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## **Hong Kong Aerospace Technology Group Limited**

**香港航天科技集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1725)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021**

The board (the “**Board**”) of directors (“**Directors**”) of Hong Kong Aerospace Technology Group Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2020.

#### **FINANCIAL HIGHLIGHTS**

- Revenue of the Group for the Reporting Period was approximately RMB650.2 million, representing an increase of approximately 18.7% as compared with RMB547.8 million for the corresponding period in 2020.
- Gross profit of the Group for the Reporting Period was approximately RMB37.1 million, representing a decrease of approximately 25.2% as compared with RMB49.6 million for the corresponding period in 2020.
- Loss attributable to equity holders of the Company for the Reporting Period was approximately RMB53.1 million, representing a decrease of approximately 407.0% as compared with profit attributable to equity holders of the Company of RMB17.3 million for the corresponding period in 2020.
- Basic and diluted loss per share attributable to ordinary equity holders of the Company was RMB17.61 cents for the Reporting Period.

## CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2021

	<i>Note</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	3	<b>650,230</b>	547,825
Cost of sales	4	<b>(613,114)</b>	(498,231)
<b>Gross profit</b>		<b>37,116</b>	49,594
Other income	5	<b>3,567</b>	12,555
Other losses, net	6	<b>(636)</b>	(394)
Selling and distribution expenses	4	<b>(16,571)</b>	(13,228)
Administrative expenses	4	<b>(69,606)</b>	(22,960)
Net impairment losses on financial assets	4	<b>(131)</b>	(5,122)
<b>Operating (loss)/profit</b>		<b>(46,261)</b>	20,445
Finance income		<b>503</b>	560
Finance costs		<b>(1,199)</b>	(678)
Finance costs, net	7	<b>(696)</b>	(118)
<b>(Loss)/profit before income tax</b>		<b>(46,957)</b>	20,327
Income tax expense	8	<b>(6,118)</b>	(3,004)
<b>(Loss)/profit for the year attributable to equity holders of the Company</b>		<b>(53,075)</b>	17,323
<b>(Loss)/earnings per share attributable to equity holders of the Company</b>			
Basic and diluted	9	<b>(RMB17.61 cents)</b>	RMB5.77 cents

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2021

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

## CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	<i>Note</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Properties, plant and equipment	<i>10</i>	<b>340,456</b>	82,009
Right-of-use assets	<i>10</i>	<b>87,712</b>	39,771
Intangible assets		<b>786</b>	1,283
Restricted cash		<b>2,683</b>	–
Prepayments and deposits		<b>12,002</b>	15,845
Deferred income tax assets		<b>231</b>	1,392
		<u><b>443,870</b></u>	<u>140,300</u>
<b>Current assets</b>			
Inventories	<i>11</i>	<b>161,931</b>	80,528
Contract assets	<i>12</i>	<b>4,973</b>	5,517
Trade and bills receivables	<i>12</i>	<b>138,809</b>	106,606
Prepayments, deposits and other receivables		<b>72,149</b>	29,718
Derivative financial instruments		–	399
Amounts due from related companies		<b>486</b>	–
Current income tax recoverable		<b>21</b>	–
Pledged bank deposits		<b>27,500</b>	33,699
Short-term bank deposits		<b>139</b>	92
Cash and cash equivalents		<b>91,433</b>	178,904
		<u><b>497,441</b></u>	<u>435,463</u>
<b>Total assets</b>		<u><b>941,311</b></u>	<u>575,763</u>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		<b>2,693</b>	2,619
Share premium		<b>304,492</b>	110,868
Retained earnings		<b>57,489</b>	110,497
Reserves		<b>26,869</b>	26,306
<b>Total equity</b>		<u><b>391,543</b></u>	<u>250,290</u>

## CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2021

	<i>Note</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred government grants		<b>10,019</b>	10,980
Lease liabilities		<b>33,135</b>	107
Bank and other borrowings		<b>63,449</b>	20,943
Deferred tax liabilities		<b>1,323</b>	–
		<hr/>	<hr/>
		<b>107,926</b>	32,030
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and bills payables	<i>13</i>	<b>176,118</b>	196,412
Other payables and accruals	<i>14</i>	<b>61,292</b>	45,664
Contract liabilities	<i>14</i>	<b>45,130</b>	33,248
Current income tax liabilities		<b>8,785</b>	6,465
Lease liabilities		<b>8,177</b>	5,855
Bank and other borrowings		<b>139,167</b>	5,799
Amount due to the immediate holding company		<b>3,143</b>	–
Amount due to the ultimate holding company		<b>15</b>	–
Amount due to a related company		<b>15</b>	–
		<hr/>	<hr/>
		<b>441,842</b>	293,443
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>549,768</b>	325,473
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>941,311</b>	575,763
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

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

As at 31 December 2021, the ultimate holding company of the Company is Vision International Group Limited (formerly known as Hong Kong Financial Assets Management Limited) and the immediate holding company of the Company is Hong Kong Aerospace Technology Holdings Limited (formerly known as Hong Kong Aerospace Technology Group Limited) (“**HKATH**”), both of these companies were incorporated in Hong Kong. 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 of Hong Kong Limited on 16 August 2018.

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

### 2. BASIS OF PREPARATION

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

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) **Basis of preparation – use of going concern basis**

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

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

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

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

- (a) In March 2022, the Group entered into a legally binding agreement with an independent third party lender to extend certain borrowings of approximately RMB88,024,000 which are due on various dates from March, July and September 2022 to March 2024;
- (b) In March 2022, the Group entered into eight loan agreements with eight lenders, comprising two executive Directors, one non-executive Director and five shareholders of the immediate holding company of the Company (collectively the “**Lenders**”) respectively, pursuant to which, each of the Lenders has irrevocably agreed to provide the Company with an unsecured and interest-free loan for a term of 12 months for a total amount of HK\$52 million (approximately RMB42.4 million).
- (c) In March 2022, the Group obtained a revolving loan facility from an independent third party with a credit limit of US\$12 million (approximately RMB76.3 million) for a term of 36 months from the first date of drawing of the loan. The facility is secured by a personal guarantee from Mr. Sun, an executive Director who is also the ultimate controlling shareholder of the Company (the “**Guarantor**”). Any amount drawn from this facility is interest bearing and repayable on 36 months after the first drawdown date;

- (d) In March 2022, the Group obtained a letter of undertaking (the “**First Undertaking Letter**”) from the Guarantor, pursuant to which, the Guarantor has irrevocably undertaken to provide the Group with an unsecured and interest-free revolving loan for an amount up to HK\$300 million (approximately RMB244.5 million). The First Undertaking Letter is valid and subsisting up to 31 March 2023 and any loan drawn thereunder shall be repayable on 31 March 2023;
- (e) In March 2022, the Group also obtained another letter of undertaking (the “**Second Undertaking Letter**”) jointly given by two executive Directors, one non-executive Director, and a shareholder of the immediate holding company of the Company (collectively the “**Covenantors**”), pursuant to which, the Covenantors have jointly and irrevocably undertaken to provide the Group with an unsecured and interest-free loan up to HK\$100 million (approximately RMB81.5 million) which is valid until 31 March 2023. Any amount drawn under the Second Undertaking Letter shall be repayable on 31 March 2023.

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

- (f) In June 2020 and August 2021, the Group obtained facilities totalling RMB353 million from two banks in China to support the funding required under the Manufacturing Plants Construction Contracts. As at 31 December 2021, the amount undrawn under these facilities totalled approximately RMB295 million;
- (g) The Group is in negotiation with the counterparties to the two Installation and Procurement Contracts for the extension of the contractual payments for procurement and installation services of approximately RMB57,668,000 due in various dates in May, July and October 2022 and January 2023 to the period beyond 31 March 2023;
- (h) The Group is in negotiation with another independent third party in respect of new borrowings; and
- (i) The Group is in negotiation with certain potential investors for raising new capital by the way of issuing new equity and/or debt securities.

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

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

- (a) Successfully extending the due dates of the remaining unpaid contractual payments under the two Installation and Procurement Contracts;
- (b) Successfully obtaining adequate funding, as and when needed, from the Lenders, independent third party, the Guarantor and the Covenantors as mentioned in notes (b), (c), (d) and (e) above respectively; and
- (c) Successfully obtaining adequate funding through the issue of new equity and/or debt securities as mentioned in notes (h) and (i) above.

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

**(b) Amended standards adopted by the Group**

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

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

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

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

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

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

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

### 3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

\* *For identification purpose only*

(a) Segment 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	
<b>For the year ended 31 December 2021</b>				
Segment revenue	135,919	514,311	–	650,230
Inter-segment revenue	(2,923)	2,923	–	–
Segment cost of sales	(121,211)	(491,903)	–	(613,114)
Segment gross profit	<u>11,785</u>	<u>25,331</u>	<u>–</u>	<u>37,116</u>
Other segment information:				
Depreciation of properties, plant and equipment	903	5,834	1,311	8,048
Depreciation of right-of-use assets	2,252	6,407	340	8,999
Amortisation of intangible assets	–	544	–	544
Additions to non-current segment assets*	<u>21,427</u>	<u>111,003</u>	<u>200,461</u>	<u>332,891</u>
<b>For the year ended 31 December 2020</b>				
Segment revenue	9,411	538,414	–	547,825
Inter-segment revenue	(1)	1	–	–
Segment cost of sales	(8,168)	(490,063)	–	(498,231)
Segment gross profit	<u>1,242</u>	<u>48,352</u>	<u>–</u>	<u>49,594</u>
Other segment information:				
Depreciation of properties, plant and equipment	43	5,766	–	5,809
Depreciation of right-of-use assets	–	7,054	–	7,054
Amortisation of intangible assets	–	581	–	581
Additions to non-current segment assets*	<u>800</u>	<u>71,289</u>	<u>–</u>	<u>72,089</u>

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

(b) Segment assets and liabilities

	<b>EMS business</b>			
	<b>Smart home devices</b>	<b>Banking and finance and other devices</b>	<b>Aerospace business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2021</b>				
Segment assets	<b>155,124</b>	<b>533,743</b>	<b>252,192</b>	<b>941,059</b>
Segment liabilities	<b>94,034</b>	<b>366,063</b>	<b>79,563</b>	<b>539,660</b>
<b>As at 31 December 2020</b>				
Segment assets	29,981	544,390	–	574,371
Segment liabilities	16,518	302,490	–	319,008

Reportable segment assets are reconciled to total assets as follows:

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

Reportable segment liabilities are reconciled to total liabilities as follows:

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

(c) **Disaggregation of revenue from contracts with customers**

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

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

(d) **Segment revenue by customers' geographical location**

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

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

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

(e) **Details of contract liabilities**

	<b>2021</b>	2020
	<b>RMB'000</b>	<i>RMB'000</i>
Contract liabilities ( <i>Note 14</i> )	<b>45,130</b>	33,248

*Notes:*

- (i) Contract liabilities represent advanced payments received from the customers for goods that have not yet been transferred to the customers. The balances of contract liabilities fluctuated during the years ended 31 December 2021 and 2020 due to fluctuation in sales order with advanced payments.
- (ii) The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

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

(f) **Major customers**

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

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

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

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

**(g) Unsatisfied performance obligations**

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

**(h) Non-current assets by geographical location**

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

	<b>2021</b>	2020
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	<b>261,865</b>	138,679
Hong Kong	<b>174,860</b>	–
Germany	<b>107</b>	201
	<u><b>436,832</b></u>	<u>138,880</u>

#### 4. EXPENSES BY NATURE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of raw materials used	489,399	384,746
Consumables	1,008	3,887
Subcontracting charges	44,203	47,222
Employee benefit expenses and manpower services expenses, including Directors' emoluments	85,356	48,527
Rental expenses of short-term leases in respect of machinery and properties	9,340	8,095
Utilities	4,482	3,816
Amortisation	544	581
Depreciation	16,280	12,308
Auditor's remuneration		
— Audit services	3,373	1,707
— Non-audit services	380	–
Professional fees	10,725	5,242
Reversal of provision for inventories ( <i>Note 11</i> )	(1,833)	(174)
Transportation	2,444	3,691
Service fees for product development	4,721	3,711
Commission expenses	639	895
Repairs and maintenance	407	810
Provision for impairment losses of financial assets ( <i>Note 12</i> )	254	5,242
Reversal of provision for impairment losses of financial assets ( <i>Note 12</i> )	(123)	(120)
Donation	7,214	5
Service charge	6,189	467
Advertising	1,084	–
Entertainment	3,839	2,103
Other taxes	2,817	1,358
Others	6,680	5,422
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets	<b>699,422</b>	<b>539,541</b>
	<hr/> <hr/>	<hr/> <hr/>

## 5. OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants	3,396	12,555
Sundry income	171	–
	<u>3,567</u>	<u>12,555</u>

## 6. OTHER LOSSES, NET

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

## 7. FINANCE COSTS, NET

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

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

## 8. 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 during the year ended 31 December 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK\$2 million will continue to be subject to a tax rate of 16.5%.

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

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

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

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Current income tax</b>		
— CIT	2,889	3,704
— Hong Kong profits tax	713	—
— Withholding tax	24	101
	<hr/>	<hr/>
<b>Total current income tax</b>	3,626	3,805
<b>Deferred income tax</b>	2,492	(801)
	<hr/>	<hr/>
<b>Income tax expense</b>	<u>6,118</u>	<u>3,004</u>

\* For identification purposes only

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

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

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

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

## 9. (LOSS)/EARNINGS PER SHARE

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

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

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

## 10. PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Properties, plant and equipment										
	Right-of-use assets	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Motor vehicles	Satellites	Leasehold improvements	Construction in progress	Subtotal	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2020</b>											
Cost	49,943	6,015	484	3,123	79,082	3,053	-	-	-	91,757	141,700
Accumulated depreciation	(7,971)	(1,884)	(484)	(2,008)	(49,005)	(1,777)	-	-	-	(55,158)	(63,129)
Net book amount	41,972	4,131	-	1,115	30,077	1,276	-	-	-	36,599	78,571
<b>Year ended 31 December 2020</b>											
Opening net book amount	41,972	4,131	-	1,115	30,077	1,276	-	-	-	36,599	78,571
Additions	4,853	-	-	507	3,942	-	-	-	46,841	51,290	56,143
Depreciation	(7,054)	(301)	-	(545)	(4,588)	(375)	-	-	-	(5,809)	(12,863)
Disposals	-	-	-	-	(47)	-	-	-	-	(47)	(47)
Exchange difference	-	-	-	-	-	(24)	-	-	-	(24)	(24)
Closing net book amount	39,771	3,830	-	1,077	29,384	877	-	-	46,841	82,009	121,780
<b>At 31 December 2020</b>											
Cost	53,792	6,015	484	3,630	79,908	3,012	-	-	46,841	139,890	193,682
Accumulated depreciation	(14,021)	(2,185)	(484)	(2,553)	(50,524)	(2,135)	-	-	-	(57,881)	(71,902)
Net book amount	39,771	3,830	-	1,077	29,384	877	-	-	46,841	82,009	121,780
<b>Year ended 31 December 2021</b>											
Opening net book amount	39,771	3,830	-	1,077	29,384	877	-	-	46,841	82,009	121,780
Common control combinations (note 16)	-	-	189	21	-	-	-	-	-	210	210
Additions	67,190	-	31	234	4,700	500	21,773	802	232,419	260,459	327,649
Depreciation	(8,999)	(301)	(53)	(488)	(5,493)	(399)	(1,234)	(80)	-	(8,048)	(17,047)
Disposals	(1,099)	-	(1)	(59)	(209)	-	-	-	-	(269)	(1,368)
Reclassification	(8,889)	-	-	-	8,889	-	-	-	-	8,889	-
Exchange difference	(262)	-	-	(2)	-	(13)	-	-	(2,779)	(2,794)	(3,056)
Closing net book amount	87,712	3,529	166	783	37,271	965	20,539	722	276,481	340,456	428,168
<b>At 31 December 2021</b>											
Cost	94,804	6,015	775	3,851	96,721	3,487	21,773	802	276,481	409,905	504,709
Accumulated depreciation	(7,092)	(2,486)	(609)	(3,068)	(59,450)	(2,522)	(1,234)	(80)	-	(69,449)	(76,541)
Net book amount	87,712	3,529	166	783	37,271	965	20,539	722	276,481	340,456	428,168

## 11. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Raw materials	112,960	60,343
Work in progress	13,187	3,683
Finished goods	35,784	16,502
	<u>161,931</u>	<u>80,528</u>

The cost of inventories recognised as expense and included in cost of sales during the year ended 31 December 2021 amounted to approximately RMB612,175,000 (2020: RMB497,269,000) which included reversal of inventory provision amounting to approximately RMB1,833,000 (2020: RMB174,000).

## 12. CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contract assets	4,973	5,517
Trade receivables	143,492	97,370
Bills receivables	701	14,916
Less: provision for impairment of trade and bills receivables	(5,384)	(5,680)
Trade and bills receivables	<u>138,809</u>	<u>106,606</u>
Contract assets, trade and bills receivables	<u>143,782</u>	<u>112,123</u>

As at 31 December 2021 and 2020, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

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

As at 31 December 2021 and 2020, the aging analysis of trade and bills receivables, net of impairment, based on invoice date, was as follows:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 3 months	<b>135,289</b>	102,925
Over 3 months	<b>8,904</b>	9,361
	<b>144,193</b>	112,286
Less: provision for impairment of trade and bills receivables	<b>(5,384)</b>	(5,680)
	<b>138,809</b>	106,606

As at 31 December 2021 and 2020, trade receivables of approximately RMB11,010,000 and RMB5,312,000 were past due respectively.

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

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
At beginning of the year	<b>5,680</b>	595
Provision for impairment of trade and bills receivables on individual basis	<b>254</b>	4,476
Reversal for impairment of trade and bills receivables on individual basis	<b>(123)</b>	(120)
Provision for impairment of trade and bills receivables on collective basis	–	766
Written-off of provision for impairment	<b>(318)</b>	–
Exchange difference	<b>(109)</b>	(37)
At end of the year	<b>5,384</b>	5,680

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
RMB	<b>122,998</b>	101,857
United States Dollars (“USD”)	<b>20,751</b>	10,266
Euros (“EUR”)	<b>33</b>	–
	<b>143,782</b>	112,123

The maximum exposure to credit risk as at 31 December 2021 and 2020 was the carrying value of the contract assets and receivables mentioned above. The Group does not hold any collateral as security.

### 13. TRADE AND BILLS PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	176,118	162,957
Bills payables	–	33,455
	<u>176,118</u>	<u>196,412</u>

As at 31 December 2021 and 2020, the aging analysis of trade and bills payables, based on invoice date, was as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	163,521	151,193
Over 3 months	12,597	45,219
	<u>176,118</u>	<u>196,412</u>

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	144,101	180,857
USD	31,372	15,555
EUR	645	–
	<u>176,118</u>	<u>196,412</u>

As at 31 December 2021 and 2020, the carrying amounts of trade and bills payables approximated their fair values.

#### 14. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other payables	7,365	8,441
Payables for acquisition of properties, plant and equipment	4,016	105
Payables for construction works	6,966	18,628
Deposit received for construction works	4,000	–
Other tax payables	4,343	1,684
Accrued expenses	9,499	2,165
Accrued salaries and bonus	22,958	14,641
Interest payable	2,145	–
Contract liabilities ( <i>Note 3(e)</i> )	45,130	33,248
	<u>106,422</u>	<u>78,912</u>

As at 31 December 2021 and 2020, the carrying amounts of contract liabilities, other payables and accruals approximated their fair values were denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	64,162	49,076
USD	36,595	28,503
Hong Kong Dollars (“HK\$”)	5,074	1,153
EUR	591	180
	<u>106,422</u>	<u>78,912</u>

#### 15. DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2021 and 2020.

## 16. COMMON CONTROL COMBINATIONS

On 16 June 2021, the Group completed the acquisition of 100% equity interest in SZ Gang Hang Ke and HKASTC (collectively the “**acquired companies**”), for a consideration of RMB1,000,000 and HK\$20,000 (equivalent to approximately RMB16,000) respectively. The acquired companies are principally engaged in satellite procurement and technological application in the aerospace industry.

Mr. Sun has been the controlling shareholder of the Company since 21 April 2021. Since the acquired companies were also ultimately controlled by Mr. Sun, the aforesaid acquisitions are regarded as business combinations under common control, and are accounted for as if the acquisitions had occurred on the date when the combining entities first came under the control of the controlling shareholder by applying the principles of merger accounting in accordance with Accounting Guideline 5.

Accordingly, the assets and liabilities acquired in the common control combinations are stated at their carrying amounts as if they had been held or incurred by the Group from the later of 21 April 2021, the date on which the combining entities first came under the control of the controlling shareholder, or the relevant transactions giving rise to the assets or liabilities arose. The difference between the consideration paid and net assets/(liabilities) combined is adjusted to equity.

The carrying amounts of assets acquired and liabilities assumed as at 21 April 2021 are summarised in the table below:

	<b>SZ Gang Hang Ke RMB'000</b>	<b>HKASTC RMB'000</b>	<b>Total RMB'000</b>
<b>Consideration</b>			
Cash paid	<u>1,000</u>	<u>16</u>	<u>1,016</u>
<b>Provisional carrying amounts of assets acquired and liabilities assumed</b>			
Cash and cash equivalents	6,142	–	6,142
Prepayments, deposits and other receivables	10,704	–	10,704
Properties, plant and equipment ( <i>Note 10</i> )	210	–	210
Other payables and accruals	(10,065)	(1,022)	(11,087)
Amount due to the immediate holding company	(3,584)	(7)	(3,591)
Amount due to the ultimate holding company	–	(12)	(12)
Amount due to a related company	–	(15)	(15)
	<u>3,407</u>	<u>(1,056)</u>	<u>2,351</u>
Total net assets/(liabilities)			
Adjustment to equity for common control combinations	<u>2,407</u>	<u>(1,072)</u>	<u>1,335</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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

During the Reporting Period, revenue of approximately RMB650.2 million was recorded by the Group, representing an increase of approximately 18.7% as compared with approximately RMB547.8 million for the corresponding period in 2020; while the loss attributable to equity holders of the Company of approximately RMB53.1 million was recorded as compared with a profit attributable to equity holders of the Company of approximately RMB17.3 million for the corresponding period in 2020 was mainly due to the the additional administrative expenses incurred in the aerospace businesses and the decrease in gross profit in the EMS business for the Reporting Period.

### Business Strategies and Outlook

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

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

- commence satellite launching business, in order to collect satellite data for the use in the Guangdong-Hong Kong-Macao Greater Bay Area;
- set up a satellite intelligent manufacturing center; a monitoring and operation control, application and data center for satellites to generate new revenue under aerospace business;
- continue to make efforts to expand the customer base to broaden the sources of revenue and diversify business risk;
- continue to strengthen the research and development capabilities so that we can explore more business opportunities; and
- continue to carefully review and extensively investigate into the current situation in relation to costs and resources deployment to enhance the production efficiency.

## OPERATING RESULTS

### Revenue by Customers' Geographical Location

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

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

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

## Revenue by Product Type

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

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

### *PCBAs*

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

### *Fully-assembled electronic products*

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

## Gross Profit and Gross Profit Margin by Product Type

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

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

### *PCBAs*

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

### *Fully-assembled electronic products*

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

## **Other Income**

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

## **Selling and Distribution Expenses**

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

## **Administrative Expenses**

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

## **Other Losses, Net**

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

## **Net impairment losses on financial assets**

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

## **Finance Costs, Net**

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

## **Income Tax Expense**

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

## **Loss/Profit Attributable to Equity Holders of the Company**

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

## **LIQUIDITY AND CAPITAL RESOURCES**

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

### ***Net Current Assets***

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

### **Borrowings, the Pledge of Assets and Restricted Cash**

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

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

### **Gearing Ratio**

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

## Capital Structure

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

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

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

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

## Foreign Exchange Exposure and Exchange Rate Risk

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

## Capital Expenditure

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

## USE OF PROCEEDS

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

## DIVIDEND

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

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

## **EMPLOYEES AND EMOLUMENTS POLICY**

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

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

## **CAPITAL COMMITMENT**

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

## **CONTINGENT LIABILITIES**

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

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

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

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

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

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

#### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

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

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

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

#### **EVENTS AFTER THE REPORTING PERIOD**

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

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

## **CORPORATE GOVERNANCE PRACTICES**

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

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

Pursuant to CG Code provision A.2.1 (currently referred to as 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 its unique role, Mr. Sun’s experience and expertise in the aerospace industry, and the importance of Mr. Sun in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are five independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

## **AUDIT COMMITTEE**

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

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

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

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

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

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

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

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **SCOPE OF WORK OF PRICEWATERHOUSECOOPERS**

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in this preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the Reporting Period. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

## **EXTRACT OF INDEPENDENT AUDITOR'S OPINION**

The following is an extract of the independent auditor's report on the Group's audited consolidated financial statements for the year ended 31 December 2021.

### **Our Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Material Uncertainty Related to Going Concern**

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

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.hkatg.com). The annual report of the Company for the year ended 31 December 2021 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

## **APPRECIATION**

The Company would like to take this opportunity to thank the management and all our employees for the contribution they have made towards the Group's continued progress and to our shareholders, customers and business partners for their support.

By order of the Board  
**Hong Kong Aerospace Technology Group Limited**  
**Sun Fengquan**  
*Co-Chairman & Chief Executive Officer*

Hong Kong, 31 March 2022

*As at the date of this announcement, the Board comprises Mr. Sun Fengquan (Co-Chairman and Chief Executive Officer), Dr. Lam Lee G. (Co-Chairman), Mr. Lam Kin Fung Jeffrey, Ms. Ku Ka Lee Clarie (Vice Chairman) and Mr. Ma Fujun as executive Directors; Dr. Yip Chung Yin and Mr. Lam John Cheung-wah as non-executive Directors; and Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer, Mr. Hung Ka Hai Clement, Mr. Leung Kwong Ho and Dr. Yuen Kwok Keung as independent non-executive Directors.*