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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 2022

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 2022 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2021.

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Reporting Period was approximately RMB635.4 million, representing a minor decrease of approximately 2.3% as compared with RMB650.2 million for the corresponding period in 2021.
- Gross profit of the Group for the Reporting Period was approximately RMB26.0 million, representing a decrease of approximately 29.9% as compared with RMB37.1 million for the corresponding period in 2021.
- Loss attributable to equity holders of the Company for the Reporting Period increased to approximately RMB154.3 million from approximately RMB53.1 million for the corresponding period in 2021.
- Basic and diluted loss per share attributable to ordinary equity holders of the Company was RMB49.93 cents for the Reporting Period.

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2022

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	3	635,432	650,230
Cost of sales	4	(609,390)	(613,114)
Gross profit		26,042	37,116
Other income	5	5,084	3,567
Other losses, net	6	(5,673)	(636)
Selling and distribution expenses	4	(21,327)	(16,571)
Administrative expenses	4	(143,280)	(69,606)
Net impairment losses on financial assets	4	(1,688)	(131)
Operating loss		(140,842)	(46,261)
Finance income		560	503
Finance costs		(12,699)	(1,199)
Finance costs, net	7	(12,139)	(696)
Loss before income tax		(152,981)	(46,957)
Income tax expense	8	(1,310)	(6,118)
Loss for the year		(154,291)	(53,075)
Loss for the year attributable to:			
Equity holders of the Company		(154,290)	(53,075)
Non-controlling interest		(1)	–
		(154,291)	(53,075)
Loss per share attributable to equity holders of the Company			
Basic and diluted	9	(RMB49.93 cents)	(RMB17.61 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss for the year	<u>(154,291)</u>	<u>(53,075)</u>
Other comprehensive (loss)/income:		
<i>Item that will not be reclassified to profit or loss</i>		
Currency translation differences	15,822	(1,898)
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>(7,192)</u>	<u>1,193</u>
Total comprehensive loss for the year	<u><u>(145,661)</u></u>	<u><u>(53,780)</u></u>
Total comprehensive loss for the year attributable to:		
Equity holders of the Company	(145,660)	(53,780)
Non-controlling interest	<u>(1)</u>	<u>–</u>
	<u><u>(145,661)</u></u>	<u><u>(53,780)</u></u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Assets			
Non-current assets			
Properties, plant and equipment	<i>10</i>	424,674	340,456
Right-of-use assets	<i>10</i>	209,435	87,712
Intangible assets		5,511	786
Restricted cash		2,683	2,683
Financial asset at fair value through profit or loss		1,172	–
Prepayments and deposits		29,789	12,002
Deferred income tax assets		3,162	231
		<u>676,426</u>	<u>443,870</u>
Current assets			
Inventories	<i>11</i>	129,199	161,931
Contract assets	<i>12</i>	–	4,973
Trade and bills receivables	<i>12</i>	127,450	138,809
Prepayments, deposits and other receivables		54,116	72,149
Amounts due from related companies		17	486
Current income tax recoverable		141	21
Pledged bank deposits		17,500	27,500
Short-term bank deposits		187	139
Cash and cash equivalents		41,471	91,433
		<u>370,081</u>	<u>497,441</u>
Assets classified as held for sale	<i>13</i>	180,844	–
		<u>550,925</u>	<u>497,441</u>
Total assets		<u>1,227,351</u>	<u>941,311</u>
Equity			
Equity attributable to equity holders of the Company			
Share capital		2,693	2,693
Share premium		304,492	304,492
(Accumulated losses)/retained earnings		(96,562)	57,489
Reserves		35,260	26,869
		<u>245,883</u>	<u>391,543</u>
Non-controlling interest		(1)	–
Total equity		<u>245,882</u>	<u>391,543</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Liabilities			
Non-current liabilities			
Deferred government grants		12,223	10,019
Lease liabilities		166,546	33,135
Provision for reinstatement cost	<i>15</i>	8,402	–
Bank and other borrowings		167,611	63,449
Deferred tax liabilities		4,094	1,323
		<hr/> 358,876	<hr/> 107,926
		<hr/> 358,876	<hr/> 107,926
Current liabilities			
Trade and bills payables	<i>14</i>	103,504	176,118
Other payables and accruals	<i>15</i>	96,151	61,292
Contract liabilities	<i>15</i>	19,630	45,130
Lease liabilities		34,331	8,177
Bank and other borrowings		81,837	139,167
Bonds payable		16,291	–
Loan from the ultimate holding company		62,969	–
Loan from a related company		44,220	–
Loan from the immediate holding company		14,214	–
Loan from a director		3,538	–
Amount due to a related company		17	15
Amount due to the immediate holding company		–	3,143
Amount due to the ultimate holding company		–	15
Current income tax liabilities		7,843	8,785
		<hr/> 484,545	<hr/> 441,842
Liabilities directly associated with assets classified as held for sale	<i>13</i>	138,048	–
		<hr/> 622,593	<hr/> 441,842
		<hr/> 622,593	<hr/> 441,842
Total liabilities		<hr/> 981,469	<hr/> 549,768
		<hr/> 981,469	<hr/> 549,768
Total equity and liabilities		<hr/> 1,227,351	<hr/> 941,311
		<hr/> 1,227,351	<hr/> 941,311

NOTES

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 communication; (3) satellite measurement and controlling; and (4) satellite launching.

As at 31 December 2022, the ultimate holding company of the Company is Vision International Group Limited (“**Vision**”), a company incorporated in Hong Kong with limited liability 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 with limited liability. 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 (the “**Stock Exchange**”) on 16 August 2018.

These consolidated financial statements are presented in unit of Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB’000**”), unless otherwise stated. These consolidated financial statements were approved for issue by the Directors on 29 March 2023.

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 financial asset at fair value through profit or loss which is carried at fair value and assets classified as held for sale which is measured at the lower of carrying amount and fair value less costs to sell.

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

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

The Group recorded a net loss of approximately RMB154,291,000 and a net cash outflow from operating activities of approximately RMB93,029,000 for the year ended 31 December 2022. As at 31 December 2022, the Group's current liabilities exceeded its current assets by approximately RMB71,668,000 while the Group's cash and cash equivalents amounted only to approximately RMB41,471,000.

In addition, the Group has entered into (1) a number of leasing, fitting-out contracts, procurement and installation contracts (the “**Installation and Procurement Contracts**”) for the setting up of a satellite manufacturing centre and a monitoring and operation control, application and data centre for satellites in Hong Kong; and (2) construction contracts (the “**Manufacturing Plants Construction Contracts**”) for expanding its production base for EMS Business in Mainland China. As at 31 December 2022, the Group's capital expenditures commitment expected to be payable within the next twelve months amounted to approximately RMB296,249,000.

The Group will need to secure a substantial amount of funding in the near future to finance its 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 not less than 12 months from the end of the Reporting Period taking into account of the followings:

- (a) At 27 March 2023, the Group obtained a letter of undertaking (the “**Undertaking Letter**”) from Mr. Sun, an executive director who is also the ultimate controlling shareholder of the Company, pursuant to which Mr. Sun has irrevocably undertaken to provide the Group with an unsecured and interest-free revolving loan up to HK\$500 million (approximately RMB442 million). The Undertaking Letter is valid and subsisting up to 31 March 2024 and any loan drawn thereunder shall be repayable on 31 March 2024;
- (b) In April 2022 and June 2022, the Group entered into a loan agreement with Vision International Group Limited (“**Vision**”), the ultimate holding company, and Hong Kong Aerospace Technology Holdings Limited (“**HKATH (BVI)**”), the immediate holding company, pursuant to which Vision and HKATH (BVI) have agreed to provide the Company an unsecured and interest-free loan facility of HK\$100 million (approximately RMB88 million) and HK\$100 million (approximately RMB88 million), respectively. The loan facility provided by Vision and HKATH (BVI) is valid and subsisting up to April 2023 and June 2023, respectively, and any loan drawn thereunder shall be repayable on demand. As at 31 December 2022, the loans from Vision and HKATH (BVI) amounted to RMB14 million and RMB63 million respectively. Furthermore, in January 2023, the Group entered into a loan agreement (the “**2023 facility**”) with Vision, pursuant to which Vision has agreed to provide the Company an unsecured and interest-free loan facility of HK\$200 million (approximately RMB176 million), and any loan drawn thereunder shall be repayable on demand. For the period from 1 January 2023 to 24 March 2023, the Group drew a total of RMB175 million from the 2023 facility. At 24 March 2023, the Group obtained the confirmations

from Vision and HKATH (BVI) that they would not seek for repayment of the loans due to them by the Group unless and until the Group is in a position to repay. The Group considers that such loans would not be repaid before 31 March 2024 despite the terms of such loans are repayable on demand;

- (c) In March 2023, the Group entered into a supplementary agreement with Rich Blessing Group Limited (“**Rich Blessing**”), a related company controlled by a director of the Company, pursuant to which the repayment term of a loan of HK\$50 million (approximately RMB44 million) provided by Rich Blessing to the Group has been changed from immediate repayment to repayable on demand by Rich Blessing. The Group believes that Rich Blessing will not demand the repayment of such amount in the next twelve months from 31 December 2022 based on their latest communication with Rich Blessing;
- (d) In December 2022, the Group entered into a share sale and purchase agreement (the “**Share Sale and Purchase Agreement**”) with an independent third-party (“**the Purchaser**”), pursuant to which the Group conditionally agrees to sell, and the Purchaser conditionally agrees to purchase the entire equity interest of Positive Expert Limited, a wholly-owned subsidiary of the Group principally engaged in the construction and subsequent operation of a production plant in Daya Bay Western District for a consideration of HK\$75 million (approximately RMB66 million). The Purchaser would be responsible for the repayment of bank loans totalling RMB85 million as drawn by Positive Expert Limited and its subsidiaries for the construction of the production plant after the completion of the transaction. The completion of the transaction is subject to various conditions precedent including but not limited to the approval from the bank which provides the construction loans and the completion of a due diligence review to be conducted by the Purchaser, with the results of the due diligence review being reasonably satisfactory to the Purchaser;
- (e) In March 2023, the Group entered into a subscription agreement (the “**Subscription Agreement**”) with an independent third-party (the “**Aspace Subscriber**”), pursuant to which the Group conditionally agrees to issue, and the Aspace Subscriber conditionally agrees to subscribe 49% of the issued share capital, as enlarged, of Aspace Satellite Technology Limited, a wholly-owned subsidiary of the Group principally involved in satellite manufacturing business for a consideration of HK\$147 million (approximately RMB130 million). The completion of the transaction is subject to various conditions precedent including but not limited to the Aspace Subscriber being reasonably satisfied with the results of the due diligence review to be conducted by the Aspace Subscriber on Aspace Satellite Technology Limited;
- (f) The Group would be able to generate net operating cash inflows for the twelve months to 31 December 2023 by implementing various business strategies including (i) the Group’s EMS Business being able to secure contracts from new customers with higher margins; and (ii) the Group’s Aerospace Business being successful in its business development effort to secure new customers and generate cash inflows;
- (g) The Group is in negotiation with certain potential lenders in respect of new borrowings; and
- (h) 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, which cover a period of twelve months from 31 December 2022. In the opinion of the Directors, assuming the successful and timely implementation of the above 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 2022. 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 net cash inflows through:

- a) Successfully obtaining adequate funding, as and when needed, from Mr. Sun as mentioned in note (a) above;
- b) Successfully agreeing with Rich Blessing for not demanding loan repayment before 31 December 2023 as mentioned in note (c) above;
- c) Successfully fulfilling the conditions precedent and collecting the cash consideration for the disposal of the equity interest of Positive Expert Limited as mentioned in note (d) above;
- d) Successfully fulfilling the conditions precedent and collecting the cash consideration for the subscription of the equity interest of Aspace Satellite Technology Limited as mentioned in note (e) above;
- e) Successfully carrying out the Group's business strategies and generating net operating cash inflows for the twelve months to 31 December 2023 as mentioned in note (f) above; and
- f) Successfully obtaining adequate funding through new borrowings and the issue of new equity and/or debt securities as mentioned in notes (g) and (h) above respectively.

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 effects of these adjustments have not been reflected in these consolidated financial statements.

(b) Amended standards and revised accounting guideline adopted by the Group

The Group has adopted the following amended standards and revised accounting guideline for the first time for their annual reporting period commencing 1 January 2022:

HKAS 16 (Amendments)	Property, Plant and Equipment – Proceeds before Intended Use
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
HKFRS 16 (Amendments)	Covid-19-related Rent Concessions Beyond 2021
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations
Annual Improvements Projects	Annual Improvements to HKFRSs 2018-2020

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

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

The following new and amended standards and revised interpretation have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
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
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in process of making an assessment of the impact of the new and amended standards and revised interpretation 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) the EMS Business; and (ii) the Aerospace Business, which includes (1) satellite manufacturing; (2) satellite communication; (3) satellite measurement and controlling; and (4) 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 year ended 31 December 2022, the Group had three reportable operating segments being:

- (i) EMS Business — Smart home devices;
- (ii) EMS Business — Banking and finance and other devices*; and
- (iii) Aerospace Business.

* included disposal group classified as held for sale as disclosed in Note 13.

(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	
For the year ended 31 December 2022				
Segment revenue	168,157	486,654	–	654,811
Inter-segment revenue	(8,911)	(10,468)	–	(19,379)
	159,246	476,186	–	635,432
Revenue from external customers	159,246	476,186	–	635,432
Segment cost of sales	(151,036)	(458,354)	–	(609,390)
	8,210	17,832	–	26,042
Segment gross profit	8,210	17,832	–	26,042
Other segment information:				
Depreciation of properties, plant and equipment	2,028	14,496	5,721	22,245
Depreciation of right-of-use assets	3,378	3,938	16,730	24,046
Amortisation of intangible assets	–	477	–	477
Additions to non-current segment assets*	2,964	142,971	251,218	397,153

	EMS Business			Total RMB'000
	Smart home devices RMB'000	Banking and finance and other devices RMB'000	Aerospace Business RMB'000	
For the year ended				
31 December 2021				
Segment revenue	135,919	517,234	–	653,153
Inter-segment revenue	–	(2,923)	–	(2,923)
Revenue from external customers	135,919	514,311	–	650,230
Segment cost of sales	(121,211)	(491,903)	–	(613,114)
Segment gross profit	14,708	22,408	–	37,116
Other segment information:				
Depreciation of properties, plant and equipment	903	5,834	1,311	8,048
Depreciation of right-of-use assets	2,252	6,407	340	8,999
Amortisation of intangible assets	–	544	–	544
Additions to non-current segment assets*	21,427	111,003	200,461	332,891

* 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 properties, plant and equipment and intangible asset; and iii) prepayments for construction works.

(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 31 December 2022				
Segment assets	98,533	655,778	468,548	1,222,859
Segment liabilities	74,878	501,100	392,072	968,050

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

Reportable segment assets are reconciled to total assets as follows:

	2022 RMB'000	2021 RMB'000
Segment assets	1,222,859	941,059
Financial asset at fair value through profit or loss	1,172	–
Current income tax recoverable	158	21
Deferred income tax assets	3,162	231
Total assets	1,227,351	941,311

Reportable segment liabilities are reconciled to total liabilities as follows:

	2022 RMB'000	2021 RMB'000
Segment liabilities	968,050	539,660
Current income tax liabilities	7,843	8,785
Deferred income tax liabilities	5,576	1,323
Total liabilities	981,469	549,768

(c) Disaggregation of revenue from contracts with customers

The Group derives revenue from the sales of goods at a point in time as follow:

	2022 RMB'000	2021 RMB'000
Timing of revenue recognition		
At a point in time – sales of goods	635,432	650,230

(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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
The People's Republic of China (the "PRC")	465,866	427,918
The United States of America (the "USA")	20,441	116,579
South Korea	35,556	19,362
India	26,281	8,446
Australia	21,702	54,576
Vietnam	20,611	3,437
Germany	15,160	400
Hong Kong	12,326	7,707
United Kingdom	10,530	–
Austria	6,434	10,728
Brazil	137	1,077
Others (<i>Note</i>)	388	–
	<u>635,432</u>	<u>650,230</u>

Note: Others include France and Spain.

(e) Details of contract liabilities

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Contract liabilities (<i>Note 15</i>)	<u>19,630</u>	<u>45,130</u>

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 2022 and 2021 with sales order with advanced payments.
- (ii) The following table shows how much of the revenue recognised in the current Reporting Period relating to carried-forward contract liabilities:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>45,130</u>	<u>33,248</u>

(f) Major customers

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	N/A*	98,914
Customer B	147,597	82,187
Customer C	157,905	135,919
Customer D	N/A*	71,993

* The corresponding customers did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2022 or 2021.

The five largest customers accounted for approximately 65% (2021: 68%) of revenue for the year ended 31 December 2022.

(g) Unsatisfied performance obligations

As at 31 December 2022 and 2021, 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 2022 and 2021 are located in the following regions:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	246,784	261,865
Hong Kong	405,565	174,860
Germany	28	107

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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of raw materials used	453,465	489,399
Consumables	1,876	1,008
Subcontracting charges	17,411	44,203
Employee benefit expenses and manpower services expenses, including Directors' emoluments	151,771	85,356
Rental expenses of short-term leases in respect of machinery and properties	12,630	9,340
Building management fee	5,093	146
Utilities	8,146	4,482
Amortisation	477	544
Depreciation	45,636	16,280
Auditor's remuneration		
— Audit services	2,690	3,373
— Non-audit services	1,152	380
Professional fees	17,216	10,725
Provision/(reversal of provision) for inventories (<i>Note 11</i>)	11,225	(1,833)
Transportation	1,018	2,444
Travelling expenses	3,520	746
Service fees for product development	7,252	4,721
Commission expenses	1,975	639
Repairs and maintenance	1,100	407
Provision for impairment losses of financial assets (<i>Note 12</i>)	1,688	254
Reversal of provision for impairment losses of financial assets (<i>Note 12</i>)	—	(123)
Donation	—	7,214
Service charge	5,488	6,189
Bank charges	1,628	367
Advertising	764	1,084
Entertainment	5,021	3,839
Other taxes	6,814	2,817
Others	10,629	5,421
	<u>775,685</u>	<u>699,422</u>
Total cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets	<u>775,685</u>	<u>699,422</u>

5. OTHER INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Government grants	4,964	3,396
Sundry income	120	171
	<u>5,084</u>	<u>3,567</u>

6. OTHER LOSSES, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Exchange differences	(4,673)	(3,055)
Loss on disposal of properties, plant and equipment	(476)	(117)
Gain on lease modification	204	37
Gain on disposal of financial asset at fair value through profit or loss	600	–
Fair value changes from financial asset at fair value through profit or loss	(1,328)	–
Fair value gains from derivative financial instruments	–	2,499
	<u>(5,673)</u>	<u>(636)</u>

7. FINANCE COSTS, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Finance income		
Interest income on cash at banks	560	503
Finance costs		
Interest expense on bank and other borrowings	(13,452)	(5,162)
Interest expense on lease liabilities	(5,460)	(1,199)
Interest expense on bonds payable	(616)	–
Less: Capitalised on qualifying assets (<i>Note</i>)	6,829	5,162
	<u>(12,699)</u>	<u>(1,199)</u>
Finance costs, net	<u>(12,139)</u>	<u>(696)</u>

Note: During the year ended 31 December 2022, interest expenses on bank and other borrowings were capitalised at the weighted average rate of its general borrowings of approximately 4.66% (2021: 7.15%).

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 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% (2021: same).

During the year ended 31 December 2022, 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.

Gang Hang Ke (Shenzhen) Space Technology Co., Limited* (“**SZ Gang Hang Ke**”), the Group's subsidiary in the PRC, has qualified for small-scale enterprises with minimal profits status and is subject to an applicable tax rate of 20% (2021: 20%).

During the year ended 31 December 2022, 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% (2021: 15%).

Other Group's entities in the PRC were subject to the PRC corporate income tax (“**CIT**”) at the tax rate of 25% (2021: 25%).

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— CIT	–	2,889
— Hong Kong profits tax	–	713
— Withholding tax	<u>25</u>	<u>24</u>
Total current income tax	25	3,626
Deferred income tax	<u>1,285</u>	<u>2,492</u>
Income tax expense	<u>1,310</u>	<u>6,118</u>

* For identification purpose only

The taxation on the Group's loss 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:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before income tax	<u>(152,981)</u>	<u>(46,957)</u>
Tax calculated at tax rates applicable to loss of the respective subsidiaries	(27,771)	(6,733)
Tax effect of:		
Income not subject to tax	(143)	(410)
Expenses not deductible for tax purpose	23,581	9,378
Tax loss for which no deferred income tax asset was recognised	7,261	5,869
Utilisation of tax loss previously not recognised	–	(160)
Temporary difference previously not recognised	80	182
Withholding tax	25	24
Super deductions from research and development expenditures (<i>Note</i>)	(1,723)	(1,895)
Tax concession	<u>–</u>	<u>(137)</u>
Income tax expense	<u>1,310</u>	<u>6,118</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 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 years ended 31 December 2022 and 2021.

	2022	2021
Loss attributable to equity holders of the Company (<i>RMB'000</i>)	(154,290)	(53,075)
Weighted average number of ordinary shares in issue (<i>thousands of shares</i>)	309,000	301,307
Basic and diluted loss per share (<i>RMB cents</i>)	<u>(49.93)</u>	<u>(17.61)</u>

There were no differences between the basic and diluted loss per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2022 and 2021.

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
At 1 January 2021											
Cost	53,792	6,015	484	3,630	79,908	3,012	-	-	46,841	139,890	193,682
Accumulated depreciation	(14,021)	(2,185)	(484)	(2,553)	(50,524)	(2,135)	-	-	-	(57,881)	(71,902)
Net book amount	39,771	3,830	-	1,077	29,384	877	-	-	46,841	82,009	121,780
Year ended 31 December 2021											
Opening net book amount	39,771	3,830	-	1,077	29,384	877	-	-	46,841	82,009	121,780
Common control combinations	-	-	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
At 31 December 2021											
Cost	94,804	6,015	775	3,851	96,721	3,487	21,773	802	276,481	409,905	504,709
Accumulated depreciation	(7,092)	(2,486)	(609)	(3,068)	(59,450)	(2,522)	(1,234)	(80)	-	(69,449)	(76,541)
Net book amount	87,712	3,529	166	783	37,271	965	20,539	722	276,481	340,456	428,168
Year ended 31 December 2022											
Opening net book amount	87,712	3,529	166	783	37,271	965	20,539	722	276,481	340,456	428,168
Additions	164,145	-	685	232	17,893	283	9,386	14,476	177,365	220,320	384,465
Depreciation	(24,046)	(2,836)	(127)	(400)	(9,247)	(486)	(4,587)	(4,562)	-	(22,245)	(46,291)
Disposals	-	-	-	(31)	(590)	-	-	-	-	(621)	(621)
Assets classified as held for sales (Note 13)	(20,122)	-	-	-	-	-	-	-	(128,192)	(128,192)	(148,314)
Lease modification	(3,104)	-	-	-	-	-	-	-	-	-	(3,104)
Transfer	-	90,978	-	-	-	-	-	20,559	(111,537)	-	-
Exchange difference	4,850	-	6	5	-	34	-	175	14,736	14,956	19,806
Closing net book amount	209,435	91,671	730	589	45,327	796	25,338	31,370	228,853	424,674	634,109
At 31 December 2022											
Cost	237,628	96,993	1,454	3,776	106,029	3,843	31,159	36,035	228,853	508,142	745,770
Accumulated depreciation	(28,193)	(5,322)	(724)	(3,187)	(60,702)	(3,047)	(5,821)	(4,665)	-	(83,468)	(111,661)
Net book amount	209,435	91,671	730	589	45,327	796	25,338	31,370	228,853	424,674	634,109

11. INVENTORIES

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	92,048	112,960
Work in progress	17,813	13,187
Finished goods	19,338	35,784
	<u>129,199</u>	<u>161,931</u>

The cost of inventories recognised as expense and included in cost of sales during the year ended 31 December 2022 amounted to approximately RMB606,029,000 (2021: RMB612,175,000) which included provision of inventory amounting to approximately RMB11,225,000 (2021: reversal of inventory provision RMB1,833,000).

12. CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets	—	4,973
Trade receivables	123,854	143,492
Bills receivables	10,726	701
Less: provision for impairment of trade and bills receivables	(7,130)	(5,384)
Trade and bills receivables	<u>127,450</u>	<u>138,809</u>
Contract assets, trade and bills receivables	<u>127,450</u>	<u>143,782</u>

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	109,610	135,289
Over 3 months	24,970	8,904
	134,580	144,193
Less: provision for impairment of trade and bills receivables	(7,130)	(5,384)
	127,450	138,809

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of the year	5,384	5,680
Provision for impairment of trade and bills receivables on individual basis	1,172	254
Reversal for impairment of trade and bills receivables on individual basis	–	(123)
Provision for impairment of trade and bills receivables on collective basis	516	–
Written off of provision for impairment	(300)	(318)
Exchange difference	358	(109)
At end of the year	7,130	5,384

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
RMB	94,703	122,998
United States Dollars (“USD”)	30,344	20,751
Euros (“EUR”)	2,403	33
	127,450	143,782

The maximum exposure to credit risk as at 31 December 2022 and 2021 was the carrying value of the contract assets and receivables mentioned above. The Group does not hold any collateral as security.

13 DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 30 December 2022, the Group entered into the Share Sale and Purchase Agreement with a third-party to dispose of the entire equity interest of Positive Expert Limited (an indirect wholly-owned subsidiary of the Company) which, together with its subsidiaries, owns a parcel of land and a production plant in Daya Bay Western District, the PRC, for a consideration of HK\$75,000,000 (equivalent to approximately RMB66,330,000). As at 31 December 2022, the completion of the transaction was still subject to various conditions as set out in the share sale and purchase agreement. Pursuant to the Share Sale and Purchase Agreement, the disposal is expected to be completed no later than 31 May 2023.

The assets and liabilities of the disposal group have been presented separately in the consolidated balance sheet as at 31 December 2022. The following assets and liabilities were reclassified as held for sale in relation to the disposal group as at 31 December 2022:

	<i>RMB'000</i>
Assets classified as held for sale	
Properties, plant and equipment	128,192
Right-of-use assets	20,122
Inventories	3,634
Trade receivables	17,311
Prepayments, deposits and other receivables	11,161
Current income tax recoverable	17
Cash and cash equivalents	407
	<hr/>
Total assets of disposal group classified as held for sale	180,844
	<hr/> <hr/>
Liabilities directly associated with assets classified as held for sale	
Trade payables	31,755
Other payables and accruals	19,844
Deferred tax liabilities	1,482
Bank borrowings (<i>Note</i>)	84,967
	<hr/>
Total liabilities of disposal group classified as held for sale	138,048
	<hr/> <hr/>

Notes:

- (a) As at 31 December 2022, the bank borrowings and facilities of the disposal group were secured by the following:
- (i) Land-use-right with carrying value of RMB20,122,000;
 - (ii) Corporate guarantees provided by the Company's subsidiaries; and
 - (iii) A personal guarantee provided by one of the Directors, Mr. Ma Fujun.
- (b) As at 31 December 2022, the capital expenditure contracted for but not yet incurred for property, plant and equipment amounted to RMB57,258,000.

14. TRADE AND BILLS PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	98,833	176,118
Bills payables	4,671	–
	<u>103,504</u>	<u>176,118</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	86,341	163,521
Over 3 months	17,163	12,597
	<u>103,504</u>	<u>176,118</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
RMB	83,474	144,101
USD	19,625	31,372
EUR	405	645
	<u>103,504</u>	<u>176,118</u>

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

15. PROVISION FOR REINSTATEMENT COST, CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current portion		
Other payables	9,393	7,365
Payables for acquisition of properties, plant and equipment	13,658	4,016
Payables for construction works	18,006	6,966
Deposit received for construction works	4,000	4,000
Other tax payables	5,091	4,343
Accrued expenses	13,233	9,499
Accrued salaries and bonus	30,236	22,958
Interest payable	2,534	2,145
Contract liabilities (<i>Note 3(e)</i>)	19,630	45,130
	<u>115,781</u>	<u>106,422</u>
Non-current portion		
Provision for reinstatement cost	8,402	–
	<u>124,183</u>	<u>106,422</u>

As at 31 December 2022 and 2021, the carrying amounts of contract liabilities, other payables and accruals approximated their fair values and were denominated in the following currencies:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
RMB	73,166	64,162
USD	18,952	36,595
Hong Kong Dollars (“ HK\$ ”)	20,064	5,074
EUR	3,407	591
Japanese Yen (“ JPY ”)	192	–
	<u>115,781</u>	<u>106,422</u>

16. DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2022 and 2021.

BUSINESS REVIEW

During the Reporting 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 2021, 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 Reporting Period.

During the Reporting Period, a turnover of approximately RMB635 million was recorded by the Group, representing a minor decrease of approximately 2.3% as compared with that for the corresponding period in 2021; while the loss attributable to equity holders of the Company of approximately RMB154 million was recorded as compared with that for the corresponding period in 2021 of approximately RMB53 million was mainly due to the significant increase in administrative expenses caused by the rapid expansion of the Aerospace Business. 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 one year, including but not limited to expansion of aerospace expert team and business development team and leasing of new premises for the establishment of aerospace satellite manufacturing and satellite industry supply chain facilities. The net loss for the Reporting Period was primarily attributable to the significant increase in administrative expenses caused by the rapid expansion of the Aerospace Business.

Business Strategies and Outlook

Looking ahead, the manufacturing industry in the PRC remains uncertain. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. In addition, the lack of fundamental relief of geopolitical conflicts could undermine the manufacturing industry in the PRC. 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:

- continue to expedite the establishment of satellite manufacturing center and a satellite operation control and application centre to create new revenue under the Aerospace Business;

- continue to expand and develop the satellite manufacturing and launching business;
- commence satellite communication business and develop the satellite internet communication service sector;
- continue to make efforts to expand the customer base to broaden the sources of revenue and diversify business risk;
- 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 Customers' Geographical Location

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	465,866	427,918
USA	20,441	116,579
South Korea	35,556	19,362
India	26,281	8,446
Australia	21,702	54,576
Vietnam	20,611	3,437
Germany	15,160	400
Hong Kong	12,326	7,707
United Kingdom	10,530	–
Austria	6,434	10,728
Brazil	137	1,077
Others (<i>Note</i>)	388	–
	635,432	650,230

Note: Others include France and Spain.

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 2021 respectively:

	Revenue for the year ended 31 December			% of total revenue for the year ended 31 December		
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	Change %	2022	2021	Change
PCBAs	495,040	331,805	49.2	77.9	51.0	26.9
Fully-assembled electronic products	140,392	318,425	(55.9)	22.1	49.0	(26.9)
Total	635,432	650,230	(2.3)	100	100	–

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 49.2% from approximately RMB331.8 million for the year ended 31 December 2021 to approximately RMB495.0 million for the Reporting Period. The surge in demand for home appliances and smart home devices was noted which is mainly caused by lockdown restrictions during the pandemic.

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 decreased by approximately 55.9% from approximately RMB318.4 million for the year ended 31 December 2021 to approximately RMB140.4 million for the Reporting Period primarily due to the significant decrease in demand from mobile phones and tablets manufacturers who did not publish new models and place related new orders during the Reporting Period.

Gross Profit and Gross Profit Margin by Product Type

Gross profit of the Group for the Reporting Period was approximately RMB26.0 million, representing a decrease of approximately RMB11.1 million or 29.8% as compared with approximately RMB37.1 million for the year ended 31 December 2021. Overall gross profit margin decreased from 5.7% for the year ended 31 December 2021 to 4.1% for the Reporting Period.

	Gross profit for the year ended 31 December			Gross profit margin for the year ended 31 December		
	2022 RMB'000	2021 RMB'000	Change (%)	2022 %	2021 %	Change (%)
PCBAs	25,350	34,480	(26.5)	5.1	10.4	(5.3)
Fully-assembled electronic products	<u>692</u>	<u>2,636</u>	(73.7)	<u>0.5</u>	<u>0.8</u>	(0.3)
Total	<u>26,042</u>	<u>37,116</u>	(29.8)	<u>4.1</u>	<u>5.7</u>	(1.6)

PCBAs

The gross profit derived from the sales of PCBAs decreased by approximately 26.5% to approximately RMB25.4 million for the Reporting Period (2021: approximately RMB34.5 million). The gross profit margin decreased to approximately 5.1% for the Reporting Period (2021: approximately 10.4%), which was primarily resulted from the increase in material costs and transportation costs under pandemic situation during the Reporting Period.

Fully-assembled electronic products

The gross profit derived from the sales of fully-assembled electronic products decreased by approximately 73.7% to approximately RMB0.7 million for the Reporting Period (2021: approximately RMB2.6 million). The gross profit margin decreased to approximately 0.5% for the Reporting Period (2021: approximately 0.8%), which was mainly due to the Group having continuously offered a more competitive price with lower gross profit margin for the largest customer and also increase in material costs and transportation costs during the Reporting Period.

Other Income

Other income of the Group for the Reporting Period of approximately RMB5.1 million comprises discretionary government grants and sundry income. The increase of other income is mainly due to the increase of government grants received for the Reporting Period by approximately 41.2% from approximately RMB3.4 million for the year ended 31 December 2021 to approximately RMB5.0 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 RMB21.3 million (2021: approximately RMB16.6 million), representing an increase of approximately 28.7% as compared to the year ended 31 December 2021. Selling and distribution expense against revenue ratio slightly increase from approximately 2.5% for the year ended 31 December 2021 to 3.4% for the Reporting Period. The increase in the selling and distribution expense was mainly due to both: (i) increase in employee benefit expenses and (ii) commission expenses for the EMS 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 RMB143.3 million (2021: approximately RMB69.6 million), representing a significant increase of approximately 105.8% as compared to the year ended 31 December 2021. The increase in administrative expenses was mainly due to: (i) the significant increase in salaries and allowances and additional professional fees incurred in the Aerospace Business; (ii) management fee expenses of new premises located at the AMC for the Aerospace Business; (iii) increased operating and administrative expenses for the brand new operating subsidiary for the EMS Business in Huizhou, the PRC; and (iv) increased depreciation expense in relation to new leased premises recognised as right-of-use assets for the establishment of satellite manufacturing and satellite industry supply chain facilities under the Aerospace Business.

Other Losses, Net

Other losses represented exchange differences increased from approximately RMB3.1 million for the corresponding period in 2021 to approximately RMB4.7 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 of approximately RMB1.7 million (2021: net impairment RMB0.1 million) was made against the trade and bills receivables which were difficult to be recovered.

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 RMB12.1 million (2021: approximately RMB0.7 million) representing an increase of approximately 1,644.1% as compared to the year ended 31 December 2021. The increased net finance cost was primarily due to the increased interest expenses in relation to: (i) additional bank borrowings in the EMS Business; and (ii) lease for right-of-use assets, especially properties.

Income Tax Expense

Income tax expense amounted to approximately RMB1.3 million for the Reporting Period (2021: approximately RMB6.1 million), representing a decrease of approximately 78.6% as compared to the year ended 31 December 2021. The significant decrease in income tax expense is mainly due to more subsidiaries under the EMS Business suffering loss during 2022.

Loss 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 RMB154.3 million for the Reporting Period as compared with that for the corresponding period in 2021 of approximately RMB53.1 million.

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 Liabilities/Assets

The Group had net current liabilities of approximately RMB71.7 million as at 31 December 2022 (2021: net current assets of approximately RMB55.6 million). The current ratio of the Group decreased from approximately 1.1 as at 31 December 2021 to approximately 0.9 as at 31 December 2022.

Borrowings, the Pledge of Assets and Restricted Cash

The bank and other borrowings of the Group amounted to approximately RMB249.4 million as at 31 December 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 31 December 2022 was 4.33% (31 December 2021: 6.42%). As at 31 December 2022, the bank and other borrowings were secured by properties, plant and equipment, pledged bank deposit, land-use rights, shares of the Company's subsidiary, a corporate guarantee provided by the Company and a personal guarantee by one of the Directors, Mr. Ma Fujun. 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 provided by one of the Directors, Mr. Ma Fujun. As at 31 December 2022, the bank deposits amounting to RMB17.5 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 31 December 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 RMB, HK\$, USD and EUR.

The Group had unutilised banking facilities of approximately RMB8.3 million as at 31 December 2022 (31 December 2021: approximately RMB376.2 million).

Gearing Ratio

The gearing ratio, which is calculated by total borrowings divided by total equity, was approximately 101.5% and 51.7% as at 31 December 2022 and 31 December 2021, respectively. During the Reporting Period, the bank borrowings and other borrowing increased by approximately RMB46.8 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 the Aerospace Business.

Capital Structure

As at 31 December 2022, 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.

Capital Expenditure

For the Reporting Period, the Group had capital expenditure of approximately RMB384.3 million (2021: RMB327.6 million). The capital expenditure was mainly related to the construction of production plant in Huizhou, Guangdong, the PRC, the additions of land-use right, office equipment, plant and machinery, satellites and intangible assets.

DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2022 (2021: 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 2022, the Group had 1,186 employees with a total remuneration of approximately RMB151.8 million during the Reporting Period (2021: approximately RMB85.4 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 2022, the Group's capital commitment amounted to approximately RMB296.2 million (2021: RMB340.7 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 the Aerospace Business; and (iii) the establishment of the Group's Hong Kong satellite manufacturing centre and satellite operation control and application centre located at the AMC.

CONTINGENT LIABILITIES

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments or capital assets as at 31 December 2022.

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 9 January 2023, the Company, the Government of the Republic of Djibouti and a Hong Kong private entity entered into a memorandum of understanding (the "**Djibouti MOU**") in relation to, among others, the cooperation in development of an international commercial spaceport in the Republic of Djibouti. Details of the Djibouti MOU are set out in the announcement of the Company dated 9 January 2023.

On 8 March 2023, one of the indirect wholly-owned subsidiaries of the Company, namely Aspace Satellite Technology Limited ("**Aspace**"), entered into the Subscription Agreement with a subscriber in relation to, among others, the subscription for 9,800 new shares of Aspace (representing 49% of the issued share capital of Aspace as enlarged by the subscription shares upon completion) at the subscription price of HK\$147 million. Details of the Subscription Agreement are set out in the announcement of the Company dated 8 March 2023.

On 10 March 2023, the Company and an Italian private entity entered into a memorandum of understanding (the “**MOU**”) in relation to, among others, the potential strategic collaboration in the space sector. Details of the MOU are set out in the announcement of the Company dated 10 March 2023.

On 17 March 2023, one of the wholly-owned subsidiaries of the Company established in the PRC, namely SZ Gang Hang Ke, and a PRC vendor entered into a contract (the “**Contract**”) in relation to, among others, the “One-Rocket-Thirty-Satellites” project for launch and in-orbit delivery of thirty (30) satellites, namely Nos. 7–36 satellites of the Golden Bauhinia Constellation project for the Group. Details of the Contract are set out in the announcement of the Company dated 17 March 2023.

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 deviations:

- (a) pursuant to code provision C.2.1 of the CG Code, 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; and

- (b) pursuant to code provision C.5.1 of the CG Code, the Board should meet regularly and Board meeting should be held at least four times a year at approximately quarterly intervals. During the Reporting Period, a total of three regular meetings of the Board were held across the year. The Directors always express their opinions and views directly via other means including meetings on different occasions, emails and other correspondences from time to time. The Board understands that it is more appropriate to hold regular Board meetings. In view of good corporate governance practices, the Board will meet regularly and hold at least four regular meetings of the Board in the forthcoming year.

AUDIT COMMITTEE

The Audit Committee was established on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. During the Reporting Period, the Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Hung Ka Hai Clement (Chairman), Mr. Brooke Charles Nicholas and Professor Chan Ka Keung, Ceajer. 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 2022, the Audit Committee has held five meetings for discussion on the audit and financial reporting related matters. At the meetings, the Audit Committee had reviewed the final results for the year ended 31 December 2021, the interim results for the six months ended 30 June 2022 and the Group's risks management and internal control for the year ended 31 December 2021. 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 2022 as set out in this 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 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 2022.

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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2.1(a) to the consolidated financial statements, which states that the Group recorded a net loss of RMB154,291,000 and a net cash outflow from operating activities of RMB93,029,000 for the year ended 31 December 2022. As at 31 December 2022, the Group's current liabilities exceeded its current assets by RMB71,668,000 while the Group's cash and cash equivalents amounted only to RMB41,471,000. Furthermore, the Group had significant capital expenditures commitment under various contractual and other arrangements as at 31 December 2022. 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 2022 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, 29 March 2023

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. Mazlan Binti Othman, Mr. Niu Aimin and Dr. Yip Chung Yin as non-executive Directors; and Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer, Mr. Hung Ka Hai Clement, Dr. Yuen Kwok Keung and Mr. Juan de Dalmau-Mommertz as independent non-executive Directors.