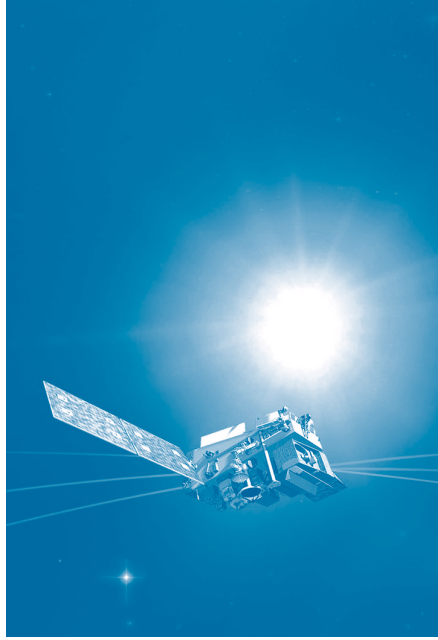




2022



| Hong Kong Aerospace Technology Group Limited | Interim Report 2022 |

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sun Fengquan (*Co-Chairman and Chief Executive Officer*)
Dr. Lam Lee G. (*Co-Chairman*)
(re-designated as executive director on 3 January 2022)
Mr. Lam Kin Fung Jeffrey
Ms. Ku Ka Lee Clarie (*Vice Chairman*)
Mr. Ma Fujun

NON-EXECUTIVE DIRECTORS

Mr. Niu Aimin
(appointed on 5 July 2022)
Dr. Yip Chung Yin
Dr. Lam Lee G.
(re-designated as executive director on 3 January 2022)
Mr. Lam John Cheung Wah
(resigned on 5 July 2022)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Mazlan Binti Othman
(appointed on 5 July 2022)
Mr. Brooke Charles Nicholas
Professor Chan Ka Keung, Ceajer
(appointed on 3 January 2022)
Mr. Hung Ka Hai Clement
Dr. Yuen Kwok Keung
(appointed on 3 January 2022)
Mr. Lo Chi Chung William
(resigned on 3 January 2022)
Mr. Leung Kwong Ho
(resigned on 5 July 2022)

AUDIT COMMITTEE

Mr. Hung Ka Hai Clement (*Chairman*)
(appointed as chairman on 3 January 2022)
Mr. Brooke Charles Nicholas
Professor Chan Ka Keung, Ceajer
(appointed as member on 3 January 2022)
Mr. Lo Chi Chung William
(ceased as chairman on 3 January 2022)
Mr. Leung Kwong Ho
(re-appointed as member on 3 January 2022,
ceased as member on 5 July 2022)

NOMINATION COMMITTEE

Mr. Sun Fengquan (*Chairman*)
Dr. Lam Lee G.
(appointed as member on 3 January 2022)
Mr. Hung Ka Hai Clement
Dr. Yuen Kwok Keung
(appointed as member on 3 January 2022)
Mr. Lo Chi Chung William
(ceased as member on 3 January 2022)
Mr. Leung Kwong Ho
(re-appointed as member on 3 January 2022,
ceased as member on 5 July 2022)

REMUNERATION COMMITTEE

Professor Chan Ka Keung, Ceajer (*Chairman*)
(appointed as chairman on 3 January 2022)
Dr. Lam Lee G.
Mr. Brooke Charles Nicholas
Dr. Yuen Kwok Keung
(appointed as member on 3 January 2022)
Mr. Hung Ka Hai Clement
(ceased as chairman on 3 January 2022)

AUTHORISED REPRESENTATIVES

Mr. Sun Fengquan
Ms. Cheng Ka Yan

COMPANY SECRETARY

Ms. Cheng Ka Yan

REGISTERED OFFICE IN CAYMAN ISLANDS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15/F, Data Technology Hub
5 Chun Cheong Street
Tseung Kwan O Industrial Estate
New Territories, Hong Kong

CORPORATE INFORMATION

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

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

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Director**” or “**Directors**”) of Hong Kong Aerospace Technology Group Limited (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022 (the “**Review Period**”), together with the comparative figures for the six months ended 30 June 2021.

- Revenue of the Group for the Review Period was approximately RMB324.5 million, representing an increase of approximately 25.6% as compared with approximately RMB258.4 million for the corresponding period in 2021.
- Gross profit of the Group for the Review Period was approximately RMB31.1 million, representing an increase of approximately 116.0% as compared with approximately RMB14.4 million for the corresponding period in 2021.
- Loss attributable to equity holders of the Company for the Review Period increased to approximately RMB46.6 million from approximately RMB4.1 million for the corresponding period in 2021.
- Basic and diluted loss per share attributable to equity holders of the Company is RMB15.086 cents for the Review Period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in (i) electronics manufacturing services (“**EMS**”) business (the “**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 “**PCBAs**”) and fully-assembled electronic products; and (ii) aerospace business (the “**Aerospace Business**”), which includes (1) satellite manufacturing; (2) satellite measurement and controlling; and (3) satellite launching.

During the Review Period, increasingly gloomy developments of the world economy including, among others, tighter financial conditions triggered by higher global inflation; negative spillovers from the war in Ukraine; and an economic slowdown in China as a result of the pandemic and lockdowns as well as the escalation of the property sector crisis hit the world economy which was already weakened by the outbreak of COVID-19. Although the COVID-19 pandemic in China gradually came under control since the second half of 2020, the sudden outbreak of variants of the coronavirus in different provinces across China and the imposition of strict lockdown, travel restrictions and quarantine measures still had adverse impacts on the business performance of the Group during the Review Period.

During the Review Period, a turnover of approximately RMB324.5 million was recorded by the Group, representing an increase of approximately 25.6% as compared with that for the corresponding period in 2021; while the loss attributable to equity holders of the Company of approximately RMB46.6 million was recorded as compared with loss attributable to equity holders of the Company of approximately RMB4.1 million for the corresponding period in 2021. The Group commenced its Aerospace Business in the second half of 2021 and has invested a large amount of resources in its Aerospace Business in the past year, including but not limited to expansion of its aerospace expert team and business development team and leasing of new premises for the establishment of aerospace manufacturing and research facilities. As such, the rapid expansion of the Aerospace Business together with the brand new operating subsidiary for the EMS Business in Huizhou, the PRC resulted in significant increase in administrative expenses, thus leading to the increase in loss attributable to equity holders of the Company for the Review Period.

Business Strategies and Outlook

Looking forward to the second half of 2022, 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 United States of America (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 uncertainties to the market and economic environment. Despite facing such challenges, the Board is still positive on the prospect of the Aerospace Business in view of the growth potential after the completion of the establishment of the Hong Kong satellite manufacturing centre and the Hong Kong satellite operation control and application centre at the Advanced Manufacturing Centre located at Tseung Kwan O Industrial Estate, Hong Kong (the “**AMC**”). The Group will strive to sustain long-term growth in the Aerospace Business and the EMS Business by implementing the following business strategies:

- set up a satellite manufacturing center and a satellite operation control and application centre to generate new revenue under the Aerospace Business;
- commence satellite manufacturing and launching business;
- continue to make efforts to expand the customer base to broaden the sources of revenue and diversify business risk;

MANAGEMENT DISCUSSION AND ANALYSIS

- continue to strengthen research and development capabilities so as to explore more business opportunities;
- continue to carefully review and extensively investigate into the current situation in relation to costs and resources deployment to enhance production efficiency; and
- continue to explore financing opportunities so as to increase the liquidity of the Group.

OPERATING RESULTS

Revenue by Customer's Geographical Location

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

| | Unaudited six months ended 30 June | |
|-------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| The PRC | 238,690 | 180,416 |
| The USA | 19,034 | 44,167 |
| Australia | 17,743 | 10,921 |
| Hong Kong | 11,520 | 1,591 |
| India | 11,150 | 2,873 |
| South Korea | 8,201 | 12,373 |
| Vietnam | 7,652 | — |
| Austria | 5,899 | 5,470 |
| Germany | 4,575 | 86 |
| Brazil | — | 550 |
| | 324,464 | 258,447 |

Revenue by Product Type

During the Review Period and the corresponding period in 2021, the revenue 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 type for the Review Period and the corresponding period in 2021 respectively:

| | Revenue for the six months ended 30 June | | | % of total revenue for the six months ended 30 June | | |
|--|---|-----------------|--------------|--|-------|---------|
| | 2022 RMB'000 | 2021 RMB'000 | Changes % | 2022 | 2021 | Changes |
| PCBAs | 157,259 | 105,786 | 48.7 | 48.5 | 40.9 | 7.6 |
| Fully-assembled electronic products | 167,205 | 152,661 | 9.5 | 51.5 | 59.1 | (7.6) |
| Total | 324,464 | 258,447 | 25.5 | 100.0 | 100.0 | |

MANAGEMENT DISCUSSION AND ANALYSIS

PCBAs

Based on the usage of the final electronic products embedded with PCBAs, PCBAs can be broadly applied to electronic end products for two principal industries, namely, banking and finance and smart device. The revenue generated from the sales of PCBAs increased by approximately 48.7% from approximately RMB105.8 million for the corresponding period in 2021 to approximately RMB157.3 million for the Review Period, primarily due to the increase in demand on the PCBAs for banking and finance and smart device.

Fully-assembled electronic products

Fully-assembled electronic products that are embedded with the PCBAs primarily manufactured in-house, which mainly include mobile phones, mobile point-of-sale ("mPOS") and tablets, are sold under the respective brands of the customers or the brands of their ultimate customers. The revenue generated from the sales of fully-assembled electronic products increased by approximately 9.5% from approximately RMB152.7 million for the corresponding period in 2021 to approximately RMB167.2 million for the Review Period, primarily due to the increase in purchase orders of mPOS products from the largest customer.

Gross Profit and Gross Profit Margin by Product Type

Gross profit of the Group for the Review Period was approximately RMB31.1 million, representing an increase of approximately RMB16.7 million or 116.0% as compared with approximately RMB14.4 million for the corresponding period in 2021. Overall gross profit margin increased from 5.6% for the corresponding period in 2021 to 9.6% for the Review Period.

| | Gross profit for the six months ended 30 June | | | Gross profit margin for the six months ended 30 June | | |
|--|--|-----------------|--------------|---|-----------|--------------|
| | 2022 RMB'000 | 2021 RMB'000 | Changes % | 2022 % | 2021 % | Changes % |
| PCBAs | 19,060 | 8,580 | 122.1 | 12.1 | 8.1 | 4.0 |
| Fully-assembled electronic products | 12,031 | 5,770 | 108.5 | 7.2 | 3.8 | 3.4 |
| Total | 31,091 | 14,350 | 116.7 | 9.6 | 5.6 | 4.0 |

PCBAs

The gross profit derived from the sales of PCBAs increased by approximately 122.1% to approximately RMB19.1 million for the Review Period (six months ended 30 June 2021: approximately RMB8.6 million). The gross profit margin increased to approximately 12.1% for the Review Period (six months ended 30 June 2021: approximately 8.1%), which primarily resulted from the lower purchase price of electronic raw material.

Fully-assembled electronic products

The gross profit derived from the sales of fully-assembled electronic products increased by approximately 106.9% to approximately RMB12.0 million for the Review Period (six months ended 30 June 2021: approximately RMB5.8 million). The gross profit margin increased to approximately 7.2% for the Review Period (six months ended 30 June 2021: approximately 3.8%) as a result of higher level of batch production.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Other income of the Group for the Review Period mainly represented discretionary government grants received by the Group of approximately RMB2.3 million (six months ended 30 June 2021: approximately RMB2.1 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 agent in respect of customer introduction; and (iv) other expenses. For the Review Period, selling and distribution expenses amounted to approximately RMB9.3 million (six months ended 30 June 2021: approximately RMB6.6 million), representing an increase of approximately 40.9% as compared to that for the corresponding period in 2021. The increase in the selling and distribution expenses was mainly due to (i) increase in employee benefit expenses for the EMS Business and (ii) increase in 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 Review Period, administrative expenses amounted to approximately RMB62.7 million (six months ended 30 June 2021: approximately RMB15.7 million), representing a significant increase of approximately 299.4% as compared to that for the corresponding period in 2021. The increase in administrative expenses for the Review Period was mainly due to (i) the significant increase in salaries and allowance incurred in the Aerospace Business; (ii) additional professional fees and rental expenses of properties for the Aerospace Business; and (iii) increased operating and administrative expenses for the brand new operating subsidiary for the EMS Business in Huizhou, the PRC.

Other (Losses)/Gains, Net

During the Review Period, other losses mainly represented exchange differences which was increased from approximately RMB0.1 million for the corresponding period in 2021 to approximately RMB5.6 million for the Review Period.

Finance Costs, Net

Finance costs mainly comprised interest expenses on bank borrowings and finance lease liabilities while the finance income mainly represented interest income on cash and cash equivalents and pledged bank deposits. For the Review Period, the net finance costs of the Group was approximately RMB0.8 million (six months ended 30 June 2021: approximately RMB0.1 million). The increased net finance costs was primarily due to the increase in interest expenses in relation to the leases for right-of-use assets, especially properties.

Income Tax Expense

Income tax expense amounted to approximately RMB1.3 million for the Review Period (six months ended 30 June 2021: approximately RMB0.2 million). The increase in income tax expenses is mainly due to the profit generated by Eternity Technology (Xiamen) Company Limited, an indirectly wholly-owned subsidiary of the Company in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss Attributable to Equity Holders of the Company

As a result of the facts discussed above, loss attributable to the equity holders of the Company for the Review Period increased to approximately RMB46.6 million from approximately RMB4.1 million for the corresponding period in 2021.

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The Group had net current assets of approximately RMB32.0 million as at 30 June 2022 (31 December 2021: approximately RMB55.6 million). The current ratio of the Group maintained at approximately 1.1 as at 30 June 2022 and 31 December 2021.

Borrowings, the Pledge of Assets and Restricted Cash

The bank and other borrowings of the Group amounted to approximately RMB299.6 million as at 30 June 2022 (31 December 2021: approximately RMB202.6 million). The weighted average interest rate per annum of the Group's bank and other borrowings as at 30 June 2022 was 4.38% (31 December 2021: 6.42%). As at 30 June 2022 and 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 30 June 2022, the bank deposits amounting to RMB7.5 million were pledged in banks for the facilities granted by banks to the Group. 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 30 June 2022, 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\$**"), United States Dollars ("**USD**") and Euros ("**EUR**").

Gearing Ratio

The gearing ratio, which is calculated by total borrowings, divided by total equity, was approximately 85.5% and 51.7% as at 30 June 2022 and 31 December 2021, respectively. The increase in gearing ratio was due to the increase in the level of interest-bearing borrowings.

Capital Structure

As at 30 June 2022 and 31 December 2021, the Company's issued share capital was HK\$3,090,000 and the number of issued shares of the Company (the "**Share(s)**") was 309,000,000 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 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 net proceeds from the Subscription (after deducting the relevant expenses of 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 Hong Kong satellite manufacturing center at the AMC. As at 31 December 2021 and 30 June 2022, approximately 73.4% and 78.17% of the net proceeds from the Subscription had been utilised for the said purpose, respectively. The Company intended to utilise all of the remaining balance for the same purpose during the year ending 31 December 2022. Details of the Subscription are set out in the announcements of the Company dated 29 October 2021 and 9 November 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and will consider hedging significant foreign currency exposure should the need arise.

Capital Expenditure

For the Review Period, the Group had capital expenditure of approximately RMB259.7 million (six months ended 30 June 2021: approximately RMB67.5 million). The capital expenditure was related to the additions of right-of-use assets; and furniture and fixtures, office equipment, plant and machinery, motor vehicles, satellites, leasehold improvements, and construction of manufacturing plant.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the Review Period (six months ended 30 June 2021: Nil).

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 30 June 2022, the Group had approximately 1,100 employees with a total remuneration of approximately RMB75.3 million during the Review Period (six months ended 30 June 2021: approximately RMB39.2 million). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

CAPITAL COMMITMENT

As at 30 June 2022, the Group's capital commitment amounted to approximately RMB257.6 million (31 December 2021: approximately RMB340.7 million). The capital commitment was mainly related to (i) the acquisition of machinery and equipment and construction of manufacturing plant; (ii) the acquisition of satellites; and (iii) the establishment of the Group's Hong Kong satellite manufacturing centre and Hong Kong satellite operation control and application centre at the AMC.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as of 30 June 2022 (31 December 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Save as disclosed in this report, there were no material acquisitions, disposals and significant investments by the Group during the Review Period.

EVENTS AFTER THE REVIEW PERIOD

On 2 August 2022, Hong Kong Satellite Manufacturing Limited (“**HKSML**”), an indirect wholly-owned subsidiary of the Company, and Kar Hong Construction and Engineering (Hong Kong) Co., Ltd. (the “**Contractor**”), entered into a fit-out contract in relation to the fitting out works and mechanical, electrical and plumbing (“**MEP**”) works for the 2/F AMC premises at the contract price of HK\$120,800,000 (the “**2/F Fit-out Contract**”). Prior to the entry of the 2/F Fit-out Contract, HKSML and the Contractor entered into another fit-out contract on 28 July 2022 in relation to the fitting out works and MEP works for the 8/F AMC premises and its roof at the contract price of HK\$36,700,000 (the “**8/F Fit-out Contract**”).

As one or more of the applicable percentage ratios under Rule 14.07 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) for the aggregate contract prices under the 2/F Fit-out Contract and the 8/F Fit-out Contract (the “**Fit-out Contracts**”) are more than 5% but less than 25%, the entering into of the Fit-out Contracts and the transactions contemplated thereunder constitute a disclosable transaction (the “**Disclosable Transaction**”) of the Company. Details of the Disclosable Transaction are set out in the announcement published by the Company on 2 August 2022.

On 3 August 2022, Gang Hang Ke (Shenzhen) Space Technology Co., Ltd.* (“**SZ Gang Hang Ke**”, transliteration of 港航科(深圳)空間技術有限公司), an indirect wholly-owned subsidiary of the Company, and Hunan Saide Leite Space Technology Co., Ltd.* (“**Saide Leite**”, transliteration of 湖南賽德雷特空間科技有限公司) entered into the satellite manufacturing and assembly, integration and testing (“**AIT**”) agreement (the “**Agreement**”) in relation to the manufacturing and AIT project for 3 optical satellites. Details of the Agreement are set out in the announcement published by the Company on 3 August 2022.

On 11 August 2022, the Company and Venture Smart Asia Limited (the “**Placing Agent**”) entered into a placing agreement in relation to the placing of the two-year 9% per annum fixed coupon unsecured unsubordinated and unlisted bonds to be issued by the Company in an aggregate principal amount of up to HK\$300,000,000 by the Placing Agent on a best effort basis (the “**Placing**”). Details of the Placing are set out in the announcement published by the Company on 11 August 2022.

On 22 August 2022 (New York time), the Company has established a sponsored Level 1 American Depositary Receipt (“**ADR**”) facility with the Bank of New York Mellon. Details of the ADR are set out in the announcement published by the Company on 23 August 2022.

* For identification purpose only

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 7 January 2022, Mr. Lam John Cheung-wah ("**Mr. John Lam**"), a non-executive Director resigned on 5 July 2022, 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 was responsible for introducing potential investors to the Company and he was 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 companies, subsidiaries, fellow subsidiaries or controlling shareholders was a party, and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the Review Period or at any time during the Review Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at 30 June 2022, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 held/ interested ⁽¹⁾ | Approximate percentage of shareholding (%) |
|--|---|--|--|
| Mr. Sun Fengquan (" Mr. Sun ") | Interest of a controlled corporation ⁽²⁾ | 203,255,353(L) | 65.78 |
| Dr. Lam Lee G. (" Dr. Lam ") | Interest of spouse ⁽³⁾ | 4,257,002(L) | 1.38 |
| Dr. Yip Chung Yin (" Dr. Yip ") | Interest of a controlled corporation ⁽⁴⁾ | 2,277,496(L) | 0.74 |

Notes:

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

(2) These Shares were directly held as to 45,042,200 Shares, representing 14.58% of the total number of the issued Shares, by Vision International Group Limited ("**Vision**") and 158,213,153 Shares, representing 51.20% of the total number of the issued Shares, by Hong Kong Aerospace Technology Holdings Limited ("**HKATH (BVI)**"), a company incorporate in British Virgin Islands with limited liability. The entire issued share capital of HKATH (BVI) is owned by Vision, which in turn is wholly-owned by Mr. Sun. Therefore, Mr. Sun is deemed or taken to be interested in the Shares under the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

- (3) Ms. Chung Yuen Yee Kathy, spouse of Dr. Lam, was interested in 4,257,002 Shares, representing 1.38% of the total number of the issued Shares and hence Dr. Lam is deemed or taken to be interested in the Shares under the SFO.
- (4) Dr. Yip and his family members, through their investment vehicles, were interested in 2,277,496 Shares, representing 0.74% of the total number of the issued Shares. Dr. Yip holds one third of the investment vehicles and hence is deemed or taken to be interested in the Shares 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⁾ | Approximate percentage of shareholding (%) |
|------------------------|--------------------------------|--------------------------------------|--|--|
| Mr. Sun ⁽²⁾ | HKATH (BVI) | Interest of a controlled corporation | 158,213,153(L) | 51.20% |

Notes:

- (1) The letter "L" denotes the person's long position in the shares of the relevant associated corporation.
- (2) HKATH (BVI) is wholly owned by Vision, which in turn is wholly-owned by Mr. Sun. Therefore, Mr. Sun is deemed or taken to be interested in the Shares held by HKATH (BVI) 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, or any of their spouses or children under the age of 18 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

Save as disclosed herein, at no time during the Review Period and up to the date of this report was the Group 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

So far as the Directors are aware, as at 30 June 2022, 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⁾ | Approximate percentage of shareholding (%) |
|---------------------|---|--|--|
| HKATH (BVI) | Beneficial owner | 158,213,153(L) | 51.20 |
| Vision | Beneficial owner; Interest of a controlled corporation ⁽²⁾ | 203,255,353(L) | 65.78 |

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Vision was directly interested in 45,042,200 Shares, representing 14.58% of the total number of the issued Shares. HKATH (BVI) was directly interested in 158,213,153 Shares, representing 51.20% of the total number of the issued Shares and the entire issued share capital of HKATH (BVI) is owned by Vision. Therefore, Vision is deemed or taken to be interested in the Shares held by HKATH (BVI) 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' INTERESTS IN COMPETING BUSINESSES

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

A share option scheme was conditionally adopted by the Company on 25 July 2018 (the “**Share Option Scheme**”), which became effective on 16 August 2018. 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. Details of the Share Option Scheme are set out in the listing documents of the Company dated 3 August 2018.

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme during the Review Period and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Review Period.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) on 25 July 2018 with terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 (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 risk management and internal control procedures of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Hung Ka Hai Clement (Chairman), Mr. Brooke Charles Nicholas and Professor Chan Ka Keung, Ceajer.

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2022 have not been audited or reviewed by the Company’s external auditor, but they have been reviewed by the Audit Committee and have been duly approved by the Board under the recommendation of the Audit Committee.

CORPORATE GOVERNANCE AND OTHER INFORMATION

REMUNERATION COMMITTEE

The Company established a remuneration committee (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 comprises one executive Director, namely Dr. Lam, 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 a nomination committee (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 comprises two executive Directors, namely Mr. Sun (Chairman) and Dr. Lam, and two independent non-executive Directors, namely Mr. Hung Ka Hai Clement and Dr. Yuen Kwok Keung.

CORPORATE GOVERNANCE PRACTICES

During the Review Period, the Company has complied with the CG Code except for the following deviation.

Pursuant to CG Code provision C.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 the unique nature of the roles, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGE OF DIRECTORS

With effect from 3 January 2022, (i) each of Professor Chan Ka Keung, Ceajer and Dr. Yuen Kwok Keung 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.

With effect from 5 July 2022, (i) Dr. Mazlan Binti Othman has been appointed as an independent non-executive Director; (ii) Mr. Niu Aimin has been appointed as a non-executive Director; (iii) Mr. John Lam has resigned as a non-executive Director; and (iv) Mr. Leung Kwong Ho has resigned as an independent non-executive Director.

Biographical details of the new appointees are set out in the announcements published by the Company on 3 January 2022 and 5 July 2022, respectively.

REMUNERATION OF DIRECTORS

References are made to the announcements of the Company dated 3 January 2022 and 5 July 2022, respectively, in relation to the appointment of Directors.

Each of Professor Chan Ka Keung, Ceajer and Dr. Yuen Kwok Keung, being an independent non-executive Director appointed on 3 January 2022, entered into a letter of appointment with the Company for an initial term of three years commencing from their respective date of appointment. Each of them shall be entitled to a remuneration of HK\$30,000 per month as an independent non-executive Director.

Dr. Lam, being an executive Director (re-designated on 3 January 2022) and the Co-chairman of the Board, entered into a letter of appointment with the Company for an initial term of three years commencing from the date of his appointment. He shall be entitled to a remuneration of HK\$270,000 per month as an executive Director and the Co-chairman of the Board.

Mr. Niu Aimin, being a non-executive Director appointed on 5 July 2022, entered into a letter of appointment with the Company for an initial term of three years commencing from the date of his appointment. He shall be entitled to a remuneration of HK\$30,000 per month as a non-executive Director.

Dr. Mazlan Binti Othman, being an independent non-executive Director appointed on 5 July 2022, entered into a letter of appointment with the Company for an initial term of three years commencing from the date of her appointment. She shall be entitled to a remuneration of HK\$30,000 per month as an independent non-executive Director.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGE OF PARTICULARS OF THE DIRECTORS

With effect from 27 June 2022, Mr. Lam Kin Fung Jeffrey has retired as a director from the Hong Kong Mortgage Corporation Limited.

With effect from 30 June 2022, Dr. Lam has been appointed as an independent non-executive director of RENHENG Enterprise Holdings Limited (stock code: 3628) whose shares are listed on the Stock Exchange. With effect from 25 July 2022, Dr. Lam has resigned as a non-executive director of National Arts Group Holdings Limited (stock code: 8228) whose shares are listed on the GEM of Stock Exchange.

With effect from 15 July 2022, Mr. Hung Ka Hai Clement has resigned as an independent non-executive director of SY Holdings Group Limited (stock code: 6069) whose shares are listed on the Stock Exchange. With effect from 18 July 2022, Mr. Hung Ka Hai Clement has been appointed as an independent supervisor of the supervisory committee of Ping An Insurance (Group) Company of China, Ltd. whose shares are both listed on the Stock Exchange (stock code: 2318) and the Shanghai Stock Exchange (stock code: 601318).

Save for the above, none of the Director nor their respective biographical information had been changed since the date of their respective appointments and up to the date of this report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 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 have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the Review Period.

By order of the Board

Sun Fengquan

Co-chairman and Chief Executive Officer

Hong Kong
30 August 2022

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022

| | Notes | Unaudited six months ended 30 June | |
|--|-------|---------------------------------------|------------------|
| | | 2022 RMB'000 | 2021 RMB'000 |
| Revenue | 6 | 324,464 | 258,447 |
| Cost of sales | 7 | (293,373) | (244,097) |
| Gross profit | | 31,091 | 14,350 |
| Other income | 8 | 2,402 | 2,139 |
| Selling and distribution expenses | 7 | (9,286) | (6,591) |
| Administrative expenses | 7 | (62,665) | (15,748) |
| Other (losses)/gains, net | 9 | (5,847) | 1,587 |
| (Provision for)/reversal of impairment of trade and bills receivables | 7, 17 | (153) | 378 |
| Operating loss | | (44,458) | (3,885) |
| Finance income | | 554 | 436 |
| Finance costs | | (1,403) | (492) |
| Finance costs, net | | (849) | (56) |
| Loss before income tax | | (45,307) | (3,941) |
| Income tax expense | 10 | (1,308) | (196) |
| Loss for the period attributable to equity holders of the Company | | (46,615) | (4,137) |
| Loss per share attributable to equity holders of the Company | | | |
| Basic and diluted | 11 | RMB(15.086) cents | RMB(1.379) cents |

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

| | Unaudited six months ended 30 June | |
|--|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Loss for the period | (46,615) | (4,137) |
| Other comprehensive income/(loss): | | |
| <i>Item that will not be reclassified to profit or loss</i> | | |
| Exchange differences on translation of the Company | 8,879 | – |
| <i>Item that may be reclassified to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | (3,367) | (672) |
| Total comprehensive loss for the period attributable to equity holders of the Company | (41,103) | (4,809) |

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2022

| | Note | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---|------|---|---|
| Assets | | | |
| Non-current assets | | | |
| Properties, plant and equipment | 13 | 435,929 | 340,456 |
| Right-of-use assets | 13 | 242,148 | 87,712 |
| Intangible assets | 14 | 714 | 786 |
| Restricted cash | | 2,683 | 2,683 |
| Prepayments and deposits | 15 | 25,869 | 12,002 |
| Financial assets at fair value through profit or loss | 18 | 7,500 | – |
| Deferred income tax assets | | 231 | 231 |
| | | 715,074 | 443,870 |
| Current assets | | | |
| Inventories | 16 | 161,496 | 161,931 |
| Contract assets | 17 | 3,485 | 4,973 |
| Trade and bills receivables | 17 | 138,066 | 138,809 |
| Prepayments, deposits and other receivables | 15 | 80,337 | 72,149 |
| Amount due from a fellow subsidiary | 22 | 1,358 | – |
| Amounts due from related companies | 22 | 3,016 | 486 |
| Current income tax recoverable | | 158 | 21 |
| Pledged bank deposits | | 7,500 | 27,500 |
| Short-term bank deposits | | 187 | 139 |
| Cash and cash equivalents | | 101,483 | 91,433 |
| | | 497,086 | 497,441 |
| Total assets | | 1,212,160 | 941,311 |
| Equity | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | | 2,693 | 2,693 |
| Share premium | | 304,492 | 304,492 |
| Retained earnings | | 10,836 | 57,489 |
| Reserves | | 32,419 | 26,869 |
| Total equity | | 350,440 | 391,543 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred government grants | | 10,196 | 10,019 |
| Lease liabilities | | 178,932 | 33,135 |
| Bank and other borrowings | | 204,219 | 63,449 |
| Deferred income tax liabilities | | 2,054 | 1,323 |
| Provision for reinstatement cost | | 1,281 | – |
| | | 396,682 | 107,926 |
| Current liabilities | | | |
| Trade payables | 19 | 107,845 | 176,118 |
| Other payables and accruals | 20 | 84,229 | 61,292 |
| Contract liabilities | 20 | 34,270 | 45,130 |
| Current income tax liabilities | | 9,125 | 8,785 |
| Lease liabilities | | 16,254 | 8,177 |
| Bank and other borrowings | | 95,361 | 139,167 |
| Amount due to the then immediate holding company | 22 | – | 3,143 |
| Amount due to the ultimate holding company | 22 | 16 | 15 |
| Amount due to a related company | 22 | 16 | 15 |
| Loan from a Director | 22 | 3,415 | – |
| Loan from the immediate holding company | 22 | 13,654 | – |
| Loan from the ultimate holding company | 22 | 58,168 | – |
| Loan from a related company | 22 | 42,685 | – |
| | | 465,038 | 441,842 |
| Total liabilities | | 861,720 | 549,768 |
| Total equity and liabilities | | 1,212,160 | 941,311 |

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

| | Unaudited | | | | | | |
|---|---|----------------|-------------------|---------------|------------------|-------------------|-----------------|
| | Attributable to equity holders of the Company | | | | | | |
| | Share capital | Share premium | Statutory reserve | Other reserve | Exchange reserve | Retained earnings | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2022 | 2,693 | 304,492 | 14,524 | 13,997 | (1,652) | 57,489 | 391,543 |
| Comprehensive loss: | | | | | | | |
| Loss for the period | - | - | - | - | - | (46,615) | (46,615) |
| Other comprehensive income/ (loss) | | | | | | | |
| <i>Item that will not be reclassified to profit or loss</i> | | | | | | | |
| Exchange difference on translation of the Company | - | - | - | - | 8,879 | - | 8,879 |
| <i>Item that may be reclassified to profit or loss</i> | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | (3,367) | - | (3,367) |
| Total comprehensive income/(loss) | - | - | - | - | 5,512 | (46,615) | (41,103) |
| Transaction with owners | | | | | | | |
| Appropriation (Note a) | - | - | 38 | - | - | (38) | - |
| Balance at 30 June 2022 | 2,693 | 304,492 | 14,562 | 13,997 | 3,860 | 10,836 | 350,440 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

| | Unaudited 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 period | – | – | – | – | – | (4,137) | (4,137) |
| Other comprehensive loss: | | | | | | | |
| <i>Item that may be reclassified to profit or loss</i> | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | (672) | – | (672) |
| Total comprehensive loss | – | – | – | – | (672) | (4,137) | (4,809) |
| Transactions with owners | | | | | | | |
| Adjustment for common control combinations | – | – | – | 1,335 | – | – | 1,335 |
| Appropriation (Note a) | – | – | 134 | – | – | (134) | – |
| Total transactions with owners | – | – | 134 | 1,335 | – | (134) | 1,335 |
| Balance at 30 June 2021 | 2,619 | 110,868 | 14,725 | 13,997 | (1,619) | 106,226 | 246,816 |

Note:

- (a) The laws and regulations of the PRC 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 discretionary surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

| | Unaudited | |
|--|--------------------------|-----------------|
| | six months ended 30 June | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Cash flows from operating activities | | |
| Cash used in operations | (91,188) | (67,309) |
| Income tax paid | (22) | (263) |
| Interest received | 554 | 436 |
| Net cash used in operating activities | (90,656) | (67,136) |
| Cash flows from investing activities | | |
| Purchase of properties, plant and equipment | (88,057) | (8,735) |
| Prepayments for the acquisition of land-use-right | – | (11,890) |
| Prepayments for the construction of properties, plant and equipment | – | (37,825) |
| Purchase of intangible assets | (47) | (17) |
| Purchase of financial assets at fair value through profit or loss | (7,500) | – |
| Receipt of government grants | 1,520 | – |
| Proceeds from disposal of properties, plant and equipment | 53 | – |
| Net cash used in investing activities | (94,031) | (58,467) |
| Cash flows from financing activities | | |
| Proceeds from bank borrowings | 135,931 | 38,606 |
| Repayments of bank borrowings | (43,162) | (2,448) |
| Interest paid | (9,202) | (770) |
| Change in short-term bank deposits | (48) | (47) |
| Payments of principal element of lease liabilities | (5,671) | (4,990) |
| Proceeds from loan from Directors and shareholders | 44,393 | – |
| Repayments of loan from Directors and shareholders | (40,978) | – |
| Proceeds from loan from the immediate holding company | 13,654 | – |
| Proceeds from loan from the ultimate holding company | 58,168 | – |
| Proceeds from loan from a related company | 42,685 | – |
| Proceeds from common control combinations, net of consideration paid | – | 5,126 |
| Net cash generated from financing activities | 195,770 | 35,477 |
| Increase/(decrease) in cash and cash equivalents | 11,083 | (90,126) |
| Cash and cash equivalents at beginning of the period | 91,433 | 178,904 |
| Currency translation differences | (1,033) | (558) |
| Cash and cash equivalents at end of the period | 101,483 | 88,220 |

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

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 (the "**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 "**PCBAs**") and fully-assembled electronic products; and (ii) aerospace business (the "**Aerospace Business**"), which includes (1) satellite manufacturing; (2) satellite measurement and controlling; and (3) satellite launching.

As at 30 June 2022, the ultimate holding company of the Company is Vision International Group Limited, a company incorporated in Hong Kong, and the immediate holding company of the Company is Hong Kong Aerospace Technology Holdings Limited ("**HKATH (BVI)**"), a company incorporated in the British Virgin Islands. The ultimate controlling shareholder of the Company is Mr. Sun Fengquan ("**Mr. Sun**"), who is also the Co-Chairman of the Board and Chief Executive Officer of the Company.

The shares of the Company were listed on the Main Board of the Stock Exchange on 16 August 2018.

This condensed consolidated interim financial information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**"), unless otherwise stated. This interim financial information was approved for issue on 30 August 2022.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The interim financial information does not include all the notes of the type normally included in an annual report. Accordingly, this interim financial information is to be read in conjunction with the annual report for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION (Continued)

Use of going concern basis

The Directors have given careful consideration to 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 Review Period taking into account the followings:

- (a) In 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 30 June 2022, the amount undrawn under these facilities totalled approximately RMB236 million;
- (b) In March 2022, the Group entered into a legally binding agreement with an independent third party lender to extend certain borrowings of HK\$108 million (approximately RMB92 million) which are due in various dates in 2022 to March 2024;
- (c) In March 2022, the Group obtained a letter of undertaking from Mr. Sun, pursuant to which, Mr. Sun has irrevocably undertaken to provide the Group with an unsecured and interest-free revolving loan for an amount up to HK\$300 million (approximately RMB256 million);
- (d) In March 2022, the Group also obtained another letter of undertaking 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 RMB85 million);
- (e) In April 2022, the Company entered into an unsecured, interest-free revolving loan agreement with its ultimate holding company for an amount up to HK\$100 million (approximately RMB85 million). As at 30 June 2022, the Company had drawn down HK\$71 million (approximately RMB59 million);
- (f) In June 2022, the Company entered into an unsecured, interest-free revolving loan agreement with its immediate holding company for an amount up to HK\$100 million (approximately RMB85 million). As at 30 June 2022, the Company had drawn down approximately HK\$16 million (approximately RMB14 million);
- (g) In August 2022, the Company entered into a placing agreement with a placing agent, pursuant to which the placing agent agreed to procure investors, on a best effort basis, to subscribe for the two-year 9% per annum fixed coupon unsecured unsubordinated and unlisted bonds to be issued by the Company in an aggregate principal amount of up to HK\$300 million (approximately RMB256 million);
- (h) The Group is in negotiation with other independent third parties 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION (Continued)

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 30 June 2022. In the opinion of the Directors, 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 30 June 2022. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2021, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standards as set out below. Taxes on income in the Review Period are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4 ESTIMATES

The preparation of this interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements in the annual report for the year ended 31 December 2021.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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.

This interim financial information does not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual report for the year ended 31 December 2021. There have been no significant changes in the risk management policies since the year end.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets that are measured at fair value as at 30 June 2022.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|--|--------------------|--------------------|--------------------|------------------|
| As at 30 June 2022 (unaudited) | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| — Unlisted equity securities | — | — | 7,500 | 7,500 |

There were no transfers among Levels 1, 2 and 3 and changes in valuation techniques during the Review Period.

The following table presents the changes in level 3 financial instruments for the six months period ended 30 June 2022 and 2021:

| | Unlisted equity securities Unaudited six months ended 30 June | |
|----------------------|---|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Balance at 1 January | — | — |
| Additions | 7,500 | — |
| Balance at 30 June | 7,500 | — |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair value estimation (Continued)

In the opinion of the Directors, the carrying amounts of the Group's other financial assets and financial liabilities approximated their fair values as at 30 June 2022 and 31 December 2021.

6 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in (i) the EMS Business; and (ii) the Aerospace Business, which includes (1) satellite manufacturing; (2) satellite measurement and controlling; and (3) satellite launching.

The chief operating decision-maker has been identified as the Directors. 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.

During the six months ended 30 June 2021, the Group had two reportable operating segments being (i) the EMS Business and (ii) the Aerospace Business.

As the sales of smart home devices have been increasing significantly, the Board has begun to separately assess its performance from the rest of the EMS Business since the second half of the financial year ended 31 December 2021. Therefore, 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 six months ended 30 June 2021 is applied retrospectively and the Group's segment information is restated as if the Group had been operating as these operating segments in that period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment revenue, gross profit and other segment information

The Directors assess the performance of the operating segments based on a measure of revenue and gross profit.

| | EMS Business | | | Total RMB'000 |
|--|----------------------------------|--|----------------------------------|------------------|
| | Smart home devices RMB'000 | Banking and finance and other devices RMB'000 | Aerospace Business RMB'000 | |
| For the six months ended 30 June 2022 (unaudited) | | | | |
| Segment revenue | 91,918 | 232,546 | – | 324,464 |
| Inter-segment revenue | 610 | (610) | – | – |
| Segment cost of sales | (87,557) | (205,816) | – | (293,373) |
| Segment gross profit | 4,971 | 26,120 | – | 31,091 |
| Other segment information: | | | | |
| Depreciation of properties, plant and equipment | 877 | 5,312 | 2,420 | 8,609 |
| Depreciation of right-of-use assets | 1,689 | 2,096 | 1,562 | 5,347 |
| Amortisation of intangible assets | – | 119 | – | 119 |
| Additions to non-current segment assets* | 2,161 | 85,251 | 177,635 | 265,047 |
| For the six months ended 30 June 2021 (unaudited) | | | | |
| Segment revenue | 46,185 | 212,262 | – | 258,447 |
| Inter-segment revenue | 1,653 | (1,653) | – | – |
| Segment cost of sales | (39,938) | (203,920) | (239) | (244,097) |
| Segment gross profit | 7,900 | 6,689 | (239) | 14,350 |
| Other segment information: | | | | |
| Depreciation of properties, plant and equipment | 128 | 2,979 | 172 | 3,279 |
| Depreciation of right-of-use assets | 563 | 3,926 | 38 | 4,527 |
| Amortisation of intangible assets | – | 317 | – | 317 |
| Additions to non-current segment assets* | 18,931 | 60,095 | 16,634 | 95,660 |

* The additions to non-current segment assets include additions to properties, plant and equipment, right-of-use assets, intangible assets, prepayments for construction works and prepayments for the acquisition of properties, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

| | EMS Business | | | Total RMB'000 |
|---|----------------------------------|--|----------------------------------|------------------|
| | Smart home devices RMB'000 | Banking and finance and other devices RMB'000 | Aerospace Business RMB'000 | |
| As at 30 June 2022 (unaudited) | | | | |
| Segment assets | 129,478 | 623,241 | 451,552 | 1,204,271 |
| Segment liabilities | 90,194 | 440,693 | 319,654 | 850,541 |
| As at 31 December 2021 (audited) | | | | |
| Segment assets | 155,124 | 533,743 | 252,192 | 941,059 |
| Segment liabilities | 94,034 | 366,063 | 79,563 | 539,660 |

Reportable segment assets are reconciled to total assets as follows:

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---|---|---|
| Segment assets | 1,204,271 | 941,059 |
| Current income tax recoverable | 158 | 21 |
| Deferred income tax assets | 231 | 231 |
| Financial assets at fair value through profit or loss | 7,500 | – |
| Total assets | 1,212,160 | 941,311 |

Reportable segment liabilities are reconciled to total liabilities as follows:

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---------------------------------|---|---|
| Segment liabilities | 850,541 | 539,660 |
| Current income tax liabilities | 9,125 | 8,785 |
| Deferred income tax liabilities | 2,054 | 1,323 |
| Total liabilities | 861,720 | 549,768 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (Continued)

(c) Disaggregation of revenue from contracts with customers

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

| | Unaudited six months ended 30 June | |
|-------------------------------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Timing of revenue recognition: | | |
| At a point in time — sales of goods | 250,231 | 230,614 |
| Over time — provision of services | 74,233 | 27,833 |
| | 324,464 | 258,447 |

(d) Revenue by customers' geographical location

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

| | Unaudited six months ended 30 June | |
|--|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| The PRC | 238,690 | 180,416 |
| The United States of America (the "USA") | 19,034 | 44,167 |
| Australia | 17,743 | 10,921 |
| Hong Kong | 11,520 | 1,591 |
| India | 11,150 | 2,873 |
| South Korea | 8,201 | 12,373 |
| Vietnam | 7,652 | — |
| Austria | 5,899 | 5,470 |
| Germany | 4,575 | 86 |
| Brazil | — | 550 |
| | 324,464 | 258,447 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (Continued)

(e) Non-current assets by geographical location

As at 30 June 2022 and 31 December 2021, the Group's non-current assets other than financial instruments and deferred income tax assets by geographical location were as follows:

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|-----------|---|---|
| The PRC | 329,876 | 261,865 |
| Hong Kong | 359,017 | 174,860 |
| Germany | 64 | 107 |
| | 688,957 | 436,832 |

(f) Major customers

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

| | Unaudited six months ended 30 June 2022 RMB'000 | 2021 RMB'000 |
|------------|--|-----------------|
| Customer A | N/A* | 58,645 |
| Customer B | 91,918 | 46,185 |
| Customer C | N/A* | 31,255 |
| Customer D | 73,704 | N/A* |

The five largest customers accounted for approximately 69.0% of revenue for the Review Period (six months ended 30 June 2021: 70.2%).

* The corresponding customers did not contribute over 10% of the total revenue of the Group for the six months ended 30 June 2022 or 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and provision for/(reversal of) impairment of trade and bills receivables are analysed as follows:

| | Unaudited six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Cost of raw materials used | 227,988 | 184,571 |
| Consumables | 1,131 | 329 |
| Subcontracting charges | 1,112 | 16,960 |
| Employee benefit expenses and manpower service expenses, including Directors' emoluments (Note 22) | 75,287 | 39,204 |
| Rental expenses of short-term leases in respect of machinery and properties | 7,941 | 3,852 |
| Utilities | 3,766 | 1,669 |
| Depreciation of properties, plant and equipment (Note 13) | 8,609 | 3,279 |
| Depreciation of right-of-use assets (Note 13) | 4,953 | 4,250 |
| Amortisation (Note 14) | 119 | 317 |
| Auditor's remuneration | | |
| — Audit services | 1,156 | 298 |
| — Non-audit services | 747 | 750 |
| Professional fees | 9,644 | 2,641 |
| Office expenses | 1,842 | 174 |
| (Reversal of provision)/provision for inventories (Note 16) | (1,029) | 1,103 |
| Other tax and surcharges | 2,765 | 531 |
| Transportation | 1,188 | 1,170 |
| Provision for/(reversal of) impairment of trade and bills receivables (Note 17) | 153 | (378) |
| Service charge | 5,910 | 541 |
| Entertainment expenses | 2,932 | 917 |
| Bank charges | 1,731 | — |
| Service fees for product development | 1,488 | — |
| Others | 6,044 | 3,880 |
| Total cost of sales, selling and distribution expenses, administrative expenses and provision for/(reversal of) impairment of trade and bills receivables | 365,477 | 266,058 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 OTHER INCOME

| | Unaudited six months ended 30 June | |
|-------------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Government grants | 2,308 | 2,124 |
| Sundry income | 94 | 15 |
| | 2,402 | 2,139 |

9 OTHER (LOSSES)/GAINS, NET

| | Unaudited six months ended 30 June | |
|--|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Exchange differences | (5,626) | (124) |
| Loss on disposal of properties, plant and equipment | (425) | – |
| Fair value gains from derivative financial instruments | – | 1,711 |
| Gain on lease modification | 204 | – |
| | (5,847) | 1,587 |

10 INCOME TAX EXPENSE

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department of Hong Kong from the year of assessment 2019/20 onwards, the Group's first HK\$2 million of assessable profits under Hong Kong profits tax 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 six months ended 30 June 2022 and 2021, Shenzhen Hengchang Sheng Technology Company Limited*, a major operating subsidiary of the Company for the EMS Business in the PRC, has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

During the six months ended 30 June 2022 and 2021, Gang Hang Ke (Shenzhen) Space Technology Co., Limited* ("**SZ Gang Hang Ke**"), a major operating subsidiary of the Company for the Aerospace Business in the PRC, has been qualified for small-scale enterprises with minimal profits status and is subject to an applicable tax rate of 20%. Other Group's entities in the PRC were subject to the PRC corporate income tax ("**CIT**") at the tax rate of 25%.

During the six months ended 30 June 2021, no provision for Hong Kong profits tax has been made in the interim financial information as the Group had no assessable profit in Hong Kong.

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 INCOME TAX EXPENSE (Continued)

| | Unaudited six months ended 30 June | |
|-------------------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Current income tax | | |
| — PRC CIT | 499 | 1,268 |
| — Hong Kong profits tax | 99 | — |
| — Withholding tax | 12 | — |
| Deferred income tax | 610 | 1,268 |
| | 698 | (1,072) |
| Income tax expense | 1,308 | 196 |

11 LOSS PER SHARE

The basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2022 and 2021.

| | Unaudited six months ended 30 June | |
|--|---------------------------------------|---------|
| | 2022 | 2021 |
| Loss attributable to equity holders of the Company (RMB'000) | (46,615) | (4,137) |
| Weighted average number of ordinary shares in issue (thousands of shares) | 309,000 | 300,000 |
| Basic and diluted loss per share (RMB cents) | (15.086) | (1.379) |

There were no differences between the basic and diluted loss per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2022 and 2021.

12 DIVIDEND

No dividend has been paid or declared by the Company during the six months ended 30 June 2022 and 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

| | Properties, plant and equipment <i>RMB'000</i> | Right-of-use assets <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---|--|-------------------------|
| As at 1 January 2022 (audited) | | | |
| Cost | 409,905 | 94,804 | 504,709 |
| Accumulated depreciation | (69,449) | (7,092) | (76,541) |
| Net book amount | 340,456 | 87,712 | 428,168 |
| Six months ended 30 June 2022 (unaudited) | | | |
| Opening net book amount | 340,456 | 87,712 | 428,168 |
| Additions | 96,810 | 162,844 | 259,654 |
| Depreciation | (8,609) | (5,347) | (13,956) |
| Disposals | (478) | (8,225) | (8,703) |
| Exchange difference | 7,750 | 5,164 | 12,914 |
| Closing net book amount | 435,929 | 242,148 | 678,077 |
| As at 30 June 2022 (unaudited) | | | |
| Cost | 514,485 | 251,884 | 766,369 |
| Accumulated depreciation | (78,556) | (9,736) | (88,292) |
| Net book amount | 435,929 | 242,148 | 678,077 |
| As at 1 January 2021 (audited) | | | |
| Cost | 139,890 | 53,792 | 193,682 |
| Accumulated depreciation | (57,881) | (14,021) | (71,902) |
| Net book amount | 82,009 | 39,771 | 121,780 |
| Six months ended 30 June 2021 (unaudited) | | | |
| Opening net book amount | 82,009 | 39,771 | 121,780 |
| Common control combination | 210 | – | 210 |
| Additions | 40,831 | 32,833 | 73,664 |
| Depreciation | (3,279) | (4,527) | (7,806) |
| Exchange difference | (4) | (7) | (11) |
| Closing net book amount | 119,767 | 68,070 | 187,837 |
| As at 30 June 2021 (unaudited) | | | |
| Cost | 181,183 | 78,237 | 259,420 |
| Accumulated depreciation | (61,416) | (10,167) | (71,583) |
| Net book amount | 119,767 | 68,070 | 187,837 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

As at 30 June 2022, properties, plant and equipment included buildings, furniture and fixtures, office equipment, plant and machinery, motor vehicles, satellites, leasehold improvements and construction in progress; and right-of-use assets included land-use rights and properties.

During the six months ended 30 June 2022, additions to properties, plant and equipment mainly represented additions to construction in progress for manufacturing plant located in the PRC; while additions to right-of-use assets represented the new leases of properties for business expansion of the Group.

During the six months ended 30 June 2022, depreciation expenses of approximately RMB394,000 (six months ended 30 June 2021: RMB277,000) were included in construction in progress.

14 INTANGIBLE ASSETS

(a) Acquisitions

During the six months ended 30 June 2022, the Group acquired items of software system with a cost of approximately RMB47,000 (30 June 2021: RMB17,000).

(b) Amortisation

During the six months ended 30 June 2022, amortisation expenses of approximately RMB7,000 (30 June 2021: RMB7,000), RMB92,000 (30 June 2021: RMB103,000) and RMB20,000 (30 June 2021: RMB207,000) have been charged in selling and distribution expenses, administrative expenses and cost of sales respectively.

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|--|---|---|
| Current portion | | |
| Prepayments | 36,319 | 44,611 |
| Deposits (Note a) | 1,434 | 6,015 |
| Value-added tax receivables | 41,701 | 21,158 |
| Other receivables (Notes a and b) | 883 | 365 |
| | 80,337 | 72,149 |
| Non-current portion | | |
| Prepayments for construction works | – | 555 |
| Prepayments for the acquisition of properties, plant and equipment and intangible assets | 9,987 | 4,640 |
| Deposits (Note a) | 15,882 | 6,807 |
| | 25,869 | 12,002 |
| | 106,206 | 84,151 |

Notes:

- (a) As at 30 June 2022 and 31 December 2021, the carrying amounts of deposits and other receivables approximated their fair values.
- (b) The amounts were unsecured, interest free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 INVENTORIES

During the six months ended 30 June 2022, the cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB290,143,000 (30 June 2021: RMB243,308,000), which included reversal of provision for inventories amounting to approximately RMB1,029,000 (30 June 2021: provision for inventory of RMB1,103,000).

17 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---|---|---|
| Contract assets | 3,485 | 4,973 |
| Trade receivables | 137,534 | 143,492 |
| Bills receivables | 6,243 | 701 |
| Less: provision for impairment of trade and bills receivables | (5,711) | (5,384) |
| Trade and bills receivables | 138,066 | 138,809 |
| Contract assets, trade and bills receivables | 141,551 | 143,782 |

As at 30 June 2022 and 31 December 2021, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES (Continued)

The Group's sales are on credit terms primarily from 30 to 120 days.

As at 30 June 2022 and 31 December 2021, the aging analysis of trade and bills receivables, based on invoice date, was as follows:

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---|---|---|
| Within 3 months | 137,719 | 135,289 |
| Over 3 months | 6,058 | 8,904 |
| | 143,777 | 144,193 |
| Less: provision for impairment of trade and bills receivables | (5,711) | (5,384) |
| | 138,066 | 138,809 |

Movements of the provision for impairment of trade and bills receivables were as follows:

| | Unaudited six months ended 30 June 2022 RMB'000 | 2021 RMB'000 |
|---|--|-----------------|
| At beginning of the period | 5,384 | 5,680 |
| Reversal of impairment of trade and bills receivables on individual basis | – | (378) |
| Provision for impairment of trade and bills receivables on collective basis | 153 | – |
| Exchange difference | 174 | (15) |
| At end of the period | 5,711 | 5,287 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|-----------------------------|---|---|
| Unlisted equity investments | 7,500 | – |

Financial assets at fair value through profit or loss are all held for investments purpose.

19 TRADE PAYABLES

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|----------------|---|---|
| Trade payables | 107,845 | 176,118 |

As at 30 June 2022 and 31 December 2021, the aging analysis of trade payables, based on invoice date, was as follows:

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|-----------------|---|---|
| Within 3 months | 94,145 | 163,521 |
| Over 3 months | 13,700 | 12,597 |
| | 107,845 | 176,118 |

As at 30 June 2022 and 31 December 2021, the carrying amounts of trade payables approximated their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---|---|---|
| Other payables | 9,207 | 7,365 |
| Payables for acquisition of properties, plant and equipment | 2,838 | 4,016 |
| Payables for construction works | 13,745 | 6,966 |
| Deposit received for construction works | 4,000 | 4,000 |
| Deposit received from customers | 17,593 | – |
| Other tax payables | 6,401 | 4,343 |
| Accrued expenses | 7,114 | 9,499 |
| Accrued salaries and bonus | 22,098 | 22,958 |
| Interest payable | 1,233 | 2,145 |
| Contract liabilities | 34,270 | 45,130 |
| | 118,499 | 106,422 |

As at 30 June 2022 and 31 December 2021, the carrying amounts of contract liabilities, other payables and accruals approximated their fair values. They were unsecured, interest free and repayable on demand.

21 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the period/year but not yet incurred is as follows:

| | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Properties, plant and equipment and intangible assets | 257,606 | 340,659 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 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 controlling shareholder of the Group are disclosed in Note 1.

Save as disclosed elsewhere, major related parties that had transactions with the Group during the six months ended 30 June 2022 and 2021 were as follows:

| Name of related parties | Relationship with the Company |
|---|--|
| Hong Kong Financial Assets Holdings Limited | Controlled by a Director |
| Rich Blessing Group 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 the subsidiary |
| Shanghai Gang Hang Ke Space Technology Company Limited* (上海港航科空間技術有限公司) | Controlled by a director of the subsidiary |
| Vision International Group Limited | Ultimate holding company |
| Mr. Lam John Cheung Wah | Director |
| Ms. Ku Ka Lee Clarie ("Ms. Ku") | Director |

(a) Transactions with related parties

Save as disclosed elsewhere in the interim financial information, during the six months ended 30 June 2022 and 2021, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) Office rental and management fees paid to related companies

| | Unaudited six months ended 30 June | |
|--|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司) (Note) | 460 | 450 |
| Vision International Group Limited (Note) | 901 | – |

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(ii) Consultancy fee paid to a Director

| | Unaudited six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Mr. Lam John Cheung Wah (<i>Note</i>) | 830 | – |

Note:

The above transactions were charged based on terms mutually agreed with the related party and in the ordinary course of business.

(b) Key management compensation

Key management compensation including Directors' compensation paid or payable to key management for employee services is shown below:

| | Unaudited six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 |
| Wages and salaries | 7,392 | 1,675 |
| Pension costs — defined contribution plan | 46 | 115 |
| | 7,438 | 1,790 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 RELATED PARTY TRANSACTIONS (Continued)

(c) Balances arising from related party transactions

| | Note | Unaudited 30 June 2022 RMB'000 | Audited 31 December 2021 RMB'000 |
|--|-------|---|---|
| Amount due from Rich Blessing Group Limited | (i) | 16 | 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 from Shanghai Gang Hang Ke Space Technology Company Limited* (上海港航科空間技術有限公司) | (i) | 3,000 | – |
| Amount due from a fellow subsidiary | (i) | 1,358 | – |
| Amount due to the then immediate holding company | (i) | – | 3,143 |
| Amount due to the ultimate holding company | (i) | 16 | 15 |
| Amount due to Hong Kong Financial Assets Holdings Limited | (i) | 16 | 15 |
| Loan from Ms. Ku | (i) | 3,415 | – |
| Loan from the immediate holding company | (iii) | 13,654 | – |
| Loan from the ultimate holding company | (iii) | 58,168 | – |
| Loan from Rich Blessing Group Limited | (iii) | 42,685 | – |
| 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.
- (ii) Balance was unsecured, interest free and repayable within three years from the period/year end.
- (iii) Balances were unsecured, interest free and repayable within one year.

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23 EVENTS AFTER THE REVIEW PERIOD

- (i) On 2 August 2022, Hong Kong Satellite Manufacturing Limited ("**HKSML**"), an indirect wholly-owned subsidiary of the Company, and Kar Hong Construction and Engineering (Hong Kong) Co., Ltd. (the "**Contractor**"), entered into a fit-out contract in relation to the fitting out works and mechanical, electrical and plumbing ("**MEP**") works for the several units on the 2nd floor of the Advanced Manufacturing Centre located at Tseung Kwan O Industrial Estate, Hong Kong (the "**AMC**") at the contract price of HK\$120,800,000 (the "**2/F Fit-out Contract**"). Prior to the entry of the 2/F Fit-out Contract, HKSML and the Contractor entered into another fit-out contract on 28 July 2022 in relation to the fitting out works and MEP works for the several units on the 8th floor of the AMC and the roof at the contract price of HK\$36,700,000. Further details are set out in the announcement published by the Company on 2 August 2022.
- (ii) On 3 August 2022, SZ Gang Hang Ke and Hunan Saide Leite Space Technology Co., Ltd.* ("**Saide Leite**", transliteration of 湖南賽德雷特空間科技有限公司) entered into the satellite manufacturing and assembly, integration and testing ("**AIT**") agreement in relation to the manufacturing and AIT project for 3 optical satellites. Details of the agreement are set out in the announcement published by the Company on 3 August 2022.
- (iii) On 11 August 2022, the Company and Venture Smart Asia Limited (the "**Placing Agent**") entered into a placing agreement in relation to the placing of the two-year 9% per annum fixed coupon unsecured unsubordinated and unlisted bonds to be issued by the Company in an aggregate principal amount of up to HK\$300,000,000 by the Placing Agent on a best effort basis (the "**Placing**"). Details of the Placing are set out in the announcement published by the Company on 11 August 2022.
- (iv) On 22 August 2022 (New York time), the Company has established a sponsored Level 1 American Depositary Receipt ("**ADR**") facility with the Bank of New York Mellon. Details of the ADR are set out in the announcement published by the Company on 23 August 2022.

* For identification purpose only