records, ageing analysis and default rates; • We tested, on a sample basis, the accuracy of key historical data inputs; • We evaluated the reasonableness of the forward-looking information including relevant macroeconomic variables and assessed the sensitivity;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
	• We assessed the adequacy of the disclosures related to impairment of contract assets, trade and bills receivables in the context of the applicable financial reporting framework; and • We also considered whether the judgements made in the grouping of contract assets, trade and bills receivables and the selection of significant assumptions and data in the determination of expected credit loss rates would give rise to indicators of possible management bias. Based upon the above procedures performed, we considered that management's judgement and assumptions applied in respect of the impairment of contract assets, trade and bills receivables were supportable by the evidence obtained and procedures performed.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 THE AUDIT COMMITTEE 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 disclosure requirements of 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.

The Audit Committee is 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. We report our opinion solely to you, as a body, 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 scepticism 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.

INDEPENDENT AUDITOR'S REPORT

- 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 the Audit Committee 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 the Audit Committee 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Cheng Lap Yam.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2022

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Revenue	5	**650,230**	547,825
Cost of sales	6	**(613,114)**	(498,231)
Gross profit		**37,116**	49,594
Other income	7	**3,567**	12,555
Other losses, net	8	**(636)**	(394)
Selling and distribution expenses	6	**(16,571)**	(13,228)
Administrative expenses	6	**(69,606)**	(22,960)
Net impairment losses on financial assets	6	**(131)**	(5,122)
Operating (loss)/profit		**(46,261)**	20,445
Finance income		**503**	560
Finance costs		**(1,199)**	(678)
Finance costs, net	10	**(696)**	(118)
(Loss)/profit before income tax		**(46,957)**	20,327
Income tax expense	11	**(6,118)**	(3,004)
(Loss)/profit for the year attributable to equity holders of the Company		**(53,075)**	17,323
(Loss)/earnings per share attributable to equity holders of the Company			
Basic and diluted	12	**(RMB17.61 cents)**	RMB5.77 cents

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2021

	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(53,075)**	17,323
Other comprehensive (loss)/income:		
Item that will not be reclassified to profit or loss		
Currency translation differences	**(1,898)**	(3,646)
Item that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**1,193**	432
Total comprehensive (loss)/income for the year attributable to equity holders of the Company	**(53,780)**	14,109

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Properties, plant and equipment	13	340,456	82,009
Right-of-use assets	13	87,712	39,771
Intangible assets	14	786	1,283
Restricted cash	19	2,683	–
Prepayments and deposits	17	12,002	15,845
Deferred income tax assets	23	231	1,392
		443,870	140,300
Current assets			
Inventories	18	161,931	80,528
Contract assets	20	4,973	5,517
Trade and bills receivables	20	138,809	106,606
Prepayments, deposits and other receivables	17	72,149	29,718
Derivative financial instruments	16	–	399
Amounts due from related companies	33	486	–
Current income tax recoverable		21	–
Pledged bank deposits	19	27,500	33,699
Short-term bank deposits	19	139	92
Cash and cash equivalents	19	91,433	178,904
		497,441	435,463
Total assets		941,311	575,763
Equity			
Equity attributable to equity holders of the Company			
Share capital	22	2,693	2,619
Share premium	22	304,492	110,868
Retained earnings		57,489	110,497
Reserves		26,869	26,306
Total equity		391,543	250,290

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Liabilities			
Non-current liabilities			
Deferred government grants	21	10,019	10,980
Lease liabilities	13(b)	33,135	107
Bank and other borrowings	26	63,449	20,943
Deferred tax liabilities	23	1,323	–
		107,926	32,030
Current liabilities			
Trade and bills payables	24	176,118	196,412
Other payables and accruals	25	61,292	45,664
Contract liabilities	25	45,130	33,248
Current income tax liabilities		8,785	6,465
Lease liabilities	13(b)	8,177	5,855
Bank and other borrowings	26	139,167	5,799
Amount due to the immediate holding company	33	3,143	–
Amount due to the ultimate holding company	33	15	–
Amount due to a related company	33	15	–
		441,842	293,443
Total liabilities		549,768	325,473
Total equity and liabilities		941,311	575,763

The consolidated financial statements on pages 106 to 185 were approved by the Board of Directors on 31 March 2022 and were signed on its behalf.

Sun Fengquan
Director

Ku Ka Lee Clarie
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2021

	Attributable to equity holders of the Company						
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2021	2,619	110,868	14,591	12,662	(947)	110,497	250,290
Comprehensive loss							
Loss for the year	–	–	–	–	–	(53,075)	(53,075)
Other comprehensive (loss)/ income							
Currency translation differences	–	–	–	–	(1,898)	–	(1,898)
Exchange differences on translation of foreign operations	–	–	–	–	1,193	–	1,193
Total comprehensive loss	–	–	–	–	(705)	(53,075)	(53,780)
Transactions with owners							
Issue of shares *(Note 22)*	74	194,524	–	–	–	–	194,598
Transaction costs attributable to issue of new shares	–	(900)	–	–	–	–	(900)
Adjustment for common control combinations *(Note 28)*	–	–	–	1,335	–	–	1,335
Appropriation *(Note)*	–	–	(67)	–	–	67	–
Total transactions with owners	74	193,624	(67)	1,335	–	67	195,033
Balance at 31 December 2021	2,693	304,492	14,524	13,997	(1,652)	57,489	391,543

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2021

	Attributable to equity holders of the Company						
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000*	Other reserve *RMB'000*	Exchange reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2020	2,619	110,868	11,755	12,662	2,267	96,010	236,181
Comprehensive income							
Profit for the year	–	–	–	–	–	17,323	17,323
Other comprehensive (loss)/ income							
Currency translation differences	–	–	–	–	(3,646)	–	(3,646)
Exchange differences on translation of foreign operations	–	–	–	–	432	–	432
Total comprehensive (loss)/ income	–	–	–	–	(3,214)	17,323	14,109
Transaction with owners							
Appropriation *(Note)*	–	–	2,836	–	–	(2,836)	–
Total transaction with owners	–	–	2,836	–	–	(2,836)	–
Balance at 31 December 2020	2,619	110,868	14,591	12,662	(947)	110,497	250,290

Note: The People's Republic of China (the "PRC") laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current period. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	27(a)	(176,093)	96,022
Income tax paid		(1,255)	(3,098)
Interest received		503	560
Net cash (used in)/generated from operating activities		(176,845)	93,484
Cash flows from investing activities			
Purchase of properties, plant and equipment		(257,312)	(42,457)
Purchase of land-use rights		(12,757)	–
Proceeds from disposal of properties, plant and equipment	27(b)	152	468
Prepayment for development cost of intangible asset		(2,347)	–
Purchase of intangible assets		(47)	(129)
Redemption of short-term bank deposits		–	9,129
Change in restricted cash		(2,683)	–
Receipt of government grants		1,383	10,700
Net cash used in investing activities		(273,611)	(22,289)
Cash flows from financing activities			
Proceeds from bank and other borrowings	27(c)	199,425	23,942
Repayments of bank borrowings	27(c)	(21,907)	(13,149)
Payment of bank charges and interests on bank borrowings		(2,981)	(805)
Advance from the ultimate holding company	27(c)	3	–
Repayments to the immediate holding company	27(c)	(253)	–
Repayments of principal elements of lease liabilities	27(c)	(9,653)	(9,236)
Repayments of interest elements of lease liabilities	27(c)	(1,199)	(433)
Change in restricted cash		–	2,865
Change in short-term bank deposits		(47)	(37)
Proceeds from common control combinations, net of consideration paid	28	5,126	–
Proceeds from issuance of shares	22	194,598	–
Payment of transaction costs attributable to issue of new shares	22	(900)	–
Net cash generated from financing activities		362,212	3,147
Net (decrease)/increase in cash and cash equivalents		(88,244)	74,342
Cash and cash equivalents at beginning of the year		178,904	107,856
Currency translation differences		773	(3,294)
Cash and cash equivalents at end of the year	19	91,433	178,904

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Hong Kong Aerospace Technology Group Limited (formerly known as Eternity Technology Holdings Limited) (the "**Company**") was incorporated in the Cayman Islands on 15 March 2017 as an exempted company with limited liability under the Companies Act (Cap. 22, Act 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and the Group is principally engaged in (i) electronics manufacturing services ("**EMS**") business which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to the customers in respect of the assembling and production of printed circuit board assemblies (the "**PCBA**") and fully-assembled electronic products; and (ii) aerospace business, currently under the "Golden Bauhinia Constellation" project, which includes (1) smart city with satellite big data applications and solutions; (2) satellite measurement and controlling; (3) satellite manufacturing; and (4) satellite launching.

As at 31 December 2021, the ultimate holding company of the Company is Vision International Group Limited (formerly known as Hong Kong Financial Assets Management Limited) and the immediate holding company of the Company is Hong Kong Aerospace Technology Holdings Limited (formerly known as Hong Kong Aerospace Technology Group Limited), both of these companies were incorporated in Hong Kong. The ultimate controlling shareholder of the Company is Mr. Sun Fengquan ("**Mr. Sun**").

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Listing**") on 16 August 2018.

These consolidated financial statements are presented in unit of Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**"), unless otherwise stated. These consolidated financial statements were approved for issue by the board of directors ("**Directors**") on 31 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Hong Kong Aerospace Technology Group Limited and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared on a historical cost convention as modified by the revaluation of derivative financial instruments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Basis of preparation — use of going concern basis

The Group recorded a net loss of RMB53,075,000 and a net cash outflow from operating activities of RMB176,845,000 for the year ended 31 December 2021. As at 31 December 2021, the Group's bank and other borrowings and lease liabilities repayable within twelve months totalled RMB147,344,000 while the Group's cash and cash equivalents was RMB91,433,000.

In addition, the Group has entered into (1) a number of leasing, procurement and installation contracts (the "**Installation and Procurement Contracts**") for the setting up of a satellite intelligent manufacturing center and a monitoring and operation control, application and data center for satellites in Hong Kong; and (2) construction contracts (the "**Manufacturing Plants Construction Contracts**") for expanding its production bases for EMS business in Mainland China. As at 31 December 2021, the Group's capital commitments and lease commitments (with lease terms commencing in 2022) amounted to RMB340,659,000 and RMB238,515,000 respectively, of which RMB304,289,000 and RMB24,719,000 respectively were expected to be payable within the next twelve months. The Group will need to secure a substantial amount of funding in the near future to finance these financial obligations and capital expenditures.

These facts and circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances, the Directors have given careful consideration of the future liquidity and cash flows of the Group in assessing whether the Group will have sufficient resources to continue as a going concern. For this purpose, the management has prepared a forecast covering a period of 12 months from the end of the reporting period taken into account of the followings:

(a) In March 2022, the Group entered into a legally binding agreement with an independent third party lender to extend certain borrowings of approximately RMB88,024,000 which are due on various dates from March, July, October and November 2022 to March 2024;

(b) In March 2022, the Group entered into eight loan agreements with eight lenders, comprising two executive Directors, one non-executive Director and five shareholders of the immediate holding company of the Company (collectively the "**Lenders**") respectively, pursuant to which, each of the Lenders has irrevocably agreed to provide the Company with an unsecured and interest-free loan for a term of 12 months for a total amount of HK$52 million (approximately RMB42.4 million);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Basis of preparation — use of going concern basis (Continued)

(c) In March 2022, the Group obtained a revolving loan facility from an independent third party with a credit limit of US$12 million (approximately RMB76.3 million) for a term of 36 months from the first date of drawing of the loan. The facility is secured by a personal guarantee from Mr. Sun, an executive Director who is also the ultimate controlling shareholder of the Company (the "**Guarantor**"). Any amount drawn from this facility is interest bearing and repayable on 36 months after the first drawdown date;

(d) In March 2022, the Group obtained a letter of undertaking (the "**First Undertaking Letter**") from the Guarantor, pursuant to which, the Guarantor has irrevocably undertaken to provide the Group with an unsecured and interest-free revolving loan for an amount up to HK$300 million (approximately RMB244.5 million). The First Undertaking Letter is valid and subsisting up to 31 March 2023 and any loan drawn thereunder shall be repayable on 31 March 2023;

(e) In March 2022, the Group also obtained another letter of undertaking (the "**Second Undertaking Letter**") jointly given by two executive Directors, one non-executive Director, and a shareholder of the immediate holding company of the Company (collectively the "**Covenantors**"), pursuant to which, the Covenantors have jointly and irrevocably undertaken to provide the Group with an unsecured and interest-free loan up to HK$100 million (approximately RMB81.5 million) which is valid until 31 March 2023. Any amount drawn under the Second Undertaking Letter shall be repayable on 31 March 2023.

The Company's right to draw loan under the Second Undertaking Letter is subordinate to its right under the First Undertaking Letter. Hence, the Company could draw the loan under the Second Undertaking Letter only if the Guarantor fails to advance loan to the Company under the First Undertaking letter;

(f) In June 2020 and August 2021, the Group obtained facilities totalling RMB353 million from two banks in China to support the funding required under the Manufacturing Plants Construction Contracts. As at 31 December 2021, the amount undrawn under these facilities totalled approximately RMB295 million;

(g) The Group is in negotiation with the counterparties to the two Installation and Procurement Contracts for the extension of the contractual payments for procurement and installation services of approximately RMB57,668,000 due in various dates in May, July and October 2022 and January 2023 to the period beyond 31 March 2023;

(h) The Group is in negotiation with another independent third party in respect of new borrowings; and

(i) The Group is in negotiation with certain potential investors for raising new capital by the way of issuing new equity and/or debt securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Basis of preparation — use of going concern basis (Continued)

The Directors have reviewed the Group's cash flow projections prepared by the management, which cover a period of twelve months from 31 December 2021. In the opinion of the Directors, in taking into account the anticipated cash flows to be generated from the Group's operations as well as the above-mentioned plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2021. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, a material uncertainty exists as to whether the Group is able to successfully implement its plans and measures as described above. Whether the Group will be able to continue as a going concern depends upon the Group's ability to generate adequate cash flows through:

(a) Successfully extending the due dates of the remaining unpaid contractual payments under the two Installation and Procurement Contracts;

(b) Successfully obtaining adequate funding, as and when needed, from the Lenders, independent third party, the Guarantor and the Covenantors as mentioned in notes (b), (c), (d) and (e) above respectively; and

(c) Successfully obtaining adequate funding through the issue of new equity and/or debt securities as mentioned in notes (h) and (i) above.

Should the Group fail to achieve the above plans and measures, it might not be able to continue as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments have not been reflected in these consolidated financial statements.

(b) Amended standards adopted by the Group

The Group has adopted the following amended standards for the first time for their annual reporting period commencing 1 January 2021:

Amendments to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The adoption of these amended standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) New and amended standards, interpretation and accounting guideline issued but not yet adopted by the Group

The following new and amended standards, interpretation and accounting guideline have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 16	COVID-19 Related Rent Concessions beyond 2021	1 April 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
Annual Improvements Project	Annual Improvements to HKFRSs 2018-2020	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Asset and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 17	Initial Application of HKFRS17 and HKFRS 9 — Comparative Information	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in process of making an assessment of the impact of these new and amended standards, interpretation and accounting guideline upon initial application, and has concluded on a preliminary basis that these are not expected to have a significant impact on the Group's results of operations or financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

Except for the reorganisation upon listing, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in the profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financer under comparable terms and conditions.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with HKFRS 9 in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) ***Business combination*** (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) ***Merger accounting for common control combinations***

During the year, the Group has completed the acquisitions of certain subsidiaries which are under the common control of Mr. Sun, the controlling shareholder of the Company. These acquisitions are regarded as "business combination under common control".

Accordingly, these consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("**AG 5**") issued by the HKICPA.

The net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combinations, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combinations.

The comparative amounts in the consolidated balance sheet are presented as if the entities had been combined at the beginning of previous year unless they first came under common control at a later date.

The assets and liabilities acquired in the common control combinations are stated at their carrying amounts and the results of these subsidiaries are combined to the Group since 21 April 2021, the date when Mr. Sun obtained the control of the Company.

The effects arising from the common control combinations are set out in Note 28.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors who make strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency. The Company's functional currency is Hong Kong Dollar ("**HK$**").

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in the consolidated income statement.

All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within 'other losses, net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non- monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to the consolidated income statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Properties, plant and equipment

Properties, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of properties, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives, as follows:

Buildings	20 years
Furniture and fixtures	5 years
Office equipment	3 to 5 years
Plant and machinery	3 to 10 years
Motor vehicles	3 to 5 years
Satellites	5 years
Leasehold improvements	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal are determined by comparing proceeds with carrying amount and are recognised in the consolidated income statement.

Construction-in-progress (the "**CIP**") represents properties and plant under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to relevant categories of properties, plant and equipment and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Intangible assets

System software

Acquired system software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using straight-line method over their estimated useful lives of three to five years.

Membership right

Membership right represents the initial payment to club for right to use its services or facilities. Membership right is carried at cost less impairment for indefinite life assets and cost less amortisation over its specific useful life of 15 years.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in consolidated income statement or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

2.8.2 Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement and presented in 'other losses, net' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated income statement and recognised in 'other (losses)/gains, net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'other losses, net' and impairment expenses are presented as separate line item in the consolidated income statement.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in consolidated income statement and presented net within 'other losses, net' in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

2.8.2 Recognition and measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to consolidated income statement following the derecognition of the investment.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other losses, net' in the period in which they arise. Dividend income from financial assets at fair value through consolidated income statement is recognised within 'other income' when the Group's right to receive payments is established.

2.8.3 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and reward of ownership.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Impairment of financial assets

The Group's financial assets measured at amortised cost are subject to HKFRS 9's expected credit loss model. The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(c) sets out the details on how the Group determines whether there has been a significant increase in credit risk.

For contract assets, trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the contract assets and receivables. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets, trade and bills receivables with similar credit risk characteristics and is adjusted for forward- looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

For other receivables, the Group measures the impairment as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of the other receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially of fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The Group does not designate any derivatives as hedging instruments. Subsequent changes in fair value of any derivative instrument are recognised immediately in profit or loss and are included in 'other losses, net'.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted- average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash at banks and on hand.

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade, bills and other payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense over the period of the borrowings using the effective interest method.

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

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

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

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(b) Other long-term employee benefit obligations

The liabilities for annual leave are not expected to be settled wholly within twelve months after the end of the period in which the employees render the related service.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(c) Defined contribution plans

The Group pays contributions to state-managed pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount for the sale of goods and the services rendered in the ordinary course of the Group's activity. Revenue is shown net of returns and after eliminating sales within the Group.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customers and the payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer. Incremental costs incurred to obtain a contact, if recoverable, are capitalised and presented as assets and subsequently amortised when the related revenue is recognised.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers the promised goods or services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer the promised goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

(a) Sales of goods

Sales of goods transferred at a point in time are recognised when control of the goods has transferred, being when the Group has delivered the products to the customers and the customers have accepted the products. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

(b) Provision of manufacturing services

Rendering of manufacturing services is recognised when or as the control of the services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the services may transfer over time or at a point in time. Control of the services is transferred over time if the Group's performance:

(i) provides all of the benefits received and consumed simultaneously by the customer; or

(ii) creates and enhances an asset that the customer controls as the Group performs; or

(iii) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(b) Provision of manufacturing services (Continued)

If control of the services is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue from manufacturing service contracts is recognised over time using the input method with reference to the actual costs incurred and the estimated costs on completion for the manufacturing services.

2.23 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.24 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognised as other income in consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

2.25 Lease

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Lease (Continued)

- 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 that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Lease (Continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The useful life used for the assets' depreciation purpose are:

Properties	Over the lease term
Plant and machinery	10 years
Land	Over the lease term

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

2.26 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the years in which the dividend are approved by the Company's shareholders or directors, where appropriate.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to expenses are deferred and recognised in the consolidated income statement over the period necessary to match them with the expenses that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.28 Contingent liabilities

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

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

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Market risk

(a) Foreign exchange risk

The Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("**USD**") and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations, which are denominated in these currencies.

Management has a policy to require group companies to manage their foreign exchange risk against functional currency. It mainly includes managing the exposures arise from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and has entered into certain foreign exchange contracts to manage foreign exchange risks. As at 31 December 2020, the Group had certain outstanding forward foreign currency contracts to sell USD, details of which have been disclosed in Note 16. Certain of the Group's cash and cash equivalents, trade, bills and other receivables, trade and other payables, bank and other borrowings and lease liabilities were also denominated in foreign currencies, details of which have been disclosed in accompanying notes to the consolidated financial statements.

There are certain USD financial assets and liabilities held by subsidiaries with RMB functional currency. Since the net positions of USD denominated financial assets and liabilities are not significant, management considers the foreign exchange risk of USD financial assets and liabilities to the Group is not significant. Hence, the Directors of the Company consider the Group does not have any material foreign exchange risk exposure. No sensitivity analysis is presented.

(b) Interest rate risk

The Group's interest rate risk is mainly attributable to its restricted cash, pledged bank deposits, short- term bank deposits, cash at banks and bank borrowings with floating interest rates. Details of the Group's restricted cash, pledged bank deposits, short-term bank deposits, cash and cash equivalents, and bank and other borrowings have been disclosed in Notes 19 and 26 to the consolidated financial statements respectively.

Other than restricted cash, pledged bank deposits, short-term bank deposits, cash at banks and bank and other borrowings, the Group does not have significant interest-bearing assets or liabilities.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Market risk (Continued)

(b) Interest rate risk (Continued)

As at 31 December 2021, if interest rates on restricted cash, pledged bank deposits, short-term bank deposits, cash at banks and bank and other borrowings had been 100 basis points higher/lower with all variables held constant, (loss)/profit before income tax for the year then ended would have been approximately RMB809,000 (2020: RMB1,860,000) higher/lower, mainly as a result of lower/higher (2020: higher/lower) of interest income on the restricted cash, pledged bank deposits, short-term bank deposits and cash at banks netted with interest expenses on the bank and other borrowings respectively.

(c) Credit risk

The credit risk of the Group mainly arises from restricted cash, pledged bank deposits, short-term bank deposits, cash at banks, amounts due from related companies, contract assets and trade, bills and other receivables.

The carrying amounts of each financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Risk management

The Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

The Group's restricted cash, pledged bank deposits, short-term bank deposits and cash and cash equivalents were deposited with high quality financial institutions. Therefore, the Group does not expect any significant losses arising from non-performance by these counterparties.

For the years ended 31 December 2021 and 2020, 68% and 76% of the Group's revenue was derived from its top five customers respectively. As at 31 December 2021 and 2020, 99% and 92% of the total contract assets and 70% and 77% of the total trade and bills receivables were due from the Group's top five customers respectively.

The credit risk on restricted cash, pledged bank deposits, short-term bank deposits and cash at banks are limited because deposits are in banks with sound credit ratings and management does not expect any loss from non-performance by these counterparties.

(ii) Impairment of financial assets

The Group has two types of financial asset that is subject to the expected credit loss models:

- Contract assets, trade and bills receivables

- Other financial assets carried at amortised cost

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Market risk (Continued)

(c) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Contract assets, trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all contract assets, trade and bills receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

To measure the expected credit losses, contract assets, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled services and have substantially the same risk characteristics as the trade receivables for same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Measurement of expected credit loss on individual basis

Contract assets, trade and bills receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a prepayment plan with the Group, and a failure to make contractual payments. As at 31 December 2021, the balance of loss allowance in respect of these individually assessed receivables was RMB4,618,000 (2020: RMB4,914,000).

Measurement of expected credit loss on collective basis

Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographical location and its ageing category, and applying the expected credit loss rates to the respective gross carrying amounts of the receivables.

The expected credit loss rates are estimated on the basis of historical credit losses experienced, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivable.

As at 31 December 2021, the balance of loss allowance in respect of these collectively assessed receivables was approximately RMB766,000 (2020: 766,000).

Impairment losses on contract assets, trade and bills receivables are presented as 'net impairment losses on financial assets' in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Market risk (Continued)

(c) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets carried at amortised cost

The Group's other financial assets carried at amortised cost include deposits and other receivables and amounts due from related companies in the consolidated balance sheet. The impairment loss of other financial assets carried at amortised cost is measured based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within twelve months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

As at 31 December 2021 and 2020, management considered the credit risk of deposits and other receivables and amounts due from related companies to be low as counterparties have a strong capacity to meet their contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these deposits and other receivables were immaterial under 12-month expected losses method. Therefore, the loss allowance provision for these balances was close to zero and no provision was recognised.

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the shorter and longer term.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate and long-term financing including long-term borrowings and lease liabilities are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest-bearing borrowings which enable the Group to continue its business for the foreseeable future.

The Group recorded a net loss of RMB53,075,000 and a net cash outflow from operating activities of RMB176,845,000 for the year ended 31 December 2021. As at 31 December 2021, the Group's bank and other borrowings and lease liabilities repayable within twelve months totalled RMB147,344,000 while the Group's cash and cash equivalents was RMB91,433,000. Furthermore, the Group had significant financial obligations and capital expenditures commitment under various contractual and other arrangements as at 31 December 2021, which causes the Group in significant liquidity risk. The Group has taken appropriate plans and measures as set out in Note 2.1(a) to mitigate such liquidity risk.

As at 31 December 2021, the Group's total undrawn banking facilities amounted to approximately RMB376,221,000 (2020: RMB235,602,000), and the Group's total drawn banking facilities amounted to approximately RMB201,803,000 (2020: RMB54,398,000).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Market risk (Continued)

(d) Liquidity risk (Continued)

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balances due within twelve months equal their carrying balances as impact from discounting is not significant.

Specifically, for bank and other borrowings and lease liabilities which contain a repayment on demand clause which can be exercised at the lenders sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lender were to invoke their unconditional rights to call the loans with immediate effect.

	Repayable on demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2021						
Trade and bills payables	–	176,118	–	–	–	176,118
Other payables and accruals	–	33,991	–	–	–	33,991
Bank and other borrowings — principal portion	139,167	–	12,267	39,937	11,245	202,616
Lease liabilities	–	8,177	9,430	20,574	3,131	41,312
Amount due to the immediate holding company	3,143	–	–	–	–	3,143
Amount due to the ultimate holding company	15	–	–	–	–	15
Amount due to a related company	15	–	–	–	–	15
	142,340	218,286	21,697	60,511	14,376	457,210
At 31 December 2020						
Trade and bills payables	–	196,412	–	–	–	196,412
Other payables and accruals	–	29,339	–	–	–	29,339
Bank borrowings — principal portion	5,799	–	–	14,032	6,911	26,742
Lease liabilities	3,155	2,700	80	27	–	5,962
	8,954	228,451	80	14,059	6,911	258,455

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Market risk (Continued)

(d) Liquidity risk (Continued)

The table below analyses the bank and other borrowings and lease liabilities of the Group into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date without taking into consideration the effect of repayment on demand clause.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*
At 31 December 2021					
Bank and other borrowings					
— Principal portion	**139,167**	**12,267**	**39,937**	**11,245**	**202,616**
— Interest portion	**9,264**	**2,682**	**4,691**	**599**	**17,236**
Lease liabilities	**10,082**	**10,876**	**22,378**	**3,216**	**46,552**
	158,513	**25,825**	**67,006**	**15,060**	**266,404**
At 31 December 2020					
Bank borrowings					
— Principal portion	4,963	836	14,032	6,911	26,742
— Interest portion	1,102	1,042	2,288	254	4,686
Lease liabilities	5,930	81	27	–	6,038
	11,995	1,959	16,347	7,165	37,466

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*
At 31 December 2020	
Forward exchange contracts:	
Outflow	(95,841)
Inflow	96,240
	399

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The Group monitors capital on the basis of the total debt to total capital ratio. Total debt and total capital represent total borrowings and total equity, as shown in the consolidated balance sheet. The total debt to total capital ratios at 31 December 2021 and 2020 were as follows:

	2021	2020
	RMB'000	*RMB'000*
Total borrowings (bank and other borrowings and lease liabilities)	**243,928**	32,704
Total equity	**391,543**	250,290
Total debt to total capital ratio	**62%**	13%

The increase in total debt to total capital ratio from approximately 13% as at 31 December 2020 to 62% as at 31 December 2021 was mainly due to additional drawdown of bank and other borrowings and additions to lease liabilities.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities include cash and cash equivalents, short-term bank deposits, pledged bank deposits, restricted cash, trade and bills receivables, deposit and other receivables, amounts due from related companies, trade and bills payables, other payables and accruals, amount due to the immediate holding company, amount due to the ultimate holding company, amount due to a related company, bank and other borrowings and lease liabilities approximate their fair values due to their short maturities. The carrying amounts of non-current deposits, bank and other borrowings and lease liabilities approximate their fair values which are estimated based on the discounted cash flows.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The carrying values of financial instruments measured at fair value at the balance sheet date are categorised among the three levels of the fair value hierarchy defined in HKFRS 13, "Fair value Measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

(iii) Level 3: inputs for the asset or liability that are not based on observable market data.

The following table presents the Group's financial assets that are measured at fair values at 31 December 2020:

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At 31 December 2020				
Assets				
Derivative financial instruments	–	399	–	399

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period.

4.2 Income taxes

The Group is subject to income taxes mainly in Hong Kong, the PRC and Germany. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and tax expense in the periods in which such estimate is changed.

4.3 Impairment of receivables and contract assets

The Group makes provision for impairment of receivables and contract assets based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical default rates, existing market conditions as well as forward looking estimates at the end of each reporting period. The identification of impairment of receivables and contract assets requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and contract assets and loss for the impairment of receivables and contract assets recognised in the periods in which such estimates have been changed.

5 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in (i) EMS business; and (ii) aerospace business, currently under the "Golden Bauhinia Constellation" project, which includes (1) smart city with satellite big data applications and solutions; (2) satellite measurement and controlling; (3) satellite manufacturing; and (4) satellite launching.

The chief operating decision-maker has been identified as the Directors of the Company. The Directors review the Group's internal reporting in order to assess performance and allocate resources. The Directors have determined the operating segments based on these reports.

In previous years, the Board considered that the Group had one reportable operating segment, being the EMS business. As the sales of smart home devices have been increasing significantly, the Board began to separately assess its performance from the rest of the EMS business. In addition, during the reporting period, the Group acquired 100% equity interest in Gang Hang Ke (Shenzhen) Space Technology Co., Limited* ("**SZ Gang Hang Ke**") and Hong Kong Aerospace Satellite Tracking and Control Limited (formerly known as Hong Kong Satellite Limited) ("**HKASTC**") which are principally engaged in satellite manufacturing and technological application in the aerospace industry. With these developments, the Board determines that the Group has the following reportable operating segments:

(i) EMS business — Smart home devices
(ii) EMS business — Banking and finance and other devices
(iii) Aerospace business

The impact of the above mentioned change in the Group's reportable operating segments for the year ended 31 December 2020 is applied retrospectively and the Group's segment information is restated as if the Group had been operating as these operating segments in that year.

* *For identification purpose only*

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment revenue and gross profit

	EMS business			
	Smart home devices	Banking and finance and other devices	Aerospace business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2021				
Segment revenue	135,919	514,311	–	650,230
Inter-segment revenue	(2,923)	2,923	–	–
Segment cost of sales	(121,211)	(491,903)	–	(613,114)
Segment gross profit	11,785	25,331	–	37,116
Other segment information:				
Depreciation of properties, plant and equipment	903	5,834	1,311	8,048
Depreciation of right-of-use assets	2,252	6,407	340	8,999
Amortisation of intangible assets	–	544	–	544
Additions to non-current segment assets*	21,427	111,003	200,461	332,891

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment revenue and gross profit (Continued)

	EMS business			
	Smart home devices *RMB'000*	Banking and finance and other devices *RMB'000*	Aerospace business *RMB'000*	Total *RMB'000*
For the year ended 31 December 2020				
Segment revenue	9,411	538,414	–	547,825
Inter-segment revenue	(1)	1	–	–
Segment cost of sales	(8,168)	(490,063)	–	(498,231)
Segment gross profit	1,242	48,352	–	49,594
Other segment information:				
Depreciation of properties, plant and equipment	43	5,766	–	5,809
Depreciation of right-of-use assets	–	7,054	–	7,054
Amortisation of intangible assets	–	581	–	581
Additions to non-current segment assets*	800	71,289	–	72,089

* The additions to non-current segment assets include i) additions to properties, plant and equipment, right-of-use assets and intangible assets; ii) prepayments for the acquisitions of land-use-rights, properties, plant and equipment and intangible asset; and iii) prepayments for construction works.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

	EMS business			
	Smart home devices *RMB'000*	Banking and finance and other devices *RMB'000*	Aerospace business *RMB'000*	Total *RMB'000*
As at 31 December 2021				
Segment assets	**155,124**	**533,743**	**252,192**	**941,059**
Segment liabilities	**94,034**	**366,063**	**79,563**	**539,660**

	EMS business			
	Smart home devices *RMB'000*	Banking and finance and other devices *RMB'000*	Aerospace business *RMB'000*	Total *RMB'000*
As at 31 December 2020				
Segment assets	29,981	544,390	–	574,371
Segment liabilities	16,518	302,490	–	319,008

Reportable segment assets are reconciled to total assets as follows:

	2021 *RMB'000*	2020 *RMB'000*
Segment assets	**941,059**	574,371
Current income tax recoverable	**21**	–
Deferred income tax assets	**231**	1,392
Total assets	**941,311**	575,763

Reportable segment liabilities are reconciled to total liabilities as follows:

	2021 *RMB'000*	2020 *RMB'000*
Segment liabilities	**539,660**	319,008
Current income tax liabilities	**8,785**	6,465
Deferred income tax liabilities	**1,323**	–
Total liabilities	**549,768**	325,473

5 REVENUE AND SEGMENT INFORMATION (Continued)

(c) Disaggregation of revenue from contracts with customers

The Group derived revenue from the sales of goods at a point in time and provision of services over time as follow:

	2021 RMB'000	2020 RMB'000
Timing of revenue recognition		
At a point in time — sales of goods	**563,046**	489,469
Over time — provision of services	**87,184**	58,356
	650,230	547,825

(d) Segment revenue by customers' geographical location

The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	2021 RMB'000	2020 RMB'000
Mainland, the PRC	**427,918**	439,782
USA	**116,579**	26,997
India	**8,446**	25,075
Australia	**54,576**	4,477
South Korea	**19,362**	22,698
Austria	**10,728**	14,810
Hong Kong	**7,707**	8,655
Brazil	**1,077**	517
Others *(Note)*	**3,837**	4,814
	650,230	547,825

Note: Others include United Kingdom, Mexico, Germany and Vietnam.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(e) Details of contract liabilities

	2021	2020
	RMB'000	*RMB'000*
Contract liabilities *(Note 25)*	**45,130**	33,248

Notes:

(i) Contract liabilities represent advanced payments received from the customers for goods that have not yet been transferred to the customers. The balances of contract liabilities fluctuated during the years ended 31 December 2021 and 2020 due to fluctuation in sales order with advanced payments.

(ii) The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	2021	2020
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**33,248**	11,328

(f) Major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group is as follows:

	2021	2020
	RMB'000	*RMB'000*
Customer A	**98,914**	239,508
Customer B	**N/A***	62,345
Customer C	**82,187**	54,987
Customer D	**135,919**	N/A*
Customer E	**71,993**	N/A*

* The corresponding customers did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2021 or 2020.

The five largest customers accounted for approximately 68% (2020: 76%) of revenue for the year ended 31 December 2021.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(g) Unsatisfied performance obligations

As at 31 December 2021 and 2020, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations were not disclosed.

(h) Non-current assets by geographical location

The total amounts of non-current assets, other than financial instruments and deferred tax assets of the Group as at 31 December 2021 and 2020 are located in the following regions:

	2021	2020
	RMB'000	*RMB'000*
The PRC	**261,865**	138,679
Hong Kong	**174,860**	–
Germany	**107**	201
	436,832	138,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets are analysed as follows:

	2021 *RMB'000*	2020 *RMB'000*
Cost of raw materials used	489,399	384,746
Consumables	1,008	3,887
Subcontracting charges	44,203	47,222
Employee benefit expenses and manpower services expenses, including Directors' emoluments *(Notes 9)*	85,356	48,527
Rental expenses of short-term leases in respect of machinery and properties *(Note 13 (b))*	9,340	8,095
Utilities	4,482	3,816
Amortisation *(Note 14)*	544	581
Depreciation	16,280	12,308
Auditor's remuneration		
— Audit services	3,373	1,707
— Non-audit services	380	–
Professional fees	10,725	5,242
Reversal of provision for inventories *(Note 18)*	(1,833)	(174)
Transportation	2,444	3,691
Service fees for product development	4,721	3,711
Commission expenses	639	895
Repairs and maintenance	407	810
Provision for impairment losses of financial assets *(Note 20)*	254	5,242
Reversal of provision for impairment losses of financial assets *(Note 20)*	(123)	(120)
Donation	7,214	5
Service charge	6,189	467
Advertising	1,084	–
Entertainment	3,839	2,103
Other taxes	2,817	1,358
Others	6,680	5,422
Total cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets	699,422	539,541

7 OTHER INCOME

	2021 RMB'000	2020 RMB'000
Government grants	3,396	12,555
Sundry income	171	–
	3,567	12,555

8 OTHER LOSSES, NET

	2021 RMB'000	2020 RMB'000
Exchange differences	(3,055)	(1,214)
(Loss)/gain on disposal of properties, plant and equipment	(117)	421
Lease modification	37	–
Fair value gains from derivative financial instruments	2,499	399
	(636)	(394)

9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICES EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2021 RMB'000	2020 RMB'000
Salaries and wages	69,786	42,242
Bonus	6,043	3,558
Pension costs/(reversal of provision for pension costs)		
— defined contribution plans *(Note (a))*	5,546	(14)
Other staff welfares	1,596	1,674
Total employee benefit expenses (including Directors' remunerations)	82,971	47,460
Manpower services expenses *(Note (b))*	2,385	1,067
	85,356	48,527

9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICES EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(a) Pension costs — defined contribution plans

The PRC

As stipulated under the relevant rules and regulations in the PRC, the subsidiaries operating in the PRC contribute to state-sponsored retirement plans for its employees. For the years ended 31 December 2021 and 2020, depending on the provinces of the employees' registered residences and their current region of work, the subsidiaries contributed certain percentages of the basic salaries of its employees and had no further obligations for the actual payment of pensions or postretirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. As at 31 December 2021, the Group had no forfeited contributions available to reduce the existing level of contributions.

During the year ended 31 December 2020, the Human Resources and Social Security Bureau of Shenzhen Municipality has announced that all micro, small and medium size enterprises in Shenzhen were exempt from making employer contributions to pension, unemployment and work-related injury insurance schemes from the period between February and December 2020.

(b) Manpower services expenses

During the years ended 31 December 2021 and 2020, the Group entered into certain manpower service arrangements with several external manpower service organisations in the PRC. Under these arrangements, certain of the Group's manpower requirements were fulfilled by these organisations at agreed service fees whereas the human resources provided were directly employed by the relevant service organisations. The individuals providing services to the Group do not have any employment relationship with the Group.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four directors for the year ended 31 December 2021 (2020: three), whose emoluments are reflected in the analysis presented in Note 35. The emoluments payable to the remaining one individual for the year ended 31 December 2021 (2020: two) are as follows:

	2021	2020
	RMB'000	*RMB'000*
Salaries, wages and bonus	**602**	984
Pension costs — defined contribution plans	**9**	65
	611	1,049

9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICES EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (Continued)

(c) Five highest paid individuals (Continued)

The emoluments fell within the following band:

	Number of individuals	
	2021	2020
Emolument band		
HK$500,001 — HK$1,000,000	**1**	2

(d) During the years ended 31 December 2021 and 2020, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE COSTS, NET

	2021 *RMB'000*	2020 *RMB'000*
Finance income		
Interest income on cash at banks	**503**	560
Finance costs		
Interest expense on bank and other borrowings	**(5,162)**	(560)
Interest expense on lease liabilities *(Note 13 (b))*	**(1,199)**	(433)
Bank charges	**–**	(245)
Less: Capitalised on qualifying assets *(Note)*	**5,162**	560
	(1,199)	(678)
Finance costs, net	**(696)**	(118)

Note: During the year ended 31 December 2021, interest expenses on bank and other borrowings were capitalised at the weighted average rate of its general borrowings of approximately 7.15% (2020: 3.43%).

11 INCOME TAX EXPENSE

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department of Hong Kong ("**IRD**") from the year of assessment 2019/20 onwards, the Group's first HK$2 million of assessable profits under Hong Kong profits tax during the year ended 31 December 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK$2 million will continue to be subject to a tax rate of 16.5%.

During the year ended 31 December 2020, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profits in Hong Kong.

During the year ended 31 December 2021, Shenzhen Hengchang Sheng Technology Company Limited* ("**Shenzhen Hengchang Sheng**"), the Group's major operating subsidiary in the PRC has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15% (2020: 15%).

During the year ended 31 December 2021, SZ Gang Hang Ke, the Group's subsidiary in the PRC, has been qualified for small-scale enterprises with minimal profits status and is subject to an applicable tax rate of 20% (2020: N/A).

Other Group's entities in the PRC were subject to the PRC corporate income tax ("**CIT**") at the tax rate of 25% (2020: 25%).

	2021	2020
	RMB'000	*RMB'000*
Current income tax		
— CIT	**2,889**	3,704
— Hong Kong profits tax	**713**	–
— Withholding tax	**24**	101
Total current income tax	**3,626**	3,805
Deferred income tax *(Note 23)*	**2,492**	(801)
Income tax expense	**6,118**	3,004

* *For identification purpose only*

11 INCOME TAX EXPENSE (Continued)

The taxation on the Group's (loss)/profit before income tax differed from the theoretical amount that would arise using the weighted average tax rate applicable to profits of subsidiaries of the Group as follows:

	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(46,957)**	20,327
Tax calculated at tax rates applicable to (loss)/profit of the respective subsidiaries	**(6,733)**	2,887
Tax effect of:		
Income not subject to tax	**(410)**	(209)
Expenses not deductible for tax purpose	**9,378**	1,410
Tax loss for which no deferred income tax asset was recognised	**5,869**	663
Utilisation of tax loss previously not recognised	**(160)**	–
Temporary difference previously not recognised	**182**	–
Withholding tax	**24**	101
Super deductions from research and development expenditures *(Note)*	**(1,895)**	(1,848)
Tax concession	**(137)**	–
Income tax expense	**6,118**	3,004

The changes in the weighted average applicable tax rates were mainly due to the changes in the proportion of the taxable profits under Hong Kong profits tax and PRC CIT which were subject to different applicable tax rates.

Note: According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, enterprises engaging in research and development activities are entitled to claim 150% to 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

12 (LOSS)/EARNINGS PER SHARE

The basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2021 and 2020.

	2021	2020
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(53,075)**	17,323
Weighted average number of ordinary shares in issue *(thousands of shares)*	**301,307**	300,000
Basic and diluted (loss)/earnings per share *(RMB cents)*	**(17.61)**	5.77

There were no differences between the basic and diluted (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2021 and 2020.

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

		Properties, plant and equipment									
	Right-of-use assets	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Motor vehicles	Satellites	Leasehold improvements	Construction in progress	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020											
Cost	49,943	6,015	484	3,123	79,082	3,053	–	–	–	91,757	141,700
Accumulated depreciation	(7,971)	(1,884)	(484)	(2,008)	(49,005)	(1,777)	–	–	–	(55,158)	(63,129)
Net book amount	41,972	4,131	–	1,115	30,077	1,276	–	–	–	36,599	78,571
Year ended 31 December 2020											
Opening net book amount	41,972	4,131	–	1,115	30,077	1,276	–	–	–	36,599	78,571
Additions	4,853	–	–	507	3,942	–	–	–	46,841	51,290	56,143
Depreciation	(7,054)	(301)	–	(545)	(4,588)	(375)	–	–	–	(5,809)	(12,863)
Disposals	–	–	–	–	(47)	–	–	–	–	(47)	(47)
Exchange difference	–	–	–	–	–	(24)	–	–	–	(24)	(24)
Closing net book amount	39,771	3,830	–	1,077	29,384	877	–	–	46,841	82,009	121,780
At 31 December 2020											
Cost	53,792	6,015	484	3,630	79,908	3,012	–	–	46,841	139,890	193,682
Accumulated depreciation	(14,021)	(2,185)	(484)	(2,553)	(50,524)	(2,135)	–	–	–	(57,881)	(71,902)
Net book amount	39,771	3,830	–	1,077	29,384	877	–	–	46,841	82,009	121,780
Year ended 31 December 2021											
Opening net book amount	**39,771**	**3,830**	**–**	**1,077**	**29,384**	**877**	**–**	**–**	**46,841**	**82,009**	**121,780**
Common control combinations (Note 28)	**–**	**–**	**189**	**21**	**–**	**–**	**–**	**–**	**–**	**210**	**210**
Additions	**67,190**	**–**	**31**	**234**	**4,700**	**500**	**21,773**	**802**	**232,419**	**260,459**	**327,649**
Depreciation	**(8,999)**	**(301)**	**(53)**	**(488)**	**(5,493)**	**(399)**	**(1,234)**	**(80)**	**–**	**(8,048)**	**(17,047)**
Disposals	**(1,099)**	**–**	**(1)**	**(59)**	**(209)**	**–**	**–**	**–**	**–**	**(269)**	**(1,368)**
Reclassification *(Note(i))*	**(8,889)**	**–**	**–**	**–**	**8,889**	**–**	**–**	**–**	**–**	**8,889**	**–**
Exchange difference	**(262)**	**–**	**–**	**(2)**	**–**	**(13)**	**–**	**–**	**(2,779)**	**(2,794)**	**(3,056)**
Closing net book amount	**87,712**	**3,529**	**166**	**783**	**37,271**	**965**	**20,539**	**722**	**276,481**	**340,456**	**428,168**
At 31 December 2021											
Cost	**94,804**	**6,015**	**775**	**3,851**	**96,721**	**3,487**	**21,773**	**802**	**276,481**	**409,905**	**504,709**
Accumulated depreciation	**(7,092)**	**(2,486)**	**(609)**	**(3,068)**	**(59,450)**	**(2,522)**	**(1,234)**	**(80)**	**–**	**(69,449)**	**(76,541)**
Net book amount	**87,712**	**3,529**	**166**	**783**	**37,271**	**965**	**20,539**	**722**	**276,481**	**340,456**	**428,168**

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

(a) Properties, plant and equipment and right-of-use assets

During the year ended 31 December 2021, depreciation expenses of approximately RMB2,705,000 (2020: RMB1,450,000) were charged in administrative expenses; approximately RMB1,012,000 (2020: RMB854,000) were charged in selling and distribution expenses; approximately RMB12,563,000 (2020: RMB10,004,000) were charged in cost of sales; and approximately RMB767,000 (2020: 555,000) were included in construction in progress.

(i) During the year ended 31 December 2021, the Group obtained the ownership of right-of-use assets with an aggregate net book value of approximately RMB8,889,000 (2020: Nil) at the time of the expiry of leases in accordance with the terms of the leases.

(ii) Non-current assets pledged as security

Refer to Note 32 for information on non-current assets pledged as security by the Group.

(b) Leases

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	2021	2020
	RMB'000	*RMB'000*
Right-of-use assets		
Land-use rights	**46,899**	26,909
Properties	**40,813**	725
Plant and machinery	**–**	12,137
	87,712	39,771

	2021	2020
	RMB'000	*RMB'000*
Lease liabilities		
Current portion	**8,177**	5,855
Non-current portion	**33,135**	107
	41,312	5,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

(b) Leases (Continued)

(i) Amounts recognised in the consolidated balance sheet (Continued)

The carrying amounts of the Group's lease liabilities were denominated in the following currencies:

	2021	2020
	RMB'000	*RMB'000*
RMB	**27,230**	2,621
HK$	**13,985**	–
USD	**–**	3,155
Euro ("**EUR**")	**97**	186
	41,312	5,962

(ii) Amounts recognised in the consolidated income statement

	2021	2020
	RMB'000	*RMB'000*
Depreciation charge of right-of-use assets		
Land-use rights*	**–**	–
Properties	**6,881**	2,593
Plant and machinery	**1,351**	3,906
	8,232	6,499
Interest expense on lease liabilities *(Note 10)*	**1,199**	433
Rental expenses of short-term leases in respect of machinery and properties *(Note 6)*	**9,340**	8,095

* During the year ended 31 December 2021, depreciation charges of land-use rights amounting to approximately RMB767,000 (2020: RMB555,000) were included in construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

(b) Leases (Continued)

(iii) Amounts recognised in the consolidated statement of cash flows

During the years ended 31 December 2021 and 2020, the total cash outflows for leases were analysed as below:

	2021 *RMB'000*	2020 *RMB'000*
Cash flows from operating activities*		
Payments for short-term leases in respect of machinery and properties	9,340	8,095
Cash flows from financing activities		
Repayments of principal elements of lease liabilities	9,653	9,236
Repayments of interest elements of lease liabilities	1,199	433
The total cash outflow of leases	20,192	17,764

* Payments for short-term leases were not shown separately, but included in the line of '(loss)/profit before income tax' in respect of the net cash (used in)/generated from operations using the indirect method.

(iv) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, production plant and equipment. Rental contracts are typically made for fixed periods of 1 to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

(v) Termination options

Termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of termination options are exercisable only by the Group as lessee and not by the respective lessor.

(vi) Leases not yet commenced to which the lessee is committed

At 31 December 2021, the payments for leases that the Group has committed to but not commenced amounted to RMB238,515,000, which include the deposits and building management fees of RMB62,469,000 (2020: Nil). This amount has not been included in calculating the lease liabilities as at 31 December 2021.

14 INTANGIBLE ASSETS

	Membership right *RMB'000*	System software *RMB'000*	Total *RMB'000*
At 1 January 2020			
Cost	610	2,522	3,132
Accumulated amortisation	(20)	(1,377)	(1,397)
Net book amount	590	1,145	1,735
Year ended 31 December 2020			
Opening net book amount	590	1,145	1,735
Additions	–	129	129
Amortisation	(41)	(540)	(581)
Closing net book amount	549	734	1,283
At 31 December 2020			
Cost	610	2,651	3,261
Accumulated amortisation	(61)	(1,917)	(1,978)
Net book amount	549	734	1,283
Year ended 31 December 2021			
Opening net book amount	**549**	**734**	**1,283**
Additions	**–**	**47**	**47**
Amortisation	**(41)**	**(503)**	**(544)**
Closing net book amount	**508**	**278**	**786**
At 31 December 2021			
Cost	**610**	**2,698**	**3,308**
Accumulated amortisation	**(102)**	**(2,420)**	**(2,522)**
Net book amount	**508**	**278**	**786**

During the year ended 31 December 2021, amortisation expenses of approximately RMB194,000 (2020: RMB184,000) were charged in administrative expenses; approximately RMB14,000 (2020: RMB14,000) were charged in selling and distribution expenses and approximately RMB336,000 (2020: RMB383,000) were charged in cost of sales.

15 FINANCIAL INSTRUMENTS BY CATEGORY

	2021 *RMB'000*	2020 *RMB'000*
Assets as per consolidated balance sheet		
Financial assets at amortised cost		
Trade and bills receivables *(Note 20)*	138,809	106,606
Deposits and other receivables *(Note 17)*	13,187	7,881
Amounts due from related companies *(Note 33)*	486	–
Restricted cash *(Note 19)*	2,683	–
Pledged bank deposits *(Note 19)*	27,500	33,699
Short-term bank deposits *(Note 19)*	139	92
Cash and cash equivalents *(Note 19)*	91,433	178,904
	274,237	327,182
Financial assets at fair value through profit or loss		
Derivative financial instruments *(Note 16)*	–	399
	274,237	327,581
Liabilities as per consolidated balance sheet		
Financial liabilities at amortised cost		
Trade and bills payables *(Note 24)*	176,118	196,412
Other payables and accruals *(Note 25)*	33,991	29,339
Lease liabilities *(Note 13(b))*	41,312	5,962
Bank and other borrowings *(Note 26)*	202,616	26,742
Amount due to the immediate holding company *(Note 33)*	3,143	–
Amount due to the ultimate holding company *(Note 33)*	15	–
Amount due to a related company *(Note 33)*	15	–
	457,210	258,455

16 DERIVATIVE FINANCIAL INSTRUMENTS

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Forward exchange contracts				
— non-hedge instruments	**–**	**–**	399	–

Derivatives held for trading purpose are classified as a current asset or liability. As at 31 December 2020, the Group had outstanding gross-settled foreign currency forward contracts to sell USD14,500,000 for RMB96,240,000.

Derivative financial instruments are presented within operating activities as part of changes in working capital in the consolidated statement of cash flows.

Fair value gains and losses on derivative financial instruments are recognised in 'other losses, net' in the consolidated income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated balance sheet.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Current portion		
Prepayments	**44,611**	16,543
Deposits *(Note (a))*	**6,015**	7,237
Value-added tax receivables	**21,158**	5,322
Other receivables *(Notes (a) and (b))*	**365**	616
	72,149	29,718
Non-current portion		
Prepayments for the acquisition of land-use rights	**–**	8,000
Prepayments for construction works	**555**	7,654
Prepayments for the acquisition of properties, plant and equipment and intangible asset	**4,640**	163
Deposits *(Note (a))*	**6,807**	28
	12,002	15,845
	84,151	45,563

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes:

(a) As at 31 December 2021 and 2020, the carrying amounts of deposits and other receivables approximated their fair values.

(b) The amounts were unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's deposits and other receivables were denominated in the following currencies:

	2021	2020
	RMB'000	*RMB'000*
RMB	**7,199**	7,847
HK$	**5,963**	6
Euros ("**EUR**")	**25**	28
	13,187	7,881

18 INVENTORIES

	2021	2020
	RMB'000	*RMB'000*
Raw materials	**112,960**	60,343
Work in progress	**13,187**	3,683
Finished goods	**35,784**	16,502
	161,931	80,528

The cost of inventories recognised as expense and included in cost of sales during the year ended 31 December 2021 amounted to approximately RMB612,175,000 (2020: RMB497,269,000) which included reversal of inventory provision amounting to approximately RMB1,833,000 (2020: RMB174,000).

19 CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND RESTRICTED CASH

	2021 *RMB'000*	2020 *RMB'000*
Current portion		
Cash at banks	91,305	178,816
Cash on hand	128	88
Cash and cash equivalents *(Note (a))*	91,433	178,904
Pledged bank deposits *(Note (b))*	27,500	33,699
Other short-term bank deposits *(Note (c))*	139	92
Non-current portion		
Restricted cash *(Note (d))*	2,683	–
Total cash and bank balances	121,755	212,695
Maximum exposure to credit risk	121,627	212,607

The carrying amounts of the Group's cash and cash equivalents, pledged bank deposits, short-term bank deposits and restricted cash were denominated in the following currencies:

	2021 *RMB'000*	2020 *RMB'000*
RMB	63,230	131,787
USD	18,202	40,400
HK$	37,113	39,699
EUR	3,120	809
Japan Yen	90	–
	121,755	212,695

As at 31 December 2021 and 2020, the carrying amounts of cash and cash equivalents, pledged bank deposits, short- term bank deposits and restricted cash approximated their fair values.

As at 31 December 2021, cash and cash equivalents of the Group amounting to approximately RMB70,790,000 (2020: RMB153,311,000) were deposited with the banks in the PRC where the remittance of funds out of the PRC was subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

19 CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND RESTRICTED CASH (Continued)

Notes:

(a) Cash at banks earned interest at floating rates based on daily bank deposits rate.

(b) As at 31 December 2021, bank deposits amounted to approximately RMB27,500,000 (2020: RMB33,699,000), of whch RMB7,500,000 (2020: RMB21,327,000) were pledged for the facilities granted by banks to the Group, RMB20,000,000 (2020: RMB8,000,000) for a performance bond provided for customer contract, and nil (2020: RMB4,372,000) as guaranteed deposits for a foreign exchange contract.

As at 31 December 2021, the weighted average interest rate of the pledged bank deposits was 1.49% (2020: 1.40%) per annum. The pledged bank deposits of the Group have an average maturity of 321 days (2020: 273 days).

(c) As at 31 December 2021, the effective interest rate on other short-term bank deposits was 1.5% (2020: 1.53%) per annum. The short-term bank deposits of the Group have an average maturity of 365 days (2020: 366 days).

(d) The Group entered into an agreement with Huizhou City Huicheng District Natural Resources Bureau on 22 July 2019 pursuant to which the Group acquired a land-use right in Huizhou City. The total consideration of the land use right is approximately RMB26,830,000 and the Group is required to develop and utilise the land as its manufacturing plant.

As at 31 December 2021, a bank deposit of RMB2,683,000 was held in a designated bank account as a guarantee for the aforementioned development on project. Such guarantee deposit will be released upon the fulfilment of certain conditions required by this agreement. The effective interest rate on the restricted cash was 1.75% per annum.

20 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	2021 ***RMB'000***	2020 *RMB'000*
Contract assets	**4,973**	5,517
Trade receivables	**143,492**	97,370
Bills receivables	**701**	14,916
Less: provision for impairment of trade and bills receivables	**(5,384)**	(5,680)
Trade and bills receivables	**138,809**	106,606
Contract assets, trade and bills receivables	**143,782**	112,123

As at 31 December 2021 and 2020, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

The Group's sales were made on credit terms primarily from 30 to 120 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2021 and 2020, the aging analysis of trade and bills receivables, net of impairment, based on invoice date, was as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**135,289**	102,925
Over 3 months	**8,904**	9,361
	144,193	112,286
Less: provision for impairment of trade and bills receivables	**(5,384)**	(5,680)
	138,809	106,606

As at 31 December 2021 and 2020, trade receivables of approximately RMB11,010,000 and RMB5,312,000 were past due respectively.

Movements of the provision for impairment of trade and bills receivables were as follows:

	2021	2020
	RMB'000	*RMB'000*
At beginning of the year	**5,680**	595
Provision for impairment of trade and bills receivables on individual basis	**254**	4,476
Reversal for impairment of trade and bills receivables on individual basis	**(123)**	(120)
Provision for impairment of trade and bills receivables on collective basis	**–**	766
Written off of provision for impairment	**(318)**	–
Exchange difference	**(109)**	(37)
At end of the year	**5,384**	5,680

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

	2021	2020
	RMB'000	*RMB'000*
RMB	**122,998**	101,857
USD	**20,751**	10,266
EUR	**33**	–
	143,782	112,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES (Continued)

The maximum exposure to credit risk as at 31 December 2021 and 2020 was the carrying value of the contract assets and receivables mentioned above. The Group does not hold any collateral as security.

21 DEFERRED GOVERNMENT GRANTS

	2021	2020
	RMB'000	*RMB'000*
At 1 January	**10,980**	1,285
Received during the year	**1,383**	10,700
Released to the consolidated income statement	**(2,344)**	(1,005)
At end of year	**10,019**	10,980

During the years ended 31 December 2021 and 2020, government grants were received for the purchase of certain equipment. There were no unfulfilled conditions or contingencies attached to these grants.

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	**Nominal value**
	'000	*HK'000*
Share capital		
Authorised:		
Ordinary shares of HK$0.01 each as at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	8,000,000	80,000

	Number of shares	**Nominal value**	**Share premium**	**Nominal value**	**Share premium**
	'000	*HK$'000*	*HK$'000*	*RMB$'000*	*RMB$'000*
Issued and fully paid:					
At 1 January 2020 and 31 December 2020	300,000	3,000	126,961	2,619	110,868
Placing of shares *(Note a)*	9,000	90	236,500	74	193,624
At 31 December 2021	309,000	3,090	363,461	2,693	304,492

Note:

(a) On 9 November 2021, the Company issued 9,000,000 new shares at a price of HK$26.41 per share to an independent third party and raised net proceeds of approximately HK$236,590,000 (equivalent to approximately RMB193,698,000), net of share issue expenses of approximately HK$1,101,000 (equivalent to approximately RMB900,000). The new shares rank equally with all existing shares.

23 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

The analysis of deferred income tax assets/(liabilities) was as follows:

	2021	2020
	RMB'000	*RMB'000*
Deferred tax assets	**7,166**	3,200
Deferred tax liabilities	**(8,258)**	(1,808)
	(1,092)	1,392

The net movement on the deferred income tax assets/liabilities was as follows:

	2021	2020
	RMB'000	*RMB'000*
At beginning of year	**1,392**	591
(Charged)/credited to consolidated income statement *(Note 11)*	**(2,492)**	801
Exchange difference	**8**	–
At end of year	**(1,092)**	1,392

The movement in deferred income tax assets/(liabilities) during the years ended 31 December 2021 and 2020, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred tax (liabilities)/assets	**Tax depreciation**	**PRC accrued expenses**	**Contract assets**	**Right-of-use assets and lease liabilities**	**Government grants**	**Provision**	**Tax loss**	**Unrealised profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	(730)	1,180	(174)	32	193	90	–	–	591
(Charged)/credited to the consolidated income statement	(745)	(237)	(159)	(17)	1,454	386	–	119	801
At 31 December 2020	**(1,475)**	**943**	**(333)**	**15**	**1,647**	**476**	**-**	**119**	**1,392**
(Charged)/credited to the consolidated income statement	**(6,085)**	**90**	**(373)**	**18**	**(143)**	**(38)**	**4,108**	**(69)**	**(2,492)**
Exchange difference	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**
At 31 December 2021	**(7,552)**	**1,033**	**(706)**	**33**	**1,504**	**438**	**4,108**	**50**	**(1,092)**

23 DEFERRED INCOME TAX ASSETS/(LIABILITIES) (Continued)

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of RMB7,147,000 (2020: RMB712,000) in respect of losses amounting to RMB42,710,000 (2020: RMB3,817,000) as at 31 December 2021. These tax losses are subject to the agreement with the tax authorities and can be carried forward against future taxable income. Tax losses have no expiry date except for tax losses of the PRC subsidiaries that will expire in 5 years amounting to RMB57,402,000 (2020: RMB1,195,000).

As at 31 December 2021 and 2020, the expiry dates for the Group's unused tax losses are as follows:

	2021	2020
	RMB'000	*RMB'000*
Expiry in		
2024	**198**	198
2025	**4,928**	997
2026	**52,276**	–
No expiry date	**5,847**	2,622
	63,249	3,817

The Group had undistributed earnings of approximately RMB146,958,000 as at 31 December 2021 (2020: RMB147,630,000), which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions of dividends from the PRC subsidiary and is not expected to distribute these profits in the foreseeable future.

24 TRADE AND BILLS PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade payables	**176,118**	162,957
Bills payables	**–**	33,455
	176,118	196,412

As at 31 December 2021 and 2020, the aging analysis of trade and bills payables, based on invoice date, was as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**163,521**	151,193
Over 3 months	**12,597**	45,219
	176,118	196,412

24 TRADE AND BILLS PAYABLES (Continued)

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

	2021 *RMB'000*	2020 *RMB'000*
RMB	144,101	180,857
USD	31,372	15,555
EUR	645	–
	176,118	196,412

As at 31 December 2021 and 2020, the carrying amounts of trade and bills payables approximated their fair values.

25 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2021 *RMB'000*	2020 *RMB'000*
Other payables	7,365	8,441
Payables for acquisition of properties, plant and equipment	4,016	105
Payables for construction works	6,966	18,628
Deposit received for construction works	4,000	–
Other tax payables	4,343	1,684
Accrued expenses	9,499	2,165
Accrued salaries and bonus	22,958	14,641
Interest payable	2,145	–
Contract liabilities *(Note 5(e))*	45,130	33,248
	106,422	78,912

As at 31 December 2021 and 2020, the carrying amounts of contract liabilities, other payables and accruals approximated their fair values and were denominated in the following currencies:

	2021 *RMB'000*	2020 *RMB'000*
RMB	64,162	49,076
USD	36,595	28,503
HK$	5,074	1,153
EUR	591	180
	106,422	78,912

26 BANK AND OTHER BORROWINGS

Bank and other borrowings were analysed as follows:

	2021 *RMB'000*	2020 *RMB'000*
Current		
Bank borrowings — secured	**51,143**	5,799
Other borrowings — secured *(Note)*	**88,024**	–
	139,167	5,799
Non-current		
Bank borrowings — secured	**58,449**	20,943
Other borrowings — unsecured	**5,000**	–
	63,449	20,943
	202,616	26,742

Note: Other borrowings comprised RMB16,300,000 and RMB30,972,000, which were due at 6 March 2022 and 15 March 2022 respectively, and RMB40,752,000, which was due in various dates in July, October and November 2022. At 29 March 2022, the Company signed a loan extension agreement with the lender, agreeing to extend the repayment of the entire principal of the other borrowings to 6 March 2024, and such extension agreement would take effect from 7 March 2022. The other borrowings are secured by the shares of the Company's subsidiary, which is the holding company of the Group's EMS business.

As at 31 December 2021 and 2020, the weighted average interest rate per annum of the Group's bank and other borrowings was 6.42% and 4.35% respectively.

As at 31 December 2021 and 2020, the carrying amounts of the bank and other borrowings approximated their fair values.

As at 31 December 2021, the bank and other borrowings and facilities were secured by the following:

(i) Pledged bank deposit with book carrying value of RMB7,500,000;

(ii) Land-use-rights with book carrying value of RMB46,899,000;

(iii) Properties with book carrying value of RMB3,020,000;

(iv) Equipment with book carrying value of RMB12,190,000;

(v) Corporate guarantees provided by the Company and the Company's subsidiaries; and

(vi) A personal guarantee provided by the director of the Company, Mr. Ma Fujun.

26 BANK AND OTHER BORROWINGS (Continued)

As at 31 December 2020, the bank borrowings and banking facilities were secured by the following:

(i) Pledged bank deposit with book carrying value of RMB21,327,000;

(ii) Land-use rights with book carrying value of RMB26,909,000;

(iii) Equipment with book carrying value of RMB14,236,000; and

(iv) A corporate guarantee provided by the Company.

As at 31 December 2021 and 2020, the Group's bank and other borrowings were repayable as follows:

	2021 ***RMB'000***	2020 *RMB'000*
Within 1 year or on demand	**139,167**	5,799
Between 1 and 2 years	**12,267**	–
Between 2 and 5 years	**39,937**	14,032
More than 5 years	**11,245**	6,911
	202,616	26,742

The carrying amounts of the Group's bank and other borrowings were denominated in the following currencies.

	2021 ***RMB'000***	2020 *RMB'000*
RMB	**113,778**	20,943
HK$	**88,024**	–
USD	**814**	5,799
	202,616	26,742

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash (used in)/generated from operations

	2021 RMB'000	2020 RMB'000
(Loss)/profit before income tax	**(46,957)**	20,327
Adjustments for:		
Finance income	**(503)**	(560)
Finance costs	**1,199**	678
Depreciation	**16,280**	12,308
Amortisation	**544**	581
Reversal of provision for inventories	**(1,833)**	(174)
Net impairment losses on financial assets	**131**	5,122
Loss/(gain) on disposal of properties, plant and equipment	**117**	(421)
Lease modification	**(37)**	–
Government grants	**(2,344)**	(1,005)
Fair value gains from derivative financial instruments	**(2,499)**	(399)
	(35,902)	36,457
Changes in working capital:		
— Contract assets, trade and bills receivables	**(74,787)**	43,421
— Prepayments, deposits and other receivables	**2,607**	(14,002)
— Inventories	**(79,570)**	(27,827)
— Trade and bills payables	**(20,183)**	68,911
— Amounts due from related companies	**(487)**	–
— Contract liabilities, other payables and accruals	**23,132**	15,261
— Derivative financial instruments	**2,898**	–
— Pledged bank deposits	**6,199**	(26,199)
Cash (used in)/generated from operations	**(176,093)**	96,022

(b) In the consolidated statement of cash flows, proceeds from disposal of properties, plant and equipment comprised:

	2021 RMB'000	2020 RMB'000
Net book amount disposed	**269**	47
(Loss)/gain on disposal of properties, plant and equipment	**(117)**	421
Proceeds from disposal of properties, plant and equipment	**152**	468

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) The reconciliations of liabilities arising from financing activities were as follows:

	Bank and other borrowings and interest payable *RMB'000*	Lease liabilities *RMB'000*	Amount due to the immediate holding company *RMB'000*	Amount due to the ultimate holding company *RMB'000*	Amount due to a related company *RMB'000*	Total *RMB'000*
At 1 January 2020	16,422	10,644	–	–	–	27,066
Cash flows						
— Proceeds from bank borrowings	23,942	–	–	–	–	23,942
— Repayments of bank borrowings	(13,149)	–	–	–	–	(13,149)
— Payment of interests on bank borrowings	(560)	–	–	–	–	(560)
— Repayments of principal elements of lease liabilities	–	(9,236)	–	–	–	(9,236)
— Repayments of interest elements of lease liabilities	–	(433)	–	–	–	(433)
Other non-cash movements						
— Interest expense on lease liabilities	–	433	–	–	–	433
— Additions to lease liabilities	–	4,853	–	–	–	4,853
— Interest capitalised on qualifying assets	560	–	–	–	–	560
— Currency translation differences	(473)	(299)	–	–	–	(772)
At 31 December 2020	**26,742**	**5,962**	**–**	**–**	**–**	**32,704**
Cash flows						
— Proceeds from bank and other borrowings	**199,425**	**–**	**–**	**–**	**–**	**199,425**
— Repayments of bank borrowings	**(21,907)**	**–**	**–**	**–**	**–**	**(21,907)**
— Payment of interests on bank borrowings	**(2,981)**	**–**	**–**	**–**	**–**	**(2,981)**
— Repayments of principal elements of lease liabilities	**–**	**(9,653)**	**–**	**–**	**–**	**(9,653)**
— Repayments of interest elements of lease liabilities	**–**	**(1,199)**	**–**	**–**	**–**	**(1,199)**
— Repayments to the immediate holding company	**–**	**–**	**(253)**	**–**	**–**	**(253)**
— Advance from the ultimate holding company	**–**	**–**	**–**	**3**	**–**	**3**
Other non-cash movements						
— Interest expense on lease liabilities	**–**	**1,199**	**–**	**–**	**–**	**1,199**
— Additions to lease liabilities	**–**	**46,432**	**–**	**–**	**–**	**46,432**
— Interest capitalised on qualifying assets	**5,162**	**–**	**–**	**–**	**–**	**5,162**
— Lease modification	**–**	**(1,136)**	**–**	**–**	**–**	**(1,136)**
— Common control combinations	**–**	**–**	**3,591**	**12**	**15**	**3,618**
— Currency translation differences	**(1,680)**	**(293)**	**(195)**	**–**	**–**	**(2,168)**
At 31 December 2021	**204,761**	**41,312**	**3,143**	**15**	**15**	**249,246**

28 COMMON CONTROL COMBINATIONS

On 16 June 2021, the Group completed the acquisition of 100% equity interest in SZ Gang Hang Ke and HKASTC (collectively the "**acquired companies**"), for a consideration of RMB1,000,000 and HK$20,000 (equivalent to approximately RMB16,000) respectively. The acquired companies are principally engaged in satellite procurement and technological application in the aerospace industry.

Mr. Sun has been the controlling shareholder of the Company since 21 April 2021. Since the acquired companies were also ultimately controlled by Mr. Sun, the aforesaid acquisitions are regarded as business combinations under common control, and are accounted for as if the acquisitions had occurred on the date when the combining entities first came under the control of the controlling shareholder by applying the principles of merger accounting in accordance with AG 5.

Accordingly, the assets and liabilities acquired in the common control combinations are stated at their carrying amounts as if they had been held or incurred by the Group from the later of 21 April 2021, the date on which the combining entities first came under the control of the controlling shareholder, or the relevant transactions giving rise to the assets or liabilities arose. The difference between the consideration paid and net assets/(liabilities) combined is adjusted to equity.

The carrying amounts of assets acquired and liabilities assumed as at 21 April 2021 are summarised in the table below:

	SZ Gang Hang Ke *RMB'000*	HKASTC *RMB'000*	Total *RMB'000*
Consideration			
Cash paid	1,000	16	1,016
Provisional carrying amounts of assets acquired and liabilities assumed			
Cash and cash equivalents	6,142	–	6,142
Prepayments, deposits and other receivables	10,704	–	10,704
Properties, plant and equipment *(Note 13)*	210	–	210
Other payables and accruals	(10,065)	(1,022)	(11,087)
Amount due to the immediate holding company	(3,584)	(7)	(3,591)
Amount due to the ultimate holding company	–	(12)	(12)
Amount due to a related company	–	(15)	(15)
Total net assets/(liabilities)	3,407	(1,056)	2,351
Adjustment to equity for common control combinations	2,407	(1,072)	1,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2021 and 2020 are set out below.

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid up capital	Percentage of effective interest held/controlled 2021 Interest held	2020 Interest held
Total United Holdings Limited*	BVI, limited liability company	Investment holding in BVI	USD1	100%	100%
Agreeable Company Limited#	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$1	100%	100%
Shenzhen Hengchang Sheng#	The PRC, limited liability company	Electronic services in the PRC	RMB38,692,579	100%	100%
Eternity Technology Development Limited#	Hong Kong, limited liability company	Sales of electronic products in Hong Kong	HK$2	100%	100%
Huizhou City Eternity Technology Company Limited#	The PRC, limited liability company	Electronic services in the PRC	RMB30,000,000	100%	100%
Eternity Electronic Manufacturing Service GmbH#	Germany, limited liability company	Electronic services in Germany	EUR100,000	100%	100%
Eternity Technology (Huizhou) Company Limited#	The PRC, limited liability company	Electronic services in the PRC	USD9,000,000 (2020: USD3,000,000)	100%	100%
Eternity Technology (Xiamen) Company Limited#	The PRC, limited liability company	Electronic services in the PRC	RMB35,000,000 (2020: RMB12,000,000)	100%	100%
SZ Gang Hang Ke#	The PRC, limited liability company	Satellite procurement in the PRC	RMB1,000,000	100%	N/A
Hong Kong Satellite Manufacturing Limited#	Hong Kong, limited liability company	Satellite manufacturing in Hong Kong	HK$10,000	100%	N/A
HKASTC#	Hong Kong, limited liability company	Satellite tracking and controlling in the PRC and Hong Kong	HK$10,000	100%	N/A
Hong Kong Aerospace Smart City Limited#	Hong Kong, limited liability company	Smart city with satellite big data applications and solutions in the PRC and Hong Kong	HK$10,000	100%	N/A

* Equity interest directly held by the Company.

\# Equity interest indirectly held by the Company.

30 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2021 *RMB'000*	2020 *RMB'000*
Contracted but not provided for:		
Properties, plant and equipment and intangible asset	**340,659**	44,558

31 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2021 and 2020.

32 ASSETS PLEDGED AS SECURITIES

The carrying amounts of assets pledged as securities are:

	2021 *RMB'000*	2020 *RMB'000*
Current		
Floating charge		
Pledged bank deposits	**27,500**	33,699
Total current assets pledged as securities	**27,500**	33,699
Non-current		
Fixed charge		
Land-use rights	**46,899**	26,909
Equipment	**12,190**	24,395
Properties	**3,020**	–
Total non-current assets pledged as securities	**62,109**	51,304
Total assets pledged as securities	**89,609**	85,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The ultimate holding company, the immediate holding company and the ultimate controlling shareholder are disclosed in Note 1.

Major related parties that had transactions and/or balances with the Group during the years ended 31 December 2021 and 2020 were as follows:

Related parties	**Relationship with the Company**
Hong Kong Financial Assets Holdings Limited	Controlled by a director
Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司)	Controlled by a director
Shenzhen Hangke Space Technology Limited* (深圳航科空間技術有限公司)	Controlled by a director of a subsidiary
Rich Blessing Group Limited	Controlled by a director
Lam John Cheung Wah	Director of the Company

* *For identification purpose only*

(a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties during the years ended 31 December 2021 and 2020, at terms mutually agreed by both parties:

(i) Office rental and management fees paid to the ultimate holding company and a related company

	2021 **_RMB'000_**	2020 _RMB'000_
Vision International Group Limited *(Note)*	**964**	–
Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司) *(Note)*	**786**	785

(ii) Consultancy fee paid to a director

	2021 **_RMB'000_**	2020 _RMB'000_
Lam John Cheung Wah *(Note)*	**691**	–

Note: The above transactions were charged based on terms mutually agreed with the related party and in the ordinary course of business.

* *For identification purpose only*

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Key management compensation

Compensation paid or payable to key management for employee services is shown below:

	2021 RMB'000	2020 RMB'000
Wages and salaries	8,299	2,514
Pension costs — defined contribution plan	212	112
	8,511	2,626

(c) Balances with related parties

	Note	2021 RMB'000	2020 RMB'000
Amount due from Rich Blessing Group Limited	(i)	16	–
Amount due from Shenzhen Hangke Space Technology Limited* (深圳航科空間技術有限公司)	(i)	470	–
Amount due to the immediate holding company	(i)	3,143	–
Amount due to the ultimate holding company	(i)	15	–
Amount due to Hong Kong Financial Assets Holdings Limited	(i)	15	–
Rental deposit paid to Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司)	(ii)	119	119

Notes:

(i) Balances were unsecured, interest free and repayable on demand. Their carrying amounts approximated its fair value.

(ii) Balance was unsecured, interest free and repayable within three year (2020: one year) from the period/year end. Its carrying amounts approximated its fair value.

* *For identification purpose only*

(d) Personal guarantees

During the years ended 31 December 2021 and 2020, certain bank and other borrowings of the Group were secured by personal guarantees from the director of the Company as set out in Note 26.

34 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company as at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries	(c)	42,545	43,937
Prepayments		2,347	–
Total non-current assets		44,892	43,937
Current assets			
Other receivables, deposits and prepayments		20,711	119
Amounts due from subsidiaries		207,504	30,537
Cash and cash equivalents		36,300	31,970
Total current assets		264,515	62,626
Total assets		309,407	106,563
Equity			
Equity attributable to equity holders of the Company			
Share capital	(b)	2,693	2,619
Share premium	(b)	304,492	110,868
Reserves	(b)	12,310	15,600
Accumulated losses	(b)	(70,818)	(30,090)
Total equity		248,677	98,997
Liabilities			
Current liabilities			
Other payables and accruals		4,329	1,153
Amounts due to subsidiaries		9,129	6,413
Other borrowings		47,272	–
Total liabilities		60,730	7,566
Total equity and liabilities		309,407	106,563

The balance sheet of the Company was approved by the Board of Directors on 31 March 2022 and was signed on its behalf.

Sun Fengquan *Director*	**Ku Ka Lee Clarie** *Director*

34 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (Continued)

(b) Equity movement of the Company

	Share capital *RMB'000*	Share premium *RMB'000*	Exchange reserve *RMB'000*	Capital reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2020	2,619	110,868	1,628	19,692	(26,152)	108,655
Comprehensive loss:						
Loss for the year	–	–	–	–	(3,938)	(3,938)
Other comprehensive loss:						
Currency translation differences	–	–	(5,720)	–	–	(5,720)
Total comprehensive loss	–	–	(5,720)	–	(3,938)	(9,658)
At 31 December 2020	2,619	110,868	(4,092)	19,692	(30,090)	98,997
At 1 January 2021	**2,619**	**110,868**	**(4,092)**	**19,692**	**(30,090)**	**98,997**
Comprehensive loss:						
Loss for the year	**–**	**–**	**–**	**–**	**(40,728)**	**(40,728)**
Other comprehensive loss:						
Currency translation differences	**–**	**–**	**(3,290)**	**–**	**–**	**(3,290)**
Total comprehensive loss	**–**	**–**	**(3,290)**	**–**	**(40,728)**	**(44,018)**
Transactions with owners						
Issue of shares *(Note 22)*	**74**	**194,524**	**–**	**–**	**–**	**194,598**
Transaction costs attributable to issue of new shares	**–**	**(900)**	**–**	**–**	**–**	**(900)**
Total transactions with owners	**74**	**193,624**	**–**	**–**	**–**	**193,698**
At 31 December 2021	**2,693**	**304,492**	**(7,382)**	**19,692**	**(70,818)**	**248,677**

(c) Interests in subsidiaries

	2021 ***RMB'000***	2020 *RMB'000*
Equity investments at cost *(Note (i))*	**–**	–
Amounts due from subsidiaries *(Note (ii))*	**42,545**	43,937
	42,545	43,937

Notes:

(i) As at 31 December 2021, the balance represented the Company's 100% interest amounting 1 USD in Total United Holdings Limited, 100% interest amounting 1 USD in Prestige Dragon Holdings Limited, 100% interest amounting 1 USD in Supreme Class International Limited, 100% interest amounting 1 USD in Strength Kingdom Limited, 100% interest amounting 1 USD in Superior Plants Limited and 100% interest amounting 1 USD in Soar Flow Investments Limited.

As at 31 December 2020, the balance represented the Company's 100% interest amounting 1 USD in Total United Holdings Limited.

(ii) These amounts were unsecured, interest-free, with no fixed repayment terms. Settlement of these amounts were neither planned nor likely to occur the foreseeable future. As a result, these amounts were considered part of the Company's net investment in Agreeable Company Limited and Total United Holdings Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

Name of directors	Fees *RMB'000*	Salary *RMB'000*	Discretionary bonus *RMB'000*	Allowances and benefits in kind *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Other emoluments paid or receivables in respect of director's other service *RMB'000*	Total *RMB'000*
For the year ended 31 December 2021							
Executive directors:							
— Sun Fengquan (Chief executive officer) *(Note i)*	1,545	-	-	-	-	-	1,545
— Ku Ka Lee Clarie *(Note iii)*	1,080	-	-	-	-	-	1,080
— Ma Fujun	100	625	228	-	74	-	1,027
— Lam Kin Fung Jeffrey *(Note iii)*	458	-	-	-	-	-	458
— Cheng Bin *(Note v)*	54	132	216	-	65	-	467
— Chen Xiaoyuan *(Note v)*	54	132	-	-	64	-	250
— Liao Pin-tsung *(Note iv)*	179	-	-	-	-	-	179
Non-executive directors:						-	
— Lam Lee G. *(Note ii)*	1,247	-	-	-	-	-	1,247
— Lam John Cheung Wah *(Note vi)*	75	-	-	-	-	691	766
— Yip Chung Yin *(Note iii)*	137	-	-	-	-	-	137
Independent non-executive directors:							
— Leung Kwong Ho *(Note vii)*	172	-	-	-	-	-	172
— Brooke Charles Nicholas *(Note iii)*	137	-	-	-	-	-	137
— Hung Ka Hai Clement *(Note iii)*	137	-	-	-	-	-	137
— Lo Chi Chung William *(Note ix)*	137	-	-	-	-	-	137
— Chan Chung Kik Lewis *(Note v)*	54	-	-	-	-	-	54
— Chow Kit Ting *(Note v)*	54	-	-	-	-	-	54
— Wu Chi-luen *(Note v)*	54	-	-	-	-	-	54
	5,674	889	444	-	203	691	7,901

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

Notes:

(i) Appointed as executive director and chief executive officer on 4 June 2021.

(ii) Appointed as an non-executive director on 13 May 2021 and redesignated as a executive director on 3 January 2022.

(iii) Appointed on 16 July 2021.

(iv) Appointed on 13 May 2021 and resigned on 16 July 2021.

(v) Resigned on 16 July 2021.

(vi) Appointed on 1 October 2021.

(vii) Appointed on 4 June 2021

(viii) Appointed on 3 January 2022.

(ix) Appointed on 16 July 2021 and resigned on 3 January 2022.

Name of directors	Fees	Salary	Discretionary bonus	Allowances and benefits in kind	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2020						
Executive directors:						
— Ma Fujun	107	335	228	–	39	709
— Cheng Bin	107	254	348	–	28	737
— Chen Xiaoyuan	107	250	196	–	28	581
Independent non-executive directors:						
— Chan Chung Kik Lewis	107	–	–	–	–	107
— Chow Kit Ting	107	–	–	–	–	107
— Wu Chi-luen	107	–	–	–	–	107
	642	839	772	–	95	2,348

During the years ended 31 December 2021 and 2020, none of the directors of the Company waived or has agreed to waive any emolument.

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefits and termination benefits

During the years ended 31 December 2021 and 2020, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor were any payable.

(c) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2021 and 2020, no consideration was provided to third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the years ended 31 December 2021 and 2020, save as disclosed elsewhere, there were no loans, quasi- loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed elsewhere in the consolidated financial statements, no other significant transactions, arrangements and contracts in relation to the Company's business to which the Company 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.

36 EVENTS AFTER THE REPORTING PERIOD

(i) Due to the outbreak of the novel coronavirus, a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the novel coronavirus.

The operation of the Group's production plant in Shenzhen (the "**Shenzhen Production Plant**") was suspended from 14 March 2022 to 17 March 2022 as part of the Chinese government's countermeasures in containing outbreak of the novel coronavirus. After the temporary suspension, the Shenzhen Production Plant resumed its operation and production on 18 March 2022.

The Group will continue to assess the impact of the outbreak of the novel coronavirus on the financial performance and operation of the Group and Group's exposure to the risks and uncertainties in this connection. The Group will take appropriate measures as necessary.

(ii) At 31 December 2021, other borrowings totalling RMB88,024,000 were due in various dates in 2022. In March 2022, the Group agreed with the lender to extend the repayment date of such balance to March 2024.

36 EVENTS AFTER THE REPORTING PERIOD (Continued)

(iii) In March 2022, the Group entered into eight loan agreements with the Lenders, pursuant to which, each of the Lenders has irrevocably agreed to provide the Company with an unsecured and interest-free loan for a term of 12 months for a total amount of HK$52 million (approximately RMB42.4 million).

(iv) In March 2022, the Group obtained a revolving loan facility from an independent third party with a credit limit of US$12 million (approximately RMB76.3 million) for a term of 36 months from the first date of drawing of the loan. The facility is secured by the Guarantor. Any amount drawn from this facility is interest bearing and repayable on 36 months after the first drawdown date.

(v) In March 2022, the Group obtained the First Undertaking Letter from the Guarantor, pursuant to which, the Guarantor has irrevocably undertaken to provide the Group with, an unsecured and interest-free revolving loan for an amount up to HK$300 million (approximately RMB244.5 million). The First Undertaking Letter is valid and subsisting up to 31 March 2023 and any loan drawn thereunder shall be repayable on 31 March 2023.

(vi) In March 2022, the Group also obtained the Second Undertaking Letter jointly given by the Covenantors, pursuant to which, the Covenantors have jointly and irrevocably undertaken to provide the Group with an unsecured and interest-free loan up to HK$100 million (approximately RMB81.5 million) which is valid until 31 March 2023. Any amount drawn under the Second Undertaking Letter shall be repayable on 31 March 2023.

The Company's right to draw loan under the Second Undertaking Letter is subordinate to its right under the First Undertaking Letter. Hence, the Company could draw the loan under the Second Undertaking Letter only if the Guarantor fails to advance loan to the Company under the First Undertaking letter.

FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and published audit financial statements of the Group. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**650,230**	547,825	546,325	546,693	370,162
GROSS PROFIT	**37,116**	49,594	60,479	65,807	60,338
(LOSS)/PROFIT BEFORE INCOME TAX	**(46,957)**	20,327	29,187	25,328	33,750
INCOME TAX EXPENSE	**(6,118)**	(3,004)	(3,730)	(4,734)	(5,239)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**(53,075)**	17,323	25,457	20,594	28,511

ASSETS AND LIABILITIES

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS	**443,870**	140,300	84,909	53,822	16,817
CURRENT ASSETS	**497,441**	435,463	359,640	322,812	166,098
TOTAL ASSETS	**941,311**	575,763	444,549	376,634	182,915
CURRENT LIABILITIES	**441,842**	293,443	206,490	167,343	96,556
NON-CURRENT LIABILITIES	**107,926**	32,030	1,878	–	–
TOTAL LIABILITIES	**549,768**	325,473	208,368	167,343	96,556