CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Stock Code: 31)

ANNUAL REPORT 2022

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Zhou Limin *(Chairman)*
Mr Song Shuqing *(President)*
(appointed on 10 February 2023)
Mr Jin Xuesheng *(President)*
(resigned on 10 February 2023)

Non-Executive Directors

Mr Luo Zhenbang *(Independent)*
Mr Wang Xiaojun *(Independent)*
Ms Chen Jingru *(Independent)*
(appointed on 30 August 2022)
Mr Hua Chongzhi
Mr Teng Fangqian *(appointed on 2 March 2023)*
Mr Peng Jianguo *(appointed on 2 March 2023)*
Mr Liu Xudong *(resigned on 2 March 2023)*
Mr Mao Yijin *(resigned on 2 March 2023)*
Ms Leung Sau Fan, Sylvia *(Independent)*
(retired on 24 June 2022)

AUDIT COMMITTEE

Mr Luo Zhenbang *(Chairman)*
Ms Chen Jingru *(appointed on 30 August 2022)*
Mr Peng Jianguo *(appointed on 2 March 2023)*
Mr Mao Yijin *(resigned on 2 March 2023)*
Ms Leung Sau Fan, Sylvia *(retired on 24 June 2022)*

REMUNERATION COMMITTEE

Ms Chen Jingru *(Chairman)*
(appointed on 30 August 2022)
Mr Wang Xiaojun
Mr Hua Chongzhi
Ms Leung Sau Fan, Sylvia *(retired on 24 June 2022)*

NOMINATION COMMITTEE

Mr Zhou Limin *(Chairman)*
Mr Luo Zhenbang
Mr Wang Xiaojun
Ms Chen Jingru *(appointed on 30 August 2022)*
Mr Teng Fangqian *(appointed on 2 March 2023)*
Mr Liu Xudong *(resigned on 2 March 2023)*
Ms Leung Sau Fan, Sylvia *(retired on 24 June 2022)*

ENVIRONMENT, SOCIAL & GOVERNANCE COMMITTEE

Mr Zhou Limin *(Chairman)*
Mr Luo Zhenbang
Mr Hua Chongzhi

COMPANY SECRETARY

Ms Wong Cho Ching *(appointed on 31 March 2022)*
Mr Chan Ka Kin, Ken *(resigned on 31 March 2022)*

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditor

SHARE REGISTRAR

Tricor Standard Limited

LEGAL COUNSEL

Reed Smith Richards Butler LLP

PRINCIPAL BANKS & FINANCIAL INSTITUTIONS

Bank of China (Hong Kong) Limited
Aerospace Science & Technology Finance
Company Limited* (航天科技財務有限責任公司)

REGISTERED OFFICE

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* These PRC entities mentioned in this Annual Report do not have English names, the English names set out herein are for identification purposes only.

CHAIRMAN'S STATEMENT

In 2022, affected by the adverse situation such as the significant fluctuation in commodity prices and the continuous rise in interest rates and inflation, the global economic operation and development faced greater downward pressure and unstable factors, which posed severe challenges and huge difficulties to the operation of the Company and its subsidiaries. The management of the Company led the employees to actively work hard, forge ahead and overcome difficulties. With the working guidelines of maintaining stable growth, preventing risks, promoting reform and strengthening construction, and taking specific measures such as continuously promoting new capacity building and R&D innovation, seizing market opportunities, and further improving management efficiency and effectiveness through information technology, the Company responded to various challenges and ensured the stable development of various core businesses, pathing a more solid foundation for high-quality development.

RESULTS

For the year ended 31 December 2022, the operating revenue of the Company and its subsidiaries was HK$4,501,532,000, representing a decrease of 5.14% as compared with the operating revenue of HK$4,745,367,000 in 2021; the loss for the year was HK$252,722,000, representing a significant decrease as compared with the profit of HK$403,214,000 in 2021; the loss attributable to shareholders for the year was HK$119,918,000, representing a significant decrease as compared with the profit attributable to shareholders of HK$345,764,000 in 2021; the basic loss per share attributable to shareholders was HK3.89 cents (2021: basic earnings per share of HK11.21 cents).

Taking into account the Company's cashflow and financial position, in order to reward shareholders for their support, the Board has resolved to declare a final dividend of HK2 cents per share for 2022.

According to the "14th Five-Year" Plan of the Company, the principal businesses of the Company include the modern manufacturing industry which utilizes the existing industrial enterprises with advanced and efficient automated production methods and high value-added products, and the modern service industry based on the property operation of Shenzhen Aerospace Science & Technology Plaza and Huizhou Industrial Garden. Modern manufacturing industry mainly includes research and development and production of high-density printed circuit board (PCB), liquid crystal display (LCD), liquid crystal module (LCM), and process research and development and manufacturing of intelligent power module (IPM) products, etc.

In 2022, hi-tech manufacturing industries continued to optimize their business, market and product structure, actively promoted technological innovation and improved production capacity and efficiency, and achieved relatively stable operating revenue, which was generally in line with expectations. For the whole year of 2022, the operating revenue of hi-tech manufacturing businesses was HK$4,180,912,000, representing a decrease of 2.51% as compared with that of HK$4,288,768,000 in 2021; the operating profit was HK$212,488,000, representing an increase of 12.12% as compared with that of HK$189,519,000 in 2021.

In terms of business segments, the PCB business timely adjusted the focus of domestic and overseas markets according to the development trend of the industry during the year, and focused on products such as integrated circuit boards and optoelectronic modules with high added value, and fully strengthened the development and cultivation of relevant new customers, and increased the proportion of high-density PCB in operation. The performance was relatively outstanding, and the operating profit recorded a significant increase as compared with 2021. The liquid crystal display business continued to implement production automation and promote technological innovation. While consolidating the European market, it also actively explored related markets in Japan, and recorded a certain increase in operating revenue as compared with 2021. The plastic injection moulding business was adversely affected by the global inflation and the fifth wave of the outward relocation of enterprises in the mainland China. Besides, the operation of the production base invested and constructed in Vietnam did not show significant improvement, resulting in a significant decrease in the overall operating profit. Although the smart charger business was affected by the negative factors such as the Sino-US trade dispute and the global economic slowdown, it actively adjusted the product structure during the year, increased investment in the research and development of new products, and vigorously promoted the upgrading and generation replacement of products, hence ensuring the growth of operating profit in a large extent.

In 2022, Shenzhen Aerospace Technology Investment Company Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace") recorded a total revenue of approximately HK$310,268,000 (2021: HK$440,370,000) and a segment profit of HK$389,340,000 (2021: HK$301,009,000) in respect of the property leasing and management business of Shenzhen Aerospace Science & Technology Plaza. In 2022, as the whole lease tenant of the office premises, Shenzhen Hangke Houhai Investment Development Company Limited* (深圳市航科后海投資有限公司) ("Hangke Houhai") was unable to fulfill its obligations under the whole lease agreement, Shenzhen Aerospace and Hangke Houhai entered into a termination agreement; Shenzhen Huabaorun Management Limited* (深圳市華保潤商業管理有限公司) ("Huabaorun"), the whole lease tenant of the commercial premises, also defaulted on rental payments and its whole lease contract was terminated. For details, please refer to the announcements of the Company dated 5 July 2022 and 7 November 2022 respectively. During the year, Shenzhen Aerospace commenced litigation against Hangke Houhai for the recovery of rent arrears, etc. The litigation is still in progress. In this respect, Shenzhen Aerospace was required to recognize a loss on lease termination amounting to HK$570,813,000 for the accrued rental income and additional impairment loss under expected credit loss model (net) amounting to HK$147,334,000, which affected the annual results and resulted in a significant loss. Excluding the effect of increase in fair value of investment properties, loss on lease termination and impairment on billed rental receivables, the operating profit of Shenzhen Aerospace was HK$179,900,000 (2021: HK$171,803,000). As at 31 December 2022, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,860,000,000 (31 December 2021: RMB7,734,464,000).

During the year, hi-tech manufacturing industries made a lot of efforts in product development and capacity enhancement, and made certain progress. Among which, the intelligent power module (IPM) product had transitioned to corporate commercialized operation from project research and development. With Chiphow Microelectronics (Huizhou) Co., Ltd.* (志豪微電子(惠州)有限公司) ("Chiphow Microelectronics") as the operating vehicle, it had been equipped with improved ability to accept small batch orders from users, including the commercialized production of package products such as DIP25 and DIP29. In addition, the Integrated Circuit Package Plate Project of Nantong Hong Yuen Circuit Technology Co., Limited* (南通康源電路科技有限公司) ("Nantong Hong Yuen") is under active planning. It is expected that the project will greatly promote the enhancement of the production and operation capacity of carrier plates and high-density PCB, and fill the gap of industrial layout in the Yangtze River Delta region.

In 2022, the Company insisted on promoting technological innovation as one of the main elements leading higher and stronger development. During the year, the Company made necessary and timely investment in fields such as technological innovation, research and development, and achieved fruitful results. Dong Guan Hong Yuen Electronics Co., Limited (東莞康源電子有限公司) ("Dong Guan Hong Yuen") won the second prize of Dongguan Science and Technology Progress Award; Conhui (Hui Zhou) Semiconductor Co., Ltd. (康惠(惠州)半導體有限公司) ("Conhui Semiconductor") successfully made breakthroughs in 3D touch modules and fingerprint recognition technologies, and realized the generation replacement and upgrading of products; the research and development project of 5G millimetre-wave filters of the Intelligent Research Institute has achieved phased progress, and the process equipment of the trial production line has been basically in place, creating sufficient conditions for the next step.

The Plants Construction Project Phase 5 of China Aerospace (Huizhou) Industrial Garden Limited* (航天科技(惠州)工業園發展有限公司) ("HZ Industrial Garden"), a subsidiary of the Company, is in compliance with regulations and in an orderly manner with a total construction area of approximately 41,000 square metres. Upon completion, it will provide more ample space for the development of the IPM and plastic injection moulding businesses, and form a better foundation for the expansion of capacity of the Company. During the year, the project had obtained government planning review and building approval, and the construction is expected to be completed in October 2023. Details please refer to the Company's announcement dated 12 October 2022.

RAYITEK Hi-Tech Film Company Ltd., Shenzhen (深圳瑞華泰薄膜科技股份有限公司) ("Rayitek"), an associate of the Company engaged in the research and development, production and sales of polyamide films, performed satisfactorily since its listing on the Sci-Tech Innovation Board of Shanghai Stock Exchange. During the year, the Company received an annual dividend of approximately RMB2,945,800 for the year ended 2021 from Rayitek.

PROSPECTS

Looking ahead to 2023, major economies around the world are working to create conditions for economic recovery and development, the operating environment and situation are still full of uncertainties due to geopolitical risks and unfavourable factors such as rising interest rates. The Company will continue to implement the "14th Five-Year Plan" in accordance with the working ideas of "market-oriented requirements, international-oriented standards and professional-oriented operation", adhere to innovation as the primary driving force for development, adhere to the combination of investment and demand, the matching of capacity and development, adhere to both "hard power" and "soft power", increase investment in the construction of advanced manufacturing capacity, accelerate the adjustment of industrial layout, and ensure the realization of development goals. This includes investment in the construction of the production capacity of Nantong Hong Yuen, Zhihao Microelectronics, 5G millimeter-wave filters research and development line, the Plants Construction Project Phase 5 of HZ Industrial Garden, etc. On the other hand, after the termination of the whole lease agreements between Shenzhen Aerospace and Hangke Houhai, and Huabaorun respectively, the project has been changed to self-operated leasing model. Shenzhen Aerospace will further improve its operating capacity and operating quality, and is expected to restore the occupancy rate to a higher level. To achieve breakthroughs in innovation capability, market development, development mode and international-oriented operation, the Company will strive to build itself into an advanced manufacturing company, a modern service company and a high-tech industrial company, and a listed company with strong value creation ability, so as to generate good results for shareholders. With the continuous consolidation and improvement of various necessary construction and infrastructure, and the continuous improvement and optimization of various management measures and rules and regulations, the Company is confident that its prospects and development are optimistic and bright.

APPRECIATION

Mr Jin Xuesheng resigned as Executive Director and President on 10 February 2023 and Mr Liu Xudong and Mr Mao Yijin resigned as Non-Executive Directors of the Company on 2 March 2023 respectively due to retirement. On behalf of the Board of Directors, I would like to express my heartfelt respect and thanks to Mr Jin Xuesheng, Mr Liu Xudong and Mr Mao Yijin for their great contributions to the Company during their tenure as Executive Director and President, Non-Executive Directors, and welcome Mr Song Shuqing as the Executive Director and President, Mr Teng Fangqian and Mr Peng Jianguo as Non-Executive Directors of the Company.

On behalf of the Board, I express my profound gratitude to all the staff for their dedication and loyal services. Grateful thanks are also due to shareholders, bankers, business partners and members of the community who have supported the Company's development all along.

By order of the Board,

Zhou Limin
Chairman and Executive Director

Hong Kong, 24 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS PERFORMANCE

The revenue of the Company and the subsidiaries for the year ended 31 December 2022 was HK$4,501,532,000, representing a decrease of 5.14% as compared with that of HK$4,745,367,000 for 2021. The loss of this year was HK$252,722,000, representing a significant decrease as compared with a profit of HK$403,214,000 for 2021.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Loss attributable to the owners of the Company was HK$119,918,000, representing a significant decrease as compared with a profit of HK$345,764,000 for 2021.

The decrease in revenue was mainly due to the decrease in rental income from Shenzhen Aerospace. The turnaround from profit to loss was mainly due to the termination of the respective whole-lease contracts during the year between Shenzhen Aerospace, a 60% indirect owned subsidiary of the Company, and its whole lease tenants, Hangke Houhai and Huabaorun. The Company hence made an impairment under ECL model on the billed lease receivables and loss on lease termination of approximately RMB124,939,000 and RMB484,042,000 respectively, being a sum of approximately RMB608,981,000 (equivalent to approximately HK$718,138,000).

Based on the issued share capital of 3,085,022,000 shares during the year, the basic loss per share was HK3.89 cents, representing a significant decrease as compared with basic earnings per share of HK11.21 cents for 2021.

DIVIDENDS

Taking into account the Company's financial and cash flow position, the Board proposed the distribution of 2022 final dividend of HK2 cents per share, subject to the approval by shareholders at the annual general meeting to be held on 21 June 2023. If approved, warrants of which will be dispatched to all shareholders on or about 18 July 2023.

The distribution of 2021 final dividend of HK2 cents per share was approved by shareholders at the annual general meeting in June 2022 and warrants of which were dispatched to all shareholders on 22 July 2022. During the year, the Board declared a 2022 interim dividend of HK0.5 cents per share for the six months ended 30 June 2022 on 30 August 2022 and warrants of which were dispatched to all shareholders on 14 October 2022.

RESULTS OF CORE BUSINESSES

The core businesses of the Company and the subsidiaries are principally engaged in the research and development, design, professional production, sales and services of the hi-tech manufacturing business such as plastic products, electronic products, power products and semiconductor products, as well as the property management business of Shenzhen Aerospace Science & Technology Plaza.

The Company promotes various businesses in accordance with the outline of the five-year plan, focuses on the development of advanced manufacturing, modern services industries and high-tech industries, fully utilizing the resources from both overseas and China markets, and comprehensively deepening reform to achieve high-quality development of the Company.

The revenue of the hi-tech manufacturing business is the main source of the Company's revenue and that contributes a significant profit and cash flow, while the property management business of Shenzhen Aerospace Science & Technology Plaza also brings in rental and management fee income for the Company. The Company will continue to identify and develop new business opportunities, and thereby creating value for shareholders.

Hi-tech Manufacturing

In 2022, amid the gradual recovery of supply chain and freight, raw materials and energy prices are still on the rise, production and economic operations were affected to a certain extent, especially the establishment of new customers. As a result, the turnover of hi-tech manufacturing industries were affected. During the year, the hi-tech manufacturing industries continued to enhance production quality and automation through technological transformation and research and development, so as to maintain the scale and capacity of production. The overall business was able to maintain stable and sustainable development with double-digit growth in profit.

In particular, the printed circuit board business performed most satisfactorily. Despite a slight decline in turnover, based on new capacity building and technological innovation, the product structure continued to be optimized, reporting an increase in profit of 58.25% for the year. During the year, an indirect wholly-owned subsidiary, Nantong Hong Yuan Circuit Technology Co., Limited* (南通康源電路科技有限公司) ("Nantong Hong Yuen") was established, and has acquired a parcel of industrial land located in Nantong Hi-Tech Industry Development Zone with a total area of 131,666 sq.m., planning for the construction of high density PCB production plants for self-use. It is expected to further increase the production capacity of integrated circuit packaging substrates. The intelligent charger business experienced a substantial drop in turnover due to a notable reduction in sales orders from major customers. However, through enhanced procurement management and cost control measures, the overall profit was significantly improved, resulting in a 43.46% increase in profit for the year. The liquid crystal display business achieved stable overall product quality through technological innovation and quality control, resulting in a nearly 4% increase in turnover compared to last year. However, due to changes in the industrial cycle and geopolitical factors, the profit dropped by about 11%. During the year, a newly incorporated indirect wholly-owned subsidiary of the Company, Chiphow Microelectronics (Huizhou) Co., Ltd.* (志豪微電子(惠州)有限公司) ("Chiphow Microelectronics"), was established to plan and build an assembly line based on the research and development of intelligent power modules (IPM), as well as to gradually develop an assembly module production capacity, expected to contribute to the Company's profitability. The plastic products business was affected by the losses recorded in Vietnam business, resulting in a significant decline in profit by 48.82%.

On 12 October 2022, China Aerospace (Huizhou) Industrial Garden Limited* (航天科技(惠州)工業園發展有限公司) ("HZ Industrial Garden"), a 90% directly owned subsidiary of the Company, entered into the Construction Contract with Huizhou Construction Engineering Co., Ltd.* (惠州市建築工程有限公司) ("Huizhou Construction") in relation to the Plants Construction Project Phase 5 at a consideration of RMB94,546,637.19 (equivalent to approximately HK$104,381,458). Upon completion expected in October 2023, the plants will be used as the production plants of the Company and its subsidiaries. Details of which please refer to the Company's announcement published on 12 October 2022.

Besides, since the establishment of the Company's Intelligent Research Institute in 2021, it focuses on new technology development and products exploration, leading research and development direction of hi-tech manufacturing business and assisting in product upgrades and transformation of manufacturing capabilities. During the year, the focus on research and development of the 5G millimetre-wave filters chip has attained stage progress in passing the TriPollar radio frequency performance assessment, and is moving towards the industrialization of 5G millimetre-wave filters chip.

For the year ended 31 December 2022, the revenue of the hi-tech manufacturing business was HK$4,180,912,000, representing a decrease of 2.51% compared to last year; the operating profit was HK$212,488,000, representing an increase of 12.12% compared to last year. The results of the hi-tech manufacturing business are shown below:

	Turnover (HK$'000)			Operating Profit (HK$'000)		
	2022	2021	Changes (%)	**2022**	2021	Changes (%)
Plastic Products	**1,430,081**	1,459,512	(2.02)	**16,422**	32,084	(48.82)
Printed Circuit Boards	**1,258,426**	1,334,669	(5.71)	**135,543**	85,650	58.25
Intelligent Chargers	**378,380**	421,123	(10.15)	**10,372**	7,230	43.46
Liquid Crystal Display	**1,104,540**	1,062,204	3.99	**51,265**	57,430	(10.73)
Industrial Property Investment	**9,485**	11,260	(15.76)	**(1,114)**	7,125	Loss
Total	**4,180,912**	4,288,768	(2.51)	**212,488**	189,519	12.12

Looking ahead to 2023, it is expected that economic activity will return to normal. However, changes in the political and economic situation are expected to bring uncertainty to the business environment. In addition, the instability in the supply chain and persistent expectations of interest rate hikes will put pressure on profits. While the economy is recovering, hidden risks still exist. During this time of risks and opportunities, the hi-tech manufacturing business will seize the chance to actively explore the market and perform well in risk management. The business will also improve its level of production automation and research and development capability, maintain production scale and production capacity, and recruit professional talents, continue to develop high-end products and develop new technologies, so as to meet the ever-changing market environment.

Shenzhen Aerospace Science & Technology Plaza

In 2022, Shenzhen Aerospace terminated the whole lease contracts with Hangke Houhai and Huabaorun respectively, and filed a civil complaint against Hangke Houhai for the arrears of rent. The relevant litigations are still being processed. For details, please refer to the company's announcements on 12 May 2022, 14 June 2022, 5 July 2022, 30 September 2022 and 7 November 2022 respectively. In this respect, Shenzhen Aerospace was required to recognize a loss on lease termination amounting to HK$570,873,000 for the accrued rental income and additional impairment loss under expected credit loss model amounting to HK$147,334,000. Following the termination of the lease contracts with Hangke Houhai and Huabaorun, Shenzhen Aerospace Science & Technology Plaza has been fully changed to self-managed operation in leasing. Having taken over the existing tenants, Shenzhen Aerospace will endeavour to source new tenants. As at 31 December 2022, the occupancy rates for commercial premises and office premises of Shenzhen Aerospace Science & Technology Plaza were 39.4% and 32.7%, respectively.

Shenzhen Aerospace and its wholly-owned subsidiary, Shenzhen Aerospace Technology Property Management Company Limited* (深圳市航天高科物業管理有限公司) ("Shenzhen Property Management"), which is responsible for property management, recorded a total revenue of HK$310,268,000 (2021: HK$440,370,000) and a segment profit of HK$389,340,000 (2021: HK$301,009,000), mainly contributed from the rental and property management fee incomes and increase in the fair value of investment properties during the year.

As at 31 December 2022, Shenzhen Aerospace Science & Technology Plaza was valued at approximately RMB7,860,000,000 (2021: RMB7,734,464,000).

In 2023, Shenzhen Aerospace will focus its effort on self-managed operation and further enhance the occupancy rate of its property by working with agencies and strengthening publicity. In addition, communication with the Nanshan District Science and Technology Bureau and Innovation and Technology Bureau will be strengthened, and the licensing of the "Nanshan District Joint Investment Promotion Office" will be used to introduce large-scale enterprises to settle in, and will proactively advocate and enforce its rights in various litigations in accordance with applicable laws.

Other Business

RAYITEK Hi-Tech Film Company Ltd., Shenzhen (深圳瑞華泰薄膜科技股份有限公司) ("Rayitek"), an associate company in which the Company indirectly holds 23.38% interest through its direct wholly-owned subsidiary, CASIL New Century Technology Development (Shenzhen) Company Limited*(航科新世紀科技發展(深圳)有限公司) ("CASIL New Century"), distributed a dividend of RMB0.7 per 10 shares during the year and the Company received dividends of approximately RMB2,945,800 in total. On 18 August 2022, Rayitek issued Convertible Bonds. After considering the business performance of Rayitek and in order to maintain the Company's proportion of shareholdings in Rayitek, the Board resolved that CASIL New Century to subscribe for the Convertible Bonds issued by Rayitek at the face value of RMB100 for each in proportion to its shareholding at a consideration of RMB100,494,000. Details of which please refer to the Company's announcement published on 18 August 2022.

ASSETS

(HK$'000)	31 December 2022	31 December 2021	Changes(%)
Non-Current Assets	11,602,450	12,629,902	(8.14)
Current Assets	3,663,378	4,239,260	(13.58)
Total Assets	15,265,828	16,869,162	(9.50)

The decrease in non-current assets was mainly due to the derecognition of certain unbilled lease receivables, the reclassification of long-term bank deposits as current assets, as well as the decrease in Hong Kong dollar equivalent arising from the conversion of assets denominated in RMB at the balance sheet date, while the decrease in current assets was due to the decrease in receivables and inventories.

The equity attributable to shareholders of the Company for the year was HK$7,658,694,000, representing a decrease of 8.7% as compared with that of HK$8,388,114,000 as at the end of 2021.

The equity attributable to shareholders of the Company decreased as compared with the end of last year, which was mainly due to the loss incurred during the year. Based on the issued share capital of 3,085,022,000 shares during the year, the net assets per share attributable to shareholders of the Company was HK$2.48.

As at 31 December 2022, a cash deposit of HK$41,665,000 and bills receivable of HK$83,449,000 of the Company and the subsidiaries had been pledged to banks to obtain credit facilities. Property right certificates at an approximate value of RMB1,900,000,000 of Shenzhen Aerospace Science & Technology Plaza were mortgaged by Shenzhen Aerospace to Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) so as to obtain a 12-year term loan facility in the amount of RMB1,300,000,000. Details of which please refer to the Company's announcement published on 30 August 2016.

LIABILITIES

(HK$'000)	31 December 2022	31 December 2021	Changes (%)
Non-Current Liabilities	3,321,318	4,254,575	(21.94)
Current Liabilities	2,159,847	1,771,821	21.90
Total Liabilities	5,481,165	6,026,396	(9.05)

The substantial decrease in non-current liabilities was mainly due to the reclassification of the loan from a major shareholder as current liabilities during the year, the decrease in deferred taxation due to the decrease in temporary differences arising from the accrued rent upon the derecognition of the unbilled lease receivables, as well as the decrease in Hong Kong dollar equivalent arising from the conversion of liabilities denominated in RMB at the balance sheet date, whereas the increase in current liabilities was mainly due to the reclassification of the loan from a major shareholder to current liabilities.

As at 31 December 2022, the Company and its subsidiaries had other borrowings of HK$1,444,157,000.

OPERATING EXPENSES

The administrative expenses of the Company and the subsidiaries in 2022 were HK$451,894,000, representing an increase of 8.37% compared to last year, mainly due to higher labour costs and depreciation and amortization expenses. The finance costs amounted to HK$76,243,000, similar to that of last year.

CONTINGENT LIABILITIES

During the year ended 31 December 2022, Shenzhen Aerospace is defendant in a claim by its major tenant for the operating loss in the past. The Directors of the Company, after considering the legal advice from its legal adviser in the PRC regarding the claim, conclude that no provision is required as Shenzhen Aerospace should not be liable for the claim in accordance with the lease agreement. However, since there is uncertainty about the court's decision, the claim is then disclosed as contingent liabilities to the Company. Further details of the litigation were set out in the Company's announcements dated 12 May 2022, 14 June 2022, 5 July 2022 and 30 September 2022.

Save for the disclosure above, the Company and the subsidiaries did not have any other material contingent liabilities.

FINANCIAL RATIOS

	2022	2021
Gross Profit Margin	21.97%	22.65%
Return on Net Assets	(2.58%)	3.72%

	31 December 2022	31 December 2021
Assets-Liabilities Ratio	35.90%	35.72%
Current Ratio	1.70	2.39
Quick Ratio	1.44	1.96

LIQUIDITY

The source of funds of the Company and the subsidiaries mainly relies on internal resources and banking and financial institution facilities. As at 31 December 2022, the cash and bank balance and short-term bank deposits amounted to HK$2,021,327,000, the majority of which were in Hong Kong Dollars and Renminbi.

CAPITAL EXPENDITURE

As at 31 December 2022, the capital commitments of the Company and the relevant subsidiaries contracted for but not provided in the consolidated financial statements was approximately HK$150,274,000, mainly the capital expenditure for the acquisition of fixed assets.

FINANCIAL RISKS

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

HUMAN RESOURCES AND REMUNERATION POLICIES

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

As at 31 December 2022, the Company and the subsidiaries had a total of approximately 7,489 employees based in the mainland, Hong Kong and Vietnam respectively.

APPRECIATION

I would like to express my heartfelt thanks to our shareholders, banks, business partners and all other friends from the community who have rendered support to the Company's development, and to express my gratitude and high praise for all employees of the Company their loyalty to the Company and professional attitude.

By order of the Board,

Song Shuqing
Executive Director and President

Hong Kong, 24 March 2023

CORPORATE GOVERNANCE REPORT

The Company had complied throughout the reporting period with the provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

"**Patriotic, Innovative, Integrity, Harmony, Conscientiousness**" represent the essence of the Company's corporate culture and the Company's corporate mission. It also serves as the business development principles and the core values of employees in daily business and operations. The Company focuses on long-term value and benefits creation for our customers, shareholders, employees and the society. The Company is committed to promoting technological innovation and specialized production in the long run, devoted in the provision of high quality and high efficiency services to the supply chain and industrial chain industries and focuses on advanced manufacturing and modern service industries as core competencies, aiming to become an international enterprise with focus in the future, with remarkable innovation capability and continuous creation of value for customers, providing customers with professional, efficient, safe and environmentally friendly products and services. The Company adopts a prudent attitude in operating and managing its business to achieve sustainable growth of the Company's business and contribute to the economic development of the society. The Company has formulated a long-term planning outline and continuously evaluates the potential opportunities and challenges faced by the Company. Through the core of the Company's corporate culture, we will continue to enhance employees' ethics, improve the corporate governance system, and effectively prevent any business risks and compliance risks. This will give the employees themselves and the Company a competitive advantage to develop various businesses steadily, and strengthen Company's performance in revenue, profitability and return on shareholders' equity.

BOARD OF DIRECTORS

In 2022, the Board of Directors of the Company comprised the Executive Directors, namely, Mr Zhou Limin (Chairman) and Mr Jin Xuesheng (President); the Non-Executive Directors, namely, Mr Liu Xudong, Mr Hua Chongzhi and Mr Mao Yijin; and the Independent Non-Executive Directors, namely, Mr Luo Zhenbang, Mr Wang Xiaojun, Ms Chen Jingru (appointed on 30 August 2022) and Ms Leung Sau Fan, Sylvia (retired on 24 June 2022). Each of the Directors is not related to each other in financial, business or family aspects.

The Chairman of the Company is Mr Zhou Limin, whereas the President of the Company is Mr Jin Xuesheng. Mr Zhou Limin and Mr Jin Xuesheng are not related to each other in financial, business or family aspects. The roles of Chairman and President have been divided according to respective written Terms of Reference.

Each of the Directors of the Company will receive a comprehensive and formal induction on the first occasion of their respective appointment, so as to ensure that they have a proper understanding of the operations and business of the Company and are fully aware of their responsibilities under common law, the Listing Rules, applicable legal requirements, other regulatory requirements and the business and governance policies of the Company.

The specific term for each Non-Executive Director (including Independent Non-Executive Directors) of the Company is two years, provided that each Non-Executive Director is subject to retirement by rotation and re-election, if eligible, under the Articles of Association of the Company.

Those Directors appointed by the Board during the year shall hold office only until the next general meeting and shall then be eligible for re-election. The process for re-election of a Director is in accordance with the Company's Articles of Association, which requires that, other than those Directors appointed during the year, one-third of the Directors for the time being (or the nearest number) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election. The annual report and the circular for annual general meeting contain information on re-election of Directors including biography of all Directors standing for election or re-election so as to ensure shareholders to make an informed decision on their election. If shareholders propose a person for election as a director of the Company, it should be made in pursuant to procedures stipulated in the Hong Kong Companies Ordinance, the Listing Rules and the Company's Articles of Association etc. Procedures of Articles of Association can be downloaded from the Company's website for reference.

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2022, namely, Mr Luo Zhenbang, Mr Wang Xiaojun, Ms Chen Jingru (appointed on 30 August 2022) and Ms Leung Sau Fan, Sylvia (retired on 24 June 2022), they are unrelated to each other in every aspect, including financial, business or family. Among those Independent Non-Executive Directors, Mr Luo Zhenbang has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

During the year, Ms Leung Sau Fan, Sylvia, an Independent Non-Executive Director of the Company, retired after the conclusion of the Annual General Meeting on 24 June 2022. Upon which, (i) the number of Independent Non-Executive Directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules and one-third of the Board as required under Rule 3.10A; (ii) the number of members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules; (iii) the Remuneration Committee did not comprise a majority of Independent Non-Executive Director and the Chairman of the Remuneration Committee became vacant, which did not fulfil the requirement under Rule 3.25 of the Listing Rules; and (iv) the Nomination Committee did not comprise a majority of Independent Non-Executive Director as required under Rule 3.27A of the Listing Rules. After consideration by the Board and appointment of Ms Chen Jingru as an Independent Non-Executive Director, the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee on 30 August 2022, the Company has fully complied with the requirements under Rules 3.10(1), 3.10A, 3.21, 3.25 and 3.27A of the Listing Rules. For details, please refer to the Company's announcements dated 17 June 2022, 24 June 2022 and 30 August 2022.

The Company had received a letter from each of the Independent Non-Executive Directors confirming his or her immediate family members' independence in compliance with Rule 3.13 of the Listing Rules. In addition, Mr Luo Zhenbang and Mr Wang Xiaojun have been Independent Non-Executive Directors of the Company for more than nine years who continuously demonstrates the characters of being Independent Non-Executive Directors and are able to provide independent opinion. The Board of Directors considered that their tenure would not affect their independence. As such, the Board of Directors confirmed the same upon the Nomination Committee had reviewed and confirmed that all Independent Non-Executive Directors are independent.

The Company entered into an engagement letter with each of the Directors, in which specified that their responsibilities to comply with the rules and regulations and the Articles of Association and to report director's duties, their right to receive a director's remuneration and to reimburse their expenses incurred reasonably, their length of term and the ways to terminate their appointment and so on. The Directors have understood their duty that they should commit sufficient time and effort to deal with the Company's matters and have confirmed the same to the Company.

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 of the Listing Rules and *The Code and Enforcement Details for Securities Transactions by Directors* of the Company as the required standard for the Directors to trade the securities of the Company. The Company had also established the *Model Code for Securities Transactions by Employees* for employees as the required standard to trade the securities of the Company. The Company has required that, from 30 days before the publication of interim results and 60 days before the publication of annual results, Directors, other management and each of their respective associates are not allowed to trade any securities of the Company.

The Company had enquired with all the Directors as to whether they had complied with Appendix 10 and *The Code and Enforcement Details for Securities Transactions by Directors* while trading the securities of the Company during 2022. So far as was known to the Company, all Directors had complied with Appendix 10 and other relevant provisions during the year.

The Board is responsible for determining the Company and its subsidiaries' objectives, strategies, policies, principal business plans, risk management and internal control, and corporate governance, and the management is delegated the responsibilities of running the Company's businesses, making day-to-day decisions concerning business operations and the implementation of the approved strategies in achieving the overall development strategies of the Company.

The attendance record of Directors during 2022 is set out below (Mr Wang Xiaojun, an Independent Non-Executive Director, who had another business engagement and was unable to attend the annual general meeting. However, all the meeting documents had been reviewed by him before the meeting, and the process of the meeting, shareholders' questions and voting results were immediately learnt by him after the meeting; Ms Leung Sau Fan, Sylvia, an Independent Non-Executive Director, retired as an Independent Non-Executive Director of the Company after the conclusion of the annual general meeting.):

	Annual General Meeting		Board Meeting	
Directors	**Number of meetings entitled to attend**	**Number of attendance**	**Number of meetings entitled to attend**	**Number of attendance**
Zhou Limin	1	1	5	5
Jin Xuesheng	1	1	5	5
Liu Xudong	1	1	5	5
Hua Chongzhi	1	1	5	5
Mao Yijin	1	1	5	5
Luo Zhenbang	1	1	5	5
Wang Xiaojun	1	0	5	5
Chen Jingru	0	0	1	1
Leung Sau Fan, Sylvia	1	0	2	2

CORPORATE GOVERNANCE POLICY

The Board is responsible for the Company's corporate governance and shall review and approve the Company's corporate governance in board meeting(s) in a timely manner. This includes but not limited to reviewing the effectiveness and sufficiency of corporate governance measures and policies, reviewing the training arrangements of Directors and senior management, whether the Company's policies comply with requirements of rules and regulations, applicability of the Company's internal codes, whether the Company complies with requirements of the *Corporate Governance Code*, and whether these have been disclosed in the Corporate Governance Report.

The corporate governance policy has been covered in the Company's *Rules of Board Procedure* which mainly regulate and monitor the discussion and decision making procedure of the Board in order to raise the effectiveness of corporate governance. Besides, the Board has made an appropriate internal control, risk management system and whistle-blowing system so as to effectively monitor the Company's financial and governance situation. During the year, the company formulated the *Anti-Corruption Policy* and *Whistle-blowing Policy* to further strengthen the performance of corporate governance, at the same time, the Company updated the *Shareholders & Investors Communication Policy* to effectively put forward disclosures of information and increase the Company's transparency.

During the year, the Company has established *Mechanisms to Ensure Board Access to Independent Views and Advice* to ensure that the Board is provided with independent views and opinions, as well as checks and balances to facilitate the steady development of the Company. The relevant mechanisms are set out in the *Rules of Board Procedure* and the *Rules for the Selection and Appointment of Independent Non-Executive Directors* of the Company, and are also embodied in the governance structure such as the number of Independent Non-Executive Directors on the Board. The Board conducts annual reviews on the implementation and effectiveness of these mechanisms.

Pursuant to the Company's *Rules of Board Procedure*, regular board meetings are held at least four times a year, and, if necessary, additional meetings would be arranged. In 2022, the Company held five board meetings, and Mr Zhou Limin, the Chairman, convened a meeting with the Independent Non-Executive Directors without the presence of other Directors and management officers.

The Company Secretary assists the Directors in establishing the meeting agenda. Notice of meeting and information package are sent to Directors within reasonable and practical time prior to a meeting in order to facilitate the Directors informed discussion and decision-making.

The Company Secretary is responsible for taking minutes of meetings. Draft minutes are sent to all Directors for their comments within a reasonable time after each meeting and to be approved by the Board or the relevant committee at the immediate following meeting. Final versions of the board minutes are sent to all Directors for record. The minutes books are kept by the Company Secretary and are open for inspection by the Directors upon request. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board and for advising the Board that the procedures are followed and that the Listing Rules are complied with.

BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee, Nomination Committee and Environment, Social & Governance ("ESG") Committee, all of which respectively monitor the Company's governance matters in relation to financial position, directors and senior management's remuneration policy, nomination of directors, and ESG. The committees are governed by their respective Terms of Reference and accountable to the Board. The Terms of Reference of respective committees can be downloaded from the websites of both The Hong Kong Exchanges and Clearing Limited and the Company for reference.

Audit Committee

In 2022, the Audit Committee comprises Mr Luo Zhenbang (Chairman), Ms Chen Jingru (appointed on 30 August 2022) and Ms Leung Sau Fan, Sylvia (retired on 24 June 2022), all being Independent Non-Executive Directors; and Mr Mao Yijin, being a Non-Executive Director. The major functions of the Audit Committee include serving as a focal point for communication between the Directors and external auditors, reviewing the Company's financial information as well as overseeing the Company's financial reporting system, risk management and internal control procedures.

The Audit Committee met twice during 2022 for the purpose of assessing and reviewing the internal control system, risk management, the financial results for half year and whole year, corporate governance practices, reviewing and formulating *Whistle-blowing Policy* to replace the *Arrangement for Staff Concerns about Improper Behaviours in Financial Reporting* and revising the *Terms of Reference of the Audit Committee*, etc. The external auditors, the Chief Accountant, the General Manager of Finance Department, the General Manager of Internal Audit & Risk Management Department and the Company Secretary attended both meetings.

The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2022.

The attendance record of Audit Committee members during 2022 is set out below:

	Number of meetings eligible to attend	Number of attendance
Luo Zhenbang	2	2
Mao Yijin	2	2
Chen Jingru	0	0
Leung Sau Fan, Sylvia	1	1

Remuneration Committee

In 2022, the Remuneration Committee comprises Ms Chen Jingru (Chairman) (appointed on 30 August 2022), Ms Leung Sau Fan, Sylvia (Chairman) (retired on 24 June 2022) and Mr Wang Xiaojun, all being Independent Non-Executive Directors, and Mr Hua Chongzhi, being a Non-Executive Director. The Remuneration Committee takes the role of advisory and proposes to the Board on the emoluments of the Directors and senior management with regard to the operating results of the Company, the individual performance and the comparable market information.

The remuneration of each Director and committee member is determined in accordance with the Company's *Standard on Directors' Remuneration and Special Allowances* and is adjusted from time to time to take account of actual circumstances, including comparable market conditions.

The Directors' fees and any other reimbursement or emolument payable to each Director during the year are set out in the "Notes to the Consolidated Financial Statements" of this Annual Report.

The Remuneration Committee met once during 2022 for the purpose of reviewing the remuneration and the appraisal policy of the Company's Directors and senior management, and discussing the proposals for adjustment of independent directors' remuneration at the meeting. The General Manager of Human Resources Department and the Company Secretary attended the meeting. In 2022, no Director was involved in deciding his/her remuneration.

The attendance record of Remuneration Committee members during 2022 is set out below:

	Number of meetings eligible to attend	Number of attendance
Chen Jingru	0	0
Wang Xiaojun	1	1
Hua Chongzhi	1	1
Leung Sau Fan, Sylvia	1	1

Nomination Committee

In 2022, the Nomination Committee comprises Mr Zhou Limin (Chairman), the Chairman and Executive Director, and Mr Liu Xudong, being a Non-Executive Director, and Mr Luo Zhenbang, Mr Wang Xiaojun, Ms Chen Jingru (appointed on 30 August 2022) and Ms Leung Sau Fan, Sylvia (retired on 24 June 2022), all being Independent Non-Executive Directors. The main functions of the Nomination Committee are to review the structure, size and composition of the Board in order to implement the Company's strategy.

The *Board Diversity Policy* is a reference base of the Company for the selection of director candidates. With reference to the Company's unique corporate culture and background, the Company will consider the candidate's different personal factors, including skills, regional and industrial experience, background, expertise, culture, independence, age, sex and other professional qualifications etc. in assessing the board's most suitable composition. Appointment depends on capability. Besides, as practically as possible, the Company will maintain the right balance and recruit the most suitable personnel with ample experience to manage various businesses of the Company. The Nomination Committee reviews the implementation of *Board Diversity Policy* at appropriate time and measurable targets in order to ensure effectiveness of the policy and fit into the ongoing business development of the Company. During the year, the Nomination Committee had reviewed and revised the *Board Diversity Policy* and set up a measurable goal for gender diversity. Currently, female directors accounted for 12.5% of the board members, and targets to increase the proportion of female directors to more than 20% in 2025.

The Company has formulated the *Directors' Nomination Policy*, which has been considered and passed by the Nomination Committee and the Board. Highlights of the policy are as follows:

1. The Nomination Committee shall at least consider the following factors when assessing candidates:

    a. compliance with the requirements on assuming directorship under, among others, the *Hong Kong Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* and the *Articles of Association* of the Company;

    b. suitable candidate selected is based on the Board structure and actual needs of the Company's operation, including but not limited to the determination of the type of director to be identified (i.e. executive director, non-executive director or independent non-executive director), the determination of the director to be identified (e.g. possession of experience on finance and accounting, law or peers; lowering average age; candidates for the succession of the Board), the determination of the requirements for the director to be identified (e.g. one of the independent directors must possess experience on finance and accounting);

    c. the *Board Diversity Policy* of the Company;

    d. in case the assumption of the role of independent non-executive director of the Company represents his/her directorship in seven or more listed companies, the reasons why that independent non-executive director candidate could devote sufficient time; and

    e. other factors, including but not limited to, among others, his/her contributions to the Company (e.g. view and perspective, skills and experience, promotion of board diversity), familiarity with legal requirements in Hong Kong and China, as well as time to be devoted to the affairs of the Company.

2. Potential nominees shall provide sufficient information, such as biographical details, to the Nomination Committee for consideration.

3. Assessment on the independence of potential nominee.

4. The Nomination Committee could invite other directors or senior management to assist in identifying candidates.

5. If necessary, the Nomination Committee can invite potential nominee(s) to attend meeting(s) for it to further learn about him/her.

6. The Nomination Committee has the discretion to nominate or reject the identified candidate(s).

At present, there are 8 members in the Board of the Company, including 7 male directors and 1 female director. All directors possess university or above educational level whereas some possess professional qualifications in accountancy and laws etc., and have ample experiences in large enterprise management, financial management, legal and human resources etc. in various industries.

The Nomination Committee met twice during 2022 while the Company Secretary attended the meetings. The Nomination Committee had reviewed the structure, composition and diversity of the Board, confirmed the rotation list of Directors at the Annual General Meeting, and assessed the independency of each of the Independent Non-Executive Directors and confirmed all of them are independent, and the Board, based on the recommendation of the Nomination Committee, also considered all Independent Non-Executive Directors to be independent. During the year, the Nomination Committee had reviewed the appointment of independent non-executive director and member to the board committees and make recommendations to the Board with reference to the *Directors' Nomination Policy*, the *Board Diversity Policy* and *the Rules for the Selection and Appointment of Independent Non-Executive Directors* of the Company.

The attendance record of Nomination Committee members during 2022 is set out below:

	Number of meetings eligible to attend	Number of attendance
Zhou Limin	2	2
Luo Zhenbang	2	2
Wang Xiaojun	2	2
Liu Xudong	2	2
Chen Jingru	0	0
Leung Sau Fan, Sylvia	1	1

Environment, Social & Governance Committee

In 2022, the Environment, Social & Governance ("ESG") Committee has a membership comprising Mr Zhou Limin (Chairman), the Chairman and Executive Director, Mr Hua Chongzhi, a Non-Executive Director, and Mr Luo Zhenbang, an Independent Non-Executive Director. The responsibilities of the ESG Committee are to establish the policies and its reporting relating to environment, social and governance.

The ESG Committee met once during 2022 for the purpose of discussing and reviewing the 2021 ESG Report, setting up the annual work plan, as well as following up the work progress while the team leader of the ESG Working Group, the ESG Consultant Firm, and the Company Secretary attended the meeting. During the year, the ESG Committee had also reviewed the interim work progress report of the working group, including the stakeholder questionnaire survey results, interim data review and analysis, compilation of the ESG materiality matrix, and risk assessment, etc.

The attendance record of ESG Committee members during 2022 is set out below:

	Number of meetings eligible to attend	Number of attendance
Zhou Limin	1	1
Luo Zhenbang	1	1
Hua Chongzhi	1	1

DIRECTORS' TRAINING

The Directors have been reported the financial and the operational information by the Company periodically, and will be informed of, both in written and by meetings, the latest amendments of the relevant laws related to listed companies and the Listing Rules, if any, in order to let them to understand the related directors' duties and responsibilities. Besides, the Company already informed each Director of the requirement of receiving relevant training each year and the provision of a record of the training they received to the Company. In 2022, the Company arranged the legal counsel and the ESG consultant of the Company to conduct training sessions for Directors and other management regarding Directors' responsibilities and major listing regulations and directors and climate-related financial disclosure (TCFD). In addition, the Company also provided online learning materials on anti-corruption for Directors' ongoing training. All Directors participated appropriate trainings according to their own needs and provided a training record during 2022 to the Company pursuant to the *Corporate Governance Code*.

During the year, the training hours received by the directors of the Company are as follows:

Directors	Training Hours
Zhou Limin	5
Jin Xuesheng	5
Liu Xudong	5
Hua Chongzhi	5
Mao Yijin	5
Luo Zhenbang	5
Wang Xiaojun	9.5
Chen Jingru	5
Leung Sau Fan, Sylvia*	5

On the other hand, during the year, the Company Secretary conducted trainings for employees on the Company's *Anti-Corruption Policy* and *Whistle-blowing Policy*. At the same time, the Commissioner of the Hong Kong Independent Commission Against Corruption was invited to explain corruption prevention knowledge to employees.

LIABILITY INSURANCE

The Company had already purchased an insurance for Directors and senior management of the Company and its subsidiaries in respect of the protection against contingent loss and liabilities arising from daily operations that may be borne by Directors and other management.

COMPANY SECRETARY

The selection, appointment or dismissal of Company Secretary (if any) should be approved by the Board at a meeting. The Company Secretary should report to the Chairman of the Board and the President.

The Company Secretary of the Company are Ms Wong Cho Ching (appointed on 31 March 2022) and Mr Chan Ka Kin, Ken (resigned on 31 March 2022), both are fellow members of The Hong Kong Chartered Governance Institute and have been servicing the Company for many years. Ms Wong Cho Ching had taken not less than 15 hours' professional training in 2022 which met the requirements as stipulated in Rules 3.28 and 3.29 of the Listing Rules.

* Retired on 24 June 2022, the training hours are recorded as at the date of retirement.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company's Board of Directors is responsible for the risk management and internal control system and ensuring their effectiveness. The Company has gradually established, maintained and implemented an effective internal control system with clear definition of the responsibilities and duties of all businesses and operating departments, and has set up Internal Audit & Risk Management Department which is responsible for conducting regular or irregular audit on relevant businesses and operating departments to ensure effective check and balance of power, and for maintaining and implementing the risk management and internal control system. The Company has also established an ESG working group to report regularly to the ESG Committee to help assess and identify risk management in ESG aspect in order to assess and manage significant ESG-related issues. During the year, no significant ESG risk management issues were identified.

The Company's management evaluates the risk management and internal control system each year. Firstly, each of the subsidiaries reviews and evaluates the design and actual operation of their organizational structure, development strategy, human resource, corporate culture, social responsibility and so on. Secondly, the Company reviews the internal control of such companies by examining the risk identification and analysis and solutions taken, as well as reviewing and verifying the design and operation of relevant control measures on such as financing activities, asset management, purchase, sales, research and development, engineering project, guarantees, outsourcing, overall budget and contract management.

If any potential loophole is noted and recognized, the Company will put forward proposals, requiring relevant companies to enact or revise their rules and rectify the loophole within a specified period. Appraisal of the internal control environment will be carried out each year. Continuous improvements can strengthen the Company and its subsidiaries' internal control and reduce the possibility of risk occurrence.

During this year, the Company and its subsidiaries had inspected whether or not the risk management and internal control system is effective, and reviewed and restructured the internal rules and systems to confront the potential operational, market and financial risks during daily operation. The inspection covered all major control levels including financial, operational, compliance and risk management control. It especially standardized the decision making on major issues, including important appointment and removal, arrangement for material projects and use of large amount of funds.

During the year, the Company's ESG working group conducted an interim investigation and analysis of ESG risk management and control matters in various enterprises. No major ESG risk management issues were identified.

The Company has established the *Rules on Administration of Information Disclosure Affairs* and *Guidelines on Identification of Discloseable Transactions and Inside Information* to maintain sound corporate governance and duly fulfill information disclosure obligations of a listed company and protect the rights and interests of the Company and investors. The Company and its subsidiaries shall regularly monitor their transactions and identify whether the counterparty is a connected party or not. Where a possible notifiable transaction is identified, it shall report to the Company immediately. When a transaction is confirmed as a notifiable transaction, the Company Secretary will draw up disclosure documents as soon as possible, and publish an announcement upon obtaining approval from the Board of Directors.

During the period, employees who have become aware of the transaction shall bear the duty of confidentiality and may not disclose it to the public without authorization. The *Model Code for Securities Transactions by Employees* of the Company also provides that specific employees who are aware of or privy to any negotiations or agreements related to a notifiable transaction, connected transaction or any inside information must refrain from dealing in the Company's securities on the date as they become aware of them or privy to them.

The Board of Directors has considered and believed that the Company has sufficient resources, employee qualification and experience in executing accounting, financial reporting and internal audit functions, and ESG reporting and relevant employees have received sufficient and proper training.

The Company's management has provided the Board of Directors with a confirmation letter relating to the effectiveness of the risk management and internal control system. The Board of Directors believes that such risk management and internal control system was designed to manage rather than eliminate the risks arising from the failure to meet business objectives, and will only make a reasonable but no absolute guarantee shall there be no significant misrepresentation or loss to be incurred. Therefore, the Company believes it is sufficient to implement the current risk management and internal control system, but it will make necessary review and revision from time to time to meet the requirements of laws and regulations, the Listing Rules, and internal management so as to strengthen its risk management and internal control.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial year, which give a true and fair view of the state of affairs, the results and the cash flows of the Company and its subsidiaries for that period. In preparing the accounts for the year ended 31 December 2022, the Directors had selected suitable accounting policies and adopted Hong Kong Financial Reporting Standards and applied them consistently. Based on judgments and estimations that are prudent and reasonable, the Directors prepared the accounts on a going concern basis. Auditor's reporting responsibilities are set out on the financial statements by the auditor.

During 2022, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern. The Company aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects in all published documents such as announcements, circulars, interim reports and annual reports. The Company has announced its annual and interim results in a timely manner within the limits of 3 months and 2 months respectively after the end of the relevant period as laid down in the Listing Rules.

In 2022, the Company paid a total of approximately HK$4,895,000 to the auditor, of which included an audit fee of approximately HK$3,998,000 and a non-audit fee of approximately HK$897,000. The latter comprised fees for provision of services in reviewing interim report, results announcements, continuing connected transactions and taxation.

INVESTORS' RELATION

The Company did not amend its Articles of Association in 2022.

The information on the website of the Company will be updated in a proper and timely manner to maintain a quick, fair and transparent disclosure of its information.

The Board reviewed and revised the *Shareholders' and Investors' Communication Policy* in August 2022, including amendments to address changes in the address of the share registrar and transfer office and the publication of poll results of annual general meetings. The Board also reviewed the effectiveness of the policy and considered it continues to be effective. The contents of the *Shareholders' and Investors' Communication Policy* are available for download from the websites of The Hong Kong Exchanges and Clearing Limited and the Company.

The Company, when holding any general meeting, will propose a separate resolution for each material issue. No "bundling" resolution will be proposed, including nomination of each director.

Meanwhile, the Company, according to the requirements of Rule 13.39(4) of the Listing Rules, has set out clearly in the circulars to its shareholders that all resolutions to be made at general meetings would be conducted by poll. Besides, all proxies are counted and poll results are announced promptly at the meeting, of which the same will be uploaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company on the same day.

The Company held an annual general meeting in June 2022. Circular of the meeting was sent beforehand as required by related rules. In the annual general meeting, the shareholders reviewed and approved the resolutions on the Company's financial results of 2021, the payment of a final dividend, re-election of Directors, remuneration fixing of Directors, the re-appointment of auditors and authorization to the Board in remuneration fixing of auditors, and the general mandate to the Board to issue and repurchase shares. All proposed resolutions were approved by the shareholders.

The Company had set aside enough time for shareholders to raise questions and for Directors to respond in the general meeting. The results of resolutions were verified by the share registrar, of which the same were uploaded in the websites of both The Hong Kong Exchanges and Clearing Limited and the Company respectively on the same day's afternoon.

SHAREHOLDERS' RIGHTS

Shall any shareholder of the Company demand the holding of an extraordinary general meeting for approval of any specific resolution, he/she may so demand in accordance to the requirements of Hong Kong Companies Ordinance and the Company's Articles of Association. And that shareholder or such shareholders shall hold not less than one-twentieth of the paid up share capital of the Company on the date of acquisition. The said requirements can be downloaded from the Company's website for reference.

Shall any shareholder intend to put forward suggestions in any general meeting or enquiries to the Board, he/she shall do so in written to the Company Secretary. The letter shall state clearly the identity of the shareholder, the number of shareholding, correspondence address and telephone number, and the related suggestions and enquiries. The Company shall, in a reasonable and practicable manner, pass the said matter to the Board or the President and respond it according to the situation.

In addition, the Company receives letters or phone enquiries from shareholders from time to time, the Company shall, in a reasonable and practicable manner, respond as quickly as possible. For matters concerning the Company's shares and basic information of announcements, enquiries shall be put forward to the email at comsec@casil-group.com while for matters concerning investor relations and enquiries from reporters, enquiries shall be put forward to the email at investor.relations@casil-group.com.

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2022, the issued share capital was approximately 3,085,022,000 shares, and the market capitalization was about HK$1,295,709,240.

As at 31 December 2022, the Company had total registered shareholders of 1,003. Since many other shareholders hold shares through Hong Kong Securities Clearing Company Nominees Limited in Hong Kong, the actual number of shareholders should be greater than the registered numbers.

Among which, the major shareholder, China Aerospace Science and Technology Corporation Limited, holds a total of 1,183,598,636 shares (approximately 38.37%) of the Company's shares through Burhill Company Limited, of which 1,143,330,636 shares are registered in the name of Burhill Company Limited and the remaining 40,268,000 shares are held under the name of Hong Kong Securities Clearing Company Nominees Limited.

According to the public information obtained by the Company and to the best knowledge of the Directors, the Company complied with the sufficiency of public float of not less than 25% as required by the Listing Rules as of 31 December 2022.

STAFF DIVERSITY

As at 31 December 2022, the Company and its subsidiaries had a total of approximately 7,489 employees (including senior management) (31 December 2021: approximately 6,811) located in the Mainland, Hong Kong and Vietnam.

The total number of senior management and employees and their gender ratio are approximately as follows:

	31 December 2021		**31 December 2022**	
	Total Persons	Percentage	**Total Persons**	**Percentage**
Male	3,331	48.91%	**4,353**	**58.13%**
Female	3,480	51.09%	**3,136**	**41.87%**
	6,811	100.00%	**7,489**	**100.00%**

The gender ratio of male and female employees of the Company and its subsidiaries has remained roughly balanced from approximately 58.13%: 41.87% (31 December 2021: 48.91%: 51.09%). The company and its subsidiaries will continue the current employment policy in the coming year, will not focus on hiring a certain gender, and try to maintain a balanced gender ratio.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BOARD OF DIRECTORS' GOVERNANCE STATEMENT ON ENVIRONMENT, SOCIETY AND GOVERNANCE

The Board of Directors of the Company has been playing a leading role in the Company and its supervision. It attaches increasing importance to environmental, social and governance ("ESG") issues and actively integrates ESG into the operation and management of the Company. The Board's commitment to this is also reflected in the Company's vision and mission. The Company is committed to promoting technological innovation and specialized manufacturing, focusing on serving supply chain and industrial chain with high quality and high efficiency, and focusing on advanced manufacturing and modern service industries as its core capabilities, with a view to becoming an international enterprise facing the future and equipped with significant innovation capabilities and continuous value creation for customers, and providing customers with professional, efficient, safe and environmentally friendly products and services.

The Board has the overall responsibility for ESG strategy and reporting, and has formulated a set of comprehensive ESG policies and established corresponding frameworks to ensure the effective implementation of the Company's policies and commitments. The Company has established the ESG Committee since 2021. The members of the ESG Committee are Mr Zhou Limin (Chairman), the Chairman and Executive Director, Mr Hua Chongzhi, a Non-executive Director, and Mr Luo Zhenbang, an Independent Non-executive Director. The ESG Committee has set up a working group comprising management personnel from relevant companies in the reporting area to assist in performing the above work and responsibilities, and regularly reports to the ESG Committee and the Board on relevant policies, measures, project progress, objectives and effectiveness. After consideration and review, the management of the Company has confirmed to the Board that it continues to be effective.

The opinions of stakeholders are crucial for the Company to formulate and implement the overall ESG management approach and strategy. We have been closely communicating with stakeholders. During the year, the ESG Committee and the working group conducted questionnaires to the Directors, employees, suppliers and customers, respectively, to identify and assess the importance of various issues in the environmental, social and governance aspects, and to collect stakeholders' feedback on the Company's sustainable development, so as to set priorities for each material issue, and to review and evaluate regularly to determine the appropriate management approach. The results of the materiality assessment reflect that product safety, product responsibility and occupational health and safety are the three most material ESG aspects of the Company.

On the other hand, the Board is responsible for evaluating and determining the Company's ESG-related risks, and ensuring that the Company establishes appropriate and effective ESG risk management, internal control systems and response measures. After discussion by the Board, taking into account historical operating experience, industry trends and cost analysis, the Directors also reflected their views on the level of risks brought to the Company by different environmental, social and governance issues. After analysing the priorities of the issues, product safety and product responsibility are the riskiest, and the market risks brought by climate change to the Company are especially significant. In response to the material issues and related risks identified above, the Board will take corresponding measures to continuously improve the Company's environmental, social and governance performance and make disclosure in the annual report.

As an enterprise in the manufacturing and service industries, the Board understands that energy and water consumption and relevant emissions are generated during the daily production and manufacturing process, and setting performance targets can help the management to guide and improve the Company's ESG performance. Therefore, the Board continued to lead the ESG Committee and the working group to formulate forward-looking statements on the aspects of high importance in respect of the key performance that is closely related to the Company's business, such as total emissions, waste generation and energy and water consumption efficiency, actively promote all enterprises to set quantifiable targets, establish appropriate management systems, and regularly review the performance of various indicators.

Looking ahead, as regulators and investors are increasingly concerned about sustainable development issues, the Board believes that the environmental, social and governance work is full of challenges. However, we still believe that the Company, with the cooperation of the ESG Committee, its working groups and various functional units, can continue to promote various ESG aspects in business operations, actively establish a sustainable environment, and create long-term value for the Company.

CORE BUSINESSES

The Company and its subsidiaries mainly engage in the research and development, design, specialized production, sales and services of plastic products, semiconductor products, electronic products and power products, as well as the operations of Shenzhen Aerospace Science & Technology Plaza, with its principal place of business in Mainland China and Hong Kong.

The turnover of the hi-tech manufacturing is the main source of the Company's turnover and that contributes a significant profit and operating cash flow of the Company. Asset management of Shenzhen Aerospace Science & Technology Plaza also brought in constant rental income for the Company. The Company will continue to identify and implement the development of new business opportunities with a view to diversify business risks.

ABOUT THIS REPORT

This Environmental, Social and Governance Report (the "Report") discloses the performance of the Company in respect of environmental, social and governance issues from 1 January 2022 to 31 December 2022.

This Report has been prepared in accordance with the requirements of the mandatory disclosure rules and "comply or explain" provisions set out in the "*Environmental, Social and Governance Reporting Guide*" in Appendix 27 of the Rule Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

SCOPE OF REPORTING

Unless otherwise stated, this Report identifies the scope of reporting based on the materiality principle and considers the core business, main revenue source and the relationship between business and environment and society. The environmental, social and governance performance, policies and management initiatives disclosed in this Report includes several major enterprises incorporated in Mainland China in hi-tech manufacturing business, responsible for manufacturing and selling plastic products, semiconductor products, electronic products and power products (hereinafter referred to as the "Major Industrial Enterprise(s)"), where their revenues and profits accounted for a significant portion of their respective businesses, as well as a property management company, an indirect subsidiary of the Company incorporated in Mainland China, responsible for property management of Shenzhen Aerospace Science & Technology Plaza (hereinafter referred to as the "Property Management Company"). All these companies are collectively referred to as the "Major Operating Enterprises".

PRINCIPLE OF REPORTING

This Report follows "*Environmental, Social and Governance Reporting Guide*", Appendix 27 of the Listing Rules and applies the following principles:

Materiality: In order to identify and assess material issues that have an impact on business stakeholders, the Company conducted a substantive assessment through a number of communication activities with business stakeholders to determine the environmental, social and governance issues that have a significant impact on investors and other stakeholders.

Quantitative: Quantitative principles are applied to all information in this Report, with performance indicators clearly defined and with units of measurement clearly indicated.

Balance: The information in this Report has been derived from the internal statistics and internal communication documents of the Company and does not contain any false statements and misleading representations and we are responsible for the truthfulness, accuracy and completeness of the contents.

Consistency: The Company reports in accordance with "*Environmental, Social and Governance Reporting Guide*", Appendix 27 of the Listing Rules in reporting. If there are any changes in the future that may affect the comparison with previous reports, a note will be added by the Company to the corresponding content of the Report.

Unless otherwise stated, the data for 2021 and 2022 in this Report adopts the same calculation method and is thus sustainable and comparable.

STAKEHOLDER ENGAGEMENT AND MATERIAL ISSUES

Stakeholder engagement helps the Group review potential sustainability risks and opportunities and has a significant impact on the Company's strategic development. Therefore, the Company strives to adopt the opinions of stakeholders (including shareholders, employees, suppliers, customers and the public) and protect their interests through various constructive communication methods, and regularly reviews them to determine the long-term development direction of the Company and maintain a close relationship with them.

During the reporting period, in order to more clearly identify the environmental, social and governance issues of importance to the Company and all Major Operating Enterprises and stakeholders, we conducted a stakeholder communication exercise and a substantive assessment in which management, internal and external stakeholders participated in a questionnaire survey. The assessment process was conducted with reference to the "*Environmental, Social and Governance Reporting Guide*" and in accordance with the following steps:

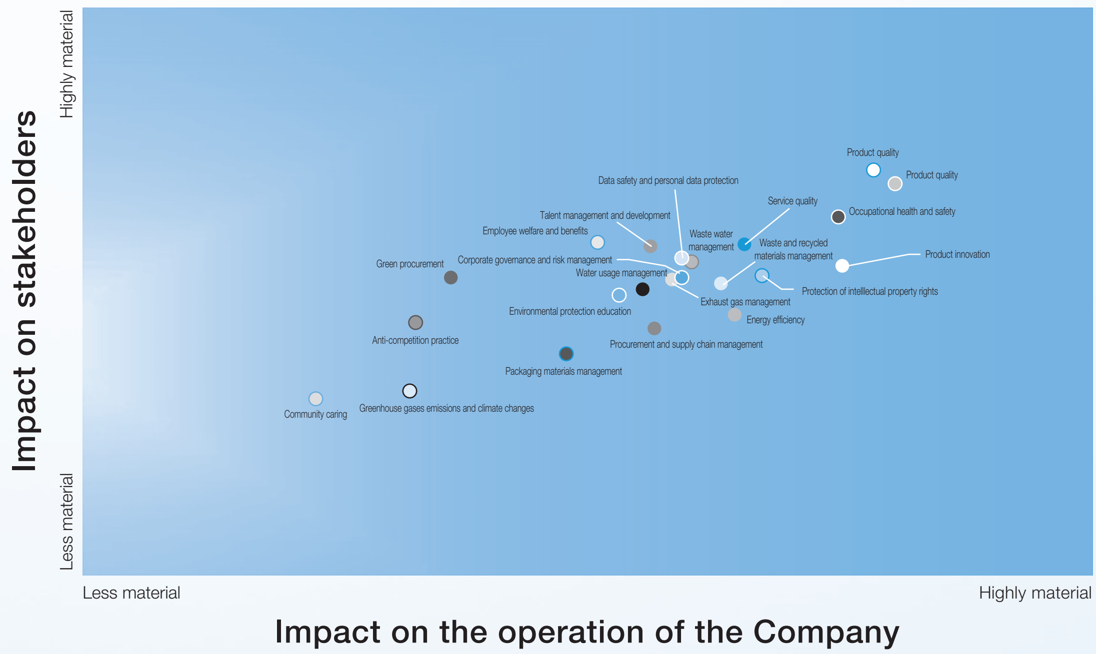
Step One Identify the material issues	Based on factors such as the Company's development strategy, industry development trend, capital market requirements and regulatory issue, the Company and its ESG Committee conducted an internal assessment first and identified 22 material sustainability issues, covering four major aspects, namely environment, employment and labour practices, operating practices and community investment.
Step Two Collect the opinions from stakeholders	Regarding the identified material issues, the Company collected feedback from internal and external stakeholders through questionnaires and assessed the importance of each relevant issue.
Step Three Determine the material issues	The materiality of each issue was determined by two factors, namely its importance to stakeholders and our impact on the issue, and a materiality matrix was developed with reference to the assessment results.
Step Four Acknowledge the assessment results	The ESG working group reports the assessment results to the ESG Committee and acknowledges to follow-up on the final determined materiality assessment results.

By analysing the results of the questionnaire survey, the Company and the Major Operating Enterprises were ranked in different areas among the 22 relevant issues as follows:

Environmental Protection	Employment and Labour Practice	Operational Practices	Community Investment
1. Greenhouse gases emissions and climate changes 2. Exhaust gas management 3. Waste water management 4. Waste and recycled materials management 5. Packaging materials management 6. Energy efficiency 7. Water usage management 8. Environmental protection education 9. Green procurement	10. Employee welfare and benefits 11. Occupational health and safety 12. Talent management and development	13. Procurement and supply chain management 14. Product quality 15. Product safety 16. Product innovation 17. Service quality 18. Data safety and personal data protection 19. Corporate governance and risk management 20. Protection of intellectual property rights 21. Anti-competition practice	22. Community caring

Based on the above assessment process, the materiality of each issue to the Company's business and the importance of stakeholders were considered, and the results of the substantive issue analysis were obtained, as shown in the materiality matrix below:

Materiality Matrix



For the substantive issues identified in the assessment, the Company and all Major Operating Enterprises have taken corresponding measures, which are detailed in the subsequent sections of this Report. The Company will continue to review and formulate corresponding ESG policies, strategies and objectives, and formulate appropriate response measures and control procedures. At the same time, the Company also continued to strengthen communication with stakeholders and optimise the disclosure of the ESG Report, with a view to continuously improving our ESG performance and enhancing the value and competitiveness of the Company in the future.

A. ENVIRONMENT

1. *Emission*

All Major Industrial Enterprises are principally engaged in manufacturing and selling plastic products, semiconductor products, electronic products and power products and will consume electricity, water resources and various materials while produce various pollutants, wastes and noise during their daily production. The Property Management Company engages in provision of property management services to Shenzhen Aerospace Science & Technology Plaza. The major emissions are the generation of exhaust gas, domestic garbage and wastes. Inappropriate treatment of emission of such pollutants and wastes would cause pollution and impose an adverse impact on local ecological environment and thus the rights of stakeholders will be compromised. Emissions of these pollutants and wastes are significant concerns of all Major Operating Enterprises. Shall the legal requirements of environmental protection be severely violated, the government may request for rectification and fines or even mandatorily suspend the operation, where the production progress would definitely be affected, thereby, hampering the overall business results of the Company. Accordingly, all Major Operating Enterprises of the Company attach great importance to the proper handling of emissions and strictly complies with the legal requirements for environmental protection.

All Major Operating Enterprises have always strictly complied with the legal requirements of Mainland China concerning environmental protection, waste collection, pollutant emission and noise emission while also established energy management system, pollutant emission and wastes management control procedures and safety management system for hazardous chemicals in response to the needs of different industries and relevant standards and regulations. These management systems are formulated and implemented by the management of respective enterprises. To ensure waste water, exhaust gas and wastes treatment is in compliance with the requirements of local environmental protection government authorities, waste water will be passed through water recycling facilities in the waste water treatment system to boost water reuse rate and reduce waste water discharge. All exhaust gas would only be discharged upon meeting respective standards after passing through water filter and absorption. Wastes produced are distinguished by disposing into rubbish bins of different logos and treated in a centralised manner, while domestic garbage are handled by environment and hygiene administration. For the treatment of hazardous waste, all Major Operating Enterprises will report it through the designated webpage of local environmental protection bureaus, and choose to be recycled by those companies with hazardous waste recycling permits, whereas those general wastes will be recycled by qualified waste recycling companies. Besides, all Major Operating Enterprises have also engaged qualified professional companies to examine whether their noise, exhaust gas and waste water emission levels exceed the stipulated standard, and to dispose of and recycle various hazardous industrial wastes. Corresponding wastes are reduced and lowered in an effort to control and reduce pollution on communities.

All Major Operating Enterprises must comply with and formulate corresponding measures regarding laws and requirements related to emissions of exhaust gases and greenhouse gases, discharge to water and land, and generation of hazardous and non-hazardous wastes, mainly the "*Atmospheric Pollution Prevention and Control Law*", "*Energy Conservation Law*", "*Cleaner Production Promotion Law*", "*Environmental Protection Tax Law*", "*Law on Prevention and Control of Environmental Pollution by Solid Waste*", "*National Hazardous Waste Inventory*" and "*Law on Prevention and Control of Pollution from Environmental Noise*", as well as regulations related to environmental protection at the place where the companies are located at.

"*The Atmospheric Pollution Prevention and Control Law*" aims to protect and improve the environment, prevent and control atmospheric pollution, safeguard the health of the general public. "*The Energy Conservation Law*" aims to promote energy conservation in the whole society, enhance energy utilisation efficiency, protect and improve the environment, and promote comprehensive, coordinated and sustainable economic and social development. "*The Cleaner Production Promotion Law*" aims to promote cleaner production, raise the efficiency of utilisation of resources, reduce and avoid the generation of pollutants, protect and improve the environment, safeguard the health of the general public, and promote the sustainable development of economy and society. "*The Environmental Protection Tax Law*" levies environmental protection tax on enterprises and other manufacturers and operators who directly emit pollutants to the environment in order to protect and improve the environment as well as to reduce pollutant discharges. "*Law on Prevention and Control of Environmental Pollution by Solid Waste*" aims to protect and improve the ecological environment, prevent and control environmental pollution by solid wastes, safeguard the health of the general public, maintain the ecological safety, promote modern ecological construction as well as promote the sustainable development of the economy and society. "*The National Hazardous Waste Inventory*" determines the solid wastes mixing hazardous wastes and other substances, as well as the categories of solid wastes upon the utilisation and disposal of hazardous wastes. "*The Law on Prevention and Control of Pollution from Environmental Noise*" aims to prevent and control environmental noise pollution, protect and improve the living environment, safeguard the health of the general public and promote economic and social development.

According to "*the Environmental Protection Tax Law*" effective in 2018 in Mainland China, requirements on regulating the pollutants discharge for enterprises are becoming more stringent. Verified pollutants of the Major Industrial Enterprises are categorised into atmospheric pollution and water pollutants, which in turn increased the tax burden on environmental protection tax to a certain extent, though the amount was not significant. For the Property Management Company, no environmental protection tax had to be paid since no direct discharge of pollutants was made to the environment. In case the amount of pollutant emissions of the Major Industrial Enterprises continuously increases, the environmental protection tax burden will increase accordingly and thus affects their profits.

All Major Operating Enterprises of the Company will identify emission sources, and gather monthly statistical emission data, as well as formulating the related management plan and emission reduction plan, such as "*2022 Greenhouse Gas Emission Inventory and Emission Reduction Program*". Individual enterprises even set up the goals such as greenhouse gases emission of 3% lower than that of last year, recycling of 10% of waste otherwise disposed to dump site. For the Major Industrial Enterprises of the Company, major exhaust gases generated during the course of production are nitrogen oxides, hydrogen chloride and particulate matter. Third-party service providers were engaged by individual enterprises for measuring emissions. The increase in overall emission in 2022 compared to that of 2021 was mainly due to the increase in production volume in 2022. In addition, in order to improve the efficiency of emissions data collection, individual enterprises have significantly increased the number of towers used for measuring hydrogen chloride and particulate matter emissions. This allows for a wider and more accurate collection of data. The major sources of greenhouse gases emission are from purchased electricity and fuel combustion. In order to reduce the emission and perform the corporate responsibility for environmental protection, the Company has endeavoured to use cleaner energy during the year, such as natural gas, and the usage has increased accordingly. The generation of hazardous and non-hazardous waste also increased as compared with those of 2021 due to increase in production volume in 2022, as well as an increase in the types of hazardous waste under the relevant regulations and an increase in the amount of sludge discharged as a result of the cleaning of the plant sump by individual enterprises during the reporting period, resulting in a corresponding increase in the total weight of waste in 2022.

In 2022, with reference to the above measures adopted, the wastes, pollutants and noise emitted by all Major Operating Enterprises generally complied with the standard prescribed by laws and did not have material violations of the legal requirements related to environmental protection. Also, no incident exerting material adverse impact on the environment was noted.

In 2022, the KPIs for the Major Operating Enterprises of the Company relating to the emissions are in general as follows:

Emissions	Emission in 2021	**Emission in 2022**	**Unit**
Sulphur oxides[1]	8.13	**18.02**	kilogram
Intensity (by the number of employees)	*0.0013*	***0.0032***	*kilogram/employee*
Nitrogen oxides	960.31	**953.09**	kilogram
Intensity (by the number of employees)	*0.15*	***0.17***	*kilogram/employee*
Hydrogen chloride[2]	2,602	**4,475**	kilogram
Intensity (by the number of employees)	*0.42*	***0.78***	*kilogram/employee*
Particulate matter[3]	1,178.1	**3,764.9**	kilogram
Intensity (by the number of employees)	*0.189*	***0.659***	*kilogram/employee*

Greenhouse gases	Emission in 2021	**Emission in 2022[4]**	**Unit**
Direct (Scope 1)	63,273	**1,059**	tonnes of carbon dioxide equivalent
Energy indirect (Scope 2)	103,703	**148,933**	tonnes of carbon dioxide equivalent
Intensity (by the number of employees)	*26.7*	***26.2***	*tonnes of carbon dioxide equivalent/ employee*

1 Individual enterprises started to collect statistic data on sulphuric acid fumes emissions during production in 2022 for a more comprehensive statistics on sulphur oxides emissions, resulting in a significant increase in data for 2022, and hence this performance indicator is not directly comparable.

2 The production volume increased in 2022, and individual enterprises has significantly increased the number of measurement towers to improve the collection efficiency of emissions, and hence this performance indicator is not directly comparable.

3 The production volume increased in 2022, and individual enterprises has significantly increased the number of measurement towers to improve the collection efficiency of emissions, and hence this performance indicator is not directly comparable.

4 Individual enterprises made corresponding adjustment to the greenhouse gases emission in 2022, therefore it is not appropriate to make direct comparison on such KPI.

Hazardous waste	Total in 2021	**Total in 2022**	**Unit**
Hazardous waste produced	2,693	**3,452**	tonne
Intensity (by the number of employees)	*0.43*	***0.60***	*tonne/employee*

Non-hazardous waste	Total in 2021	**Total in 2022**	**Unit**
Non-hazardous waste produced	4,560	**4,515**	tonne
Intensity (by the number of employees)	*0.73*	***0.79***	*tonne/employee*

The Company will strive to progressively reduce various types of emissions in the future and disclose key performance indicators such as exhaust gases emissions, greenhouse gases emissions and waste generation in its annual reports to reflect the effectiveness of our approach and commitment to this policy.

2. Use of resources

The Company understands that the natural resources used in the business of all Major Operating Enterprises mainly include various types of energy, water resources and various materials. The stock of these resources on the earth is also limited and non-renewable. In order to balance the relationship between corporate development and the environment, the Company continuously adjusts the development direction to seek a green operation model that effectively reduces resource consumption.

The Company encourages all Major Operating Enterprises to formulate relevant energy management plans and set their respective annual energy targets. The Company is committed to requiring the Major Operating Enterprises to minimise the consumption of natural resources, including fuels, energy, water and other raw materials in the course of business operations, and to use renewable energy and reuse materials whenever possible. Individual enterprises set targets such as total electricity consumption and total water consumption reduction of 3% compared with the previous year. The Company and its subsidiaries have entirely utilised office automation system since the beginning of 2019, whereby their staff could make use of different parts of the system based on their respective authorities, including internal communication, files receipt and transmission as well as circulation of messages, rules and systems, hence accelerating the speed of document transmission and reducing paper usage. On the other hand, the Company always encourages staff to reduce the consumption of natural resources and adopts energy saving measures. Its subsidiaries are also required to comply with the related environmental protection regulations and ensure such compliance during the process of production and operation. All Major Operating Enterprises have strengthened continuing education to their staff about energy saving and environmental protection, implemented target management for use of water and electricity, utilised rain collection system to store water for cleaning and environmental-friendly water use, replaced a majority of lighting to LED energy conservation system and regularly eliminated equipment of obsolete processes and higher energy consumption. Such approaches gradually reduce the consumption, and maximise the use of recyclable and reusable packaging materials instead of disposables. For the Property Management Company, power supply with high demand level is used to replace that with massive power consumption. Statistics and analysis on total power consumption are made on a monthly basis, so that prompt response could be made in case of abnormality. Besides, automatic on-off switching equipment and lighting are adopted in public areas, and room temperature is adjusted according to outdoor temperature, so that unnecessary consumption of natural resources and environmental pollution could be reduced.

In 2022, the KPIs for the Company relating to the use of resources are in general as follows:

Type of resources	Consumption in 2021	Consumption in 2022	Unit
Non-renewable fuel (Direct)			
— Liquefied petroleum gas	171.0	**95.3**	kilowatt hours in ’000s
— *Intensity (by the number of employees)*	*0.03*	***0.02***	*kilowatt hours in ’000s/employee*
— Natural gas	1,766.9	**1,989.4**	kilowatt hours in ’000s
— *Intensity (by the number of employees)*	*0.28*	***0.35***	*kilowatt hours in ’000s/employee*
— Environmental-friendly fuel	144.5	**0**	kilowatt hours in ’000s
— *Intensity (by the number of employees)*	*0.02*	***0***	*kilowatt hours in ’000s/employee*
— Gasoline	619.3	**601.2**	kilowatt hours in ’000s
— *Intensity (by the number of employees)*	*0.10*	***0.11***	*kilowatt hours in ’000s/employee*
— Diesel	346.1	**258.3**	kilowatt hours in ’000s
— *Intensity (by the number of employees)*	*0.06*	***0.05***	*kilowatt hours in ’000s/employee*
Purchases of energy (Indirect)			
— Electricity	167,225.9	**147,573.0**	kilowatt hours in ’000s
— *Intensity (by the number of employees)*	*26.77*	***25.82***	*kilowatt hours in ’000s/employee*
Intensity of energy consumption (by the number of employees)	*27.3*	***26.3***	*kilowatt hours in ’000s/employee*

Water consumption	Consumption in 2021	**Consumption in 2022**	**Unit**
Total water consumption	2,003,926	**1,536,353**	tonne
Intensity of water consumption (by the number of employees)	*320.8*	***268.8***	*tonne/employee*

Packaging materials	Consumption in 2021	**Consumption in 2022**	**Unit**
Total packaging materials used	2,715	**5,351**	tonne
Intensity (by the number of employees)	*0.43*	***0.94***	*tonne/employee*

3. Environment and natural resources

The daily operation of all Major Operating Enterprises of the Company will impact on the environment in different extent. All Major Industrial Enterprises will generate exhaust gases (such as sulphur oxides, nitrogen oxides, hydrogen chloride and particulate matter), greenhouse gases (such as carbon dioxide) and waste water emission, generation of solid wastes, consumption of electricity resources and water resources, and consumption of various materials. The Property Management Company's impact on the environment mainly comes from the emission of exhaust gases, greenhouse gases, generation of domestic garbage and wastes, consumption of electricity and water resources and consumption of various materials. Every operation will also consume and utilise various types of raw materials and packaging materials, which will indirectly generate the emission of carbon dioxide and the pollution to the environment. As a result, all Major Operating Enterprises had identified the impact of its business scope over the environment and determined the relevant environmental factors, prioritised them according to their environmental impact by using scientific methods and determined significant environmental factors, and took appropriate measures accordingly. These measures include improving the manufacturing technique, complying with regulatory requirements (including 24-hour real-time testing of waste water volume and its pH scale as required by relevant government departments), reducing emissions, recycling and using contingency plans and setting goals for consumption reduction for reasonable management purpose. Individual enterprise also arranges in-house environmental protection seminars and other awareness training for new employees, and each department conducts internal environmental protection assessment every year. In order to reduce the Company's significant impact on the environment and natural resources, all Major Operating Enterprises have obtained ISO14001 environmental management system certification, and regularly arranges third-party institution inspection to systematically manage continuous monitoring and improvement.

4. Climate changes

The Company continues to pay attention to climate change issues and is committed to taking the best measures to reduce greenhouse gas emissions from business operations in line with the national strategy to tackle climate change. The Company has conducted climate risk assessment to identify the potential impact of climate change on the Company's operations and seek to formulate corresponding actions. Since 2021, the Major Industrial Enterprises have formulated the "*Emergency Plan for Natural Disaster Accidents*", "*Emergency Plan for Environmental Emergencies*" and "*Emergency Preparedness and Response Control Procedures*", etc., and conducted regular inspections to prepare for severe weather accidents.

For the Company's business activities, the main climate risks that are more likely to arise are acute and chronic physical risks, including typhoons, floods, extreme temperature differences and sea level rise. All Major Operating Enterprises have implemented various types of countermeasures, such as regular inspecting of emergency materials and equipment, fortifying the structure of buildings, assessing the safety of staff working outdoors and investing in appropriate training, purchasing flood prevention sandbags, installing flood prevention gates at the parking space of building. For other transitional climate risks, such as legal, technological and market-related changes in line with a low carbon economy, the Company will also closely monitor potential newly incurred costs and opportunities and deploy resources appropriately to address them.

B. SOCIETY

Employment and labour practice

1. Employment

The Company and its subsidiaries adhere to the principle of fair recruitment regardless of age, gender, marital status, race, nationality, religion or disability, and appoint them according to their ability and always regard staff as the most important assets. On the other hand, the Company and its subsidiaries continuously enhance their human resources management skill and strictly implement the performance-based appraisal system, in order to motivate employees to make continuous improvement in their individual performance and contributions to the Company.

The Company and its subsidiaries provide the staff with a reasonable salary, appropriate medical protection and other insurance coverage, which help to maintain a stable working environment for employees. All employees enjoy equal opportunity and the salary is based on their qualification, experience and work performance as well as the prevailing market rates.

Subject to regulations and based on actual needs, the Company and its subsidiaries have put in place various benefits, including but not limited to labour protection for female workers and underage workers, adequate protection of staff's work and rest time, paid annual leaves and occupational injury management.

At the same time, the Company attaches great importance to the diversified development of employees, and ensures that all employees are respected and treated with dignity and are not subject to any discrimination due to any circumstances.

All Major Operating Enterprises must comply with the laws and requirements related to employment, mainly the "*Labour Law of the People's Republic of China*", "*Labour Contract Law of the People's Republic of China*", "*Provisions on Prohibition of Using Child Labour*" and "*Protection System for Women Labour and Underage Labour*", as well as regulations related to employment at the place where the companies are located at.

"*The Labour Law of the People's Republic of China*" aims to protect the legitimate rights and interests of labourers, readjust labour relationship, establish and safeguard the labour system suiting the socialist market economy, and promote economic development and social progress. "*The Labour Contract Law of the People's Republic of China*" aims to improve the labour contractual system, clarify the rights and obligations of both parties of labour contracts, protect the legitimate rights and interests of labourers, and establish and develop a harmonious and stable labour relationship. "*The Provisions on Prohibition of Using Child Labour*" protects the physical and psychological health of the minors, promotes the implementation of compulsory education system and safeguards the legitimate rights and interests of the minors. "*The Protection System for Women Labour and Underage Labour*" aims to enhance the protection of women labour and the minors.

In 2022, with reference to the above measures adopted, all Major Operating Enterprises generally complied with the legal requirements and did not have material violations of the legal requirements related to employment. Also, no incident exerting material adverse impact was noted.

In 2022, the number of employees of the Company by different categories are in general as follows:

Category	2021	2022
By gender		
Male	3,726	**3,332**
Female	2,520	**2,383**
By employment category		
Full-time	6,246	**5,715**
Part-time	0	**0**
By age group		
18 to 30	2,699	**2,226**
Above 30	3,547	**3,489**
By geographical region		
Mainland China	6,246	**5,715**
Other than Mainland China	0	**0**

The turnover rate of employees of the Company by different categories are in general as follows:

Category[5]	2021	2022
By gender		
Male	19.28%	23.56%
Female	10.73%	14.09%
By age group		
18 to 30	20.99%	22.79%
Above 30	9.03%	14.85%
By geographical region		
Mainland China	30.61%	37.64%
Other than Mainland China	N/A	N/A

In 2022, the mobility of employees increased significantly as compared to 2021, and the total number of employees decreased as compared to 2021. As recruitment and labour shortage have always been a common problem faced by the traditional manufacturing industry, many young employees are not willing to work in the factory. The trend of ageing labour is obvious. On the other hand, due to the nature of the industry, individual enterprises employ staff on short-term contract, mainly on a labour dispatch basis, which are mainly used to supplement production positions. The cycle is generally 2–6 months and therefore the mobility is relatively high.

In the face of talent loss, the Company regularly reviews the situation of employees, analyses the results, and makes timely adjustments to human resources management policies. At the same time, in accordance with the Company's business development direction, the Company provides employees with development platforms and career guidance in various aspects, including inter-departmental position competition and priority right for recruitment, and enhanced incentive measures to give employees a sense of security.

5 In view of the nature of the industry, the employee turnover rate in this report is calculated as the number of resigned employees of the relevant category/(total number of employees + total number of resigned employees)*100. The data for 2021 and 2022 have been adjusted.

2. Health and safety

Ensuring the occupational safety and health of employees are the inherent responsibility of all businesses and the Company has performed consistently well in such aspect. All Major Operating Enterprises have established a complete set of occupational safety and health management system, mainly including the establishment of methods for evaluation, disposal and administration of hazard sources, various rules and methods for safe operation as well as the corresponding methods for administration of safety performance. Individual industrial enterprises have also implemented SA8000 (social responsibility standards) management systems. For the aforementioned methods, all Major Operating Enterprises have set up the safe production and management committee, and will carry out supervision and inspection on a regular basis, evaluate hazard sources once each year, offer trainings on all safety operation rules on a regular basis, carry out management and drilling of emergency plans on a regular basis, and perform evaluation and assessment on safety performance.

All Major Operating Enterprises will provide employees with body check on a regular basis, and new employees will receive pre-employment training and can only be recruited after they have passed the assessment.

In 2022, the Company makes timely amendments to the "*COVID-19 Pandemic Prevention and Control Plan*" and the "*COVID-19 Pandemic Prevention and Control Plan*".

All Major Operating Enterprises must comply with the laws and requirements related to employees' health and occupational safety, mainly the "*Labour Law of the People's Republic of China*", "*Production Safety Law of the People's Republic of China*", "*Law on the Prevention and Treatment of Occupational Diseases of the People's Republic of China*" and "*Fire Control Law of the People's Republic of China*", as well as regulations related to employees' health and occupational safety at the place where the companies are located at.

"*The Labour Law of the People's Republic of China*" aims to protect the legitimate rights and interests of labour, readjust labour relationship, establish and safeguard the labour system suiting the socialist market economy, and promote economic development and social progress. "*The Production Safety Law of the People's Republic of China*" aims to enhance safe production, prevent and reduce production safety accidents, defend the safety of life and property of the masses, and promote the continuous and healthy development of the economy and the society. "*The Law on the Prevention and Treatment of Occupational Diseases of the People's Republic of China*" aims to prevent, control and eliminate the harm of occupational diseases, prevent and treat occupational diseases, protect the health and relevant rights and interests of the labour, and promote the economic development. "*The Fire Control Law of the People's Republic of China*" aims to prevent and reduce fire damage, improve emergency rescue, safeguard citizen's personal security and security of property, and uphold public security.

In 2022, with reference to the above measures adopted, all Major Operating Enterprises generally complied with the legal requirements and did not have material violations of the legal requirements related to employees' health and occupational safety. Though the total number of working days lost due to work-related injuries increased as compared with last year, no work-related fatalities nor incident exerting material adverse impact was noted.

In the past three years, the number of work-related fatalities was zero; in 2022, the number of working days lost due to work-related injuries was 663 days (the number of working days lost due to work-related injuries in 2021: 323 days).

3. *Development and trainings*

Talent capital and development have always been the focal points of the Company. The Company has been continuously improving its human resources management standards and implementing a strict performance-based appraisal system to motivate employees to continuously improve their personal performance and contribution to the Company.

The Company and its subsidiaries continue to improve the talent development plan and formulate a series of relevant policies, such as the "*Annual Training Plan*" and the "*Employee Training Subsidy Management Method*". All new employees are required to undergo induction training to better understand the Company's business and development prospects. The Company will provide appropriate subsidies for employees to participate in external training courses, such as academic degrees and professional skills, to encourage employees to continuously study and strengthen their competitiveness, so as to adapt to the changes in the market and meet the needs of the Company. Individual industrial enterprises have also set up a special training management centre and arranged internal lecturers to conduct internal training for employees, covering a wide range of topics, including production operation skills, process technology, quality assurance, occupational safety and health, various vocational skills training, environmental protection matters, etc.

In 2022, percentage of trained employees and average hours of training completed per employee of the Company by different categories are in general as follows:

Category	Percentage of trained employees in 2021 (%)	Percentage of trained employees in 2022 (%)	Average hours of training completed per employee in 2021 (Hour)	Average hours of training completed per employee in 2022 (Hour)
By gender				
Male	100	100	4.5–52	1–54
Female	100	100	4.5–52	1–54
By employee category				
Senior management	100	100	5–45	2–34
Middle management	100	100	5–52	2–55.25
Other employees	100	100	4.5–26	1–28.92

4. Labour standards

The Company and its subsidiaries attach great importance to the compliance of labour standards and expressively stipulate that no child labour of less than 16 years old will be employed and endeavour not to employ child labour by accident, and will not support the practice of employing child labour by other companies or social groups. Currently, all staff are 18 years old or above.

According to the "*Management System of Recruitment*" formulated by the Company, staff of the human resource department of all Major Operating Enterprises must carry out a strict inspection of the personal documentation of candidates during recruitment, and to verify their photos to confirm it is the candidate himself/herself before such application can be registered. The candidate must fill in a registration form and staff of the human resource department will check the information filled in by the candidate and verify the information in the registration form if necessary. If it is found out that any child labour is employed by the enterprise out of negligence, the child labour should be stopped from working and arrangement should be made as soon as possible to have the child labour back to the place where he/she is domiciled under the supervision of his/her parents or guardian and report to the local labour authority.

The Company and its subsidiaries also make it clear that they will neither mandatorily require employees to work overtime persistently nor conduct the practice of forced labour, and employees can work overtime only on a voluntary basis.

All Major Operating Enterprises must comply with the laws and requirements related to labour protection, mainly the "*Labour Law of the People's Republic of China*", "*Labour Contract Law of the People's Republic of China*", "*Provisions on Prohibition of Using Child Labour*" and "*Protection System for Women Labour and Underage Labour*", as well as regulations related to labour protection at the place where the companies are located at.

"*The Labour Law of the People's Republic of China*" aims to protect the legitimate rights and interests of labourers, readjust labour relationship, establish and safeguard the labour system suiting the socialist market economy, and promote economic development and social progress. "*The Labour Contract Law of the People's Republic of China*" aims to improve the labour contractual system, clarify the rights and obligations of both parties of labour contracts, protect the legitimate rights and interests of labourers, and establish and develop a harmonious and stable labour relationship. "*The Provisions on Prohibition of Using Child Labour*" protects the physical and psychological health of the minors, promotes the implementation of compulsory education system and safeguards the legal rights and interests of the minors. The "*Protection System for Women Labour and Underage Labour*" aims to enhance the protection of women labour and the minors.

In 2022, with reference to the above measures adopted, all Major Operating Enterprises generally complied with the legal requirements and did not have material violations of the legal requirements related to labour protection. Also, no incident exerting material adverse impact and no significant labour disputes were noted.

As at 31 December 2022, all Major Operating Enterprises had a total of approximately 5,715 employees (31 December 2021: 6,246 employees).

Operational practices

5. Supply chain management

The supply chain is an important part of the Company's business and all Major Operating Enterprises have close links with suppliers in its operations and is very concerned about the environmental and social performance of its partners, in order to achieve outstanding operations through the implementation of management standard in the supply chain. The Company and its subsidiaries have always emphasised on arm's length transaction with partners, lending banks, etc. in each business on fair, equal and reasonable terms, and comply with relevant regulations to minimise risk.

Before engaging suppliers, all Major Operating Enterprises will identify suitable suppliers based on actual requirements and collect information on various aspects such as quality, service, delivery time, price and reputation within the industry, and request suppliers to provide basic information and product samples as basis for selection at the same time. The Company and its subsidiaries will perform agreements in accordance with provisions therein, and settle accounts payable within a reasonable and feasible time as prescribed therein and never defer payment without cause. It also hopes its clients to perform agreements likewise and settle their accounts payable within a reasonable and feasible time and never defer payment without cause to ensure non-disruption of respective capital flow and respective businesses will not be affected.

In addition, all Major Operating Enterprises have put into place procedures for administration and control of suppliers to identify the practices of environmental and social risks of each segment of the supply chain, including qualification identification, annual review and regular supervision for suppliers, formulated anti-commercial bribery rules. Meanwhile, management system for product delivery and service has been established, which includes product quality control methods and product complaint handling. To ensure product and service quality, individual industrial enterprises have established and continuously optimised their respective supplier appraisal and management mechanism. Such enterprises have formulated and documented a set of rules and systems to strictly select suppliers and regularly assess their performance.

Individual enterprises have also established a green procurement system, setting out the requirements in the bidding and procurement process, increasing the proportion of green products in corporate procurement, and giving priority to suppliers with excellent performance in environmental protection, such as suppliers who have obtained ISO14001 environmental management system certification, relevant awards issued by environmental protection authorities and environmental demonstration institutions recognised by government departments. The Group continuously reviews various products, explores more possibilities to reduce the demand for raw materials through innovative ways, and urges suppliers to use more environmentally friendly products and services.

For procurement and supply chain management, all employees must strictly comply with all integrity systems, and keep the enterprises' trade secret confidential. Those enterprises have also signed the "*Declaration on Integrity for Service Co-operation*" with its partners, which clearly prescribes the respective authorities and obligations.

All Major Operating Enterprises must comply with the law and requirements related to supply chain management, mainly the "*Anti-Money Laundering Law of the People's Republic of China*", "*Anti-Unfair Competition Law of the People's Republic of China*", "*Anti-Monopoly Law of the People's Republic of China*", "*Bidding Law of the People's Republic of China*" and "*Interim Provisions on Banning Commercial Bribery*", as well as regulations related to supply chain management at the place where the companies are located at.

"*The Anti-Money Laundering Law of the People's Republic of China*" aims to prevent money-laundering, preserve financial order, and check the crime of money-laundering as well as related crimes. The "*Anti-Unfair Competition Law of the People's Republic of China*" aims to safeguard the healthy development of socialist market economy, encourage and protect fair competition, repress unfair competition acts, and protect the legitimate rights and interests of business operators and consumers. "*The Anti-Monopoly Law of the People's Republic of China*" aims to prevent and restrain monopolistic conducts, protect fair market competition, enhance economic operating efficiency, safeguard the interests of consumers and the interests of the society as a whole, and promote the healthy development of socialist market economy. "*The Bidding Law of the People's Republic of China*" aims to regulate bid invitation and bidding activities, protect the interests of the State and the public as well as the legitimate rights and interests of the parties involved in bid invitation and bidding activities, increase economic benefits and ensure project quality. "*The Interim Provisions on Banning Commercial Bribery*" aims to curb commercial bribery and maintain fair competition and order.

In 2022, with reference to the above measures adopted, all Major Operating Enterprises generally complied with the legal requirements and did not have material violations of the legal requirements related to supply chain management. Also, no incident exerting material adverse impact was noted.

In 2022, the total number of suppliers of the supply chain of the Company is 1,204, and the number of suppliers by different geographical region are in general as follows:

Region	2021	Percentage	2022	Percentage
Overseas	221	20%	**157**	**13%**
Mainland China	892	80%	**1,047**	**87%**
Total	1,113	100%	**1,204**	**100%**

Of which, 347 suppliers engaged have implemented environmental, social and governance-related practices, including the requirement to sign environmental and social regulations and conduct on-site inspections, accounting for approximately 30% of the total number of suppliers. The Company will continue to communicate with its supply chain partners to identify relevant environmental and social risks, and will adhere to the principle of giving priority to environmentally friendly materials in the materials selection process, with a view to enhancing its sustainability performance in all aspects.

6. *Product responsibility*

The Company places great importance on the quality and safety of our products, the protection of our intellectual property rights and the privacy of our customers' data. All industrial enterprises are responsible for producing different types of products, and have established a sound internal testing system. The reject rate has remained at a relatively low level and the products are in compliance with relevant product safety regulations, so as to ensure that the finished products do not affect the health and safety of customers. The Property Management Company mainly provides property management services to the tenants. It frequently improves service quality in correspondence to tenants' reasonable opinion.

In addition, in response to the needs of different industries and the requirements of customers, the Major Operating Enterprises have respectively applied for and obtained relevant international certifications, such as Quality Management System Standard (ISO9001), Environmental Management System Standard (ISO14001), Occupational Health and Safety Administration System Standard (OHSAS18001), Restriction of Hazardous Substances Directive (ROHS2.0), Quality System Requirements for Automotive Products and Services (ISO/TS16949) and Social Accountability Standard (SA8000) and so on. Individual industrial enterprises also established manuals for green products and technical specifications for green product management. Relevant management and staff must learn and be familiar with all provisions, and strive for compliance with various specific requirements in the production process. This also implies that the Company attaches much importance to its social responsibility and is willing to safeguard the interests of all stakeholders and to assume its social responsibility reasonably.

All Major Industrial Enterprises has established methods of product quality inspection. It will be carried out during purchase of materials, manufacturing and delivery. In case of complaints or recall of products, such enterprises will conduct sufficient communication with the counterparty, track, curb, assess and dispose unqualified products, and take provisional measures to avoid similar problems. In the meantime, those enterprises will analyse and verify preliminarily the cause of problem so that improvement and precautionary measures can be formed to reduce the possibility of problem recurrence, and will conclude and verify the effectiveness of such measures.

All Major Operating Enterprises have formulated the "*Guidelines for Handling Customers' Complaints*", "*Customer Service Procedures*", etc. Abiding vigorously the legal requirements and reasonable request of customers, it is expressly stipulated that customer service departments shall get back to customers within five working days. In order to implement the strictest confidentiality measures, the Company requires the employee at major position and suppliers to sign the confidentiality agreement. Dedicated personnel are employed to be responsible for management of intellectual property rights, establishment of system of trade secret, maintenance of trade secret and protection of data and privacy of all parties. During the reporting period in 2022, the number of products and service-related complaints received by Major Operating Enterprises in relation to products and services is 428 cases (the number of complaints received in 2021: 529 cases). The statistics are based on written complaints received. The received complaints were mainly about the appearance of the product, all of which have been handled and followed up by the dedicated customer service department in a timely manner, and all of them have been resolved.

All Major Operating Enterprises must comply with the laws and requirements related to product liabilities, mainly the "*Civil Code of the People's Republic of China*", "*Company Law of the People's Republic of China*", "*Product Quality Law of the People's Republic of China*", "*Trademark Law of the People's Republic of China*" and "*Patent Law of the People's Republic of China*", as well as regulations related to product liabilities at the place where the companies are located at.

"*The Civil Code of the People's Republic of China*" protects the legitimate rights and interests of civil subjects, regulates civil relations and safeguards the social and economic order. "*The Company Law of the People's Republic of China*" aims to standardise the organisation and behaviour of companies, protect the legitimate rights and interests of companies, shareholders and creditors, maintain the socio-economic order and promote the development of the socialist market economy. "*The Product Quality Law of the People's Republic of China*" aims to strengthen the supervision and control over product quality, improve product quality, define the liability relating thereto, protect the legitimate rights and interests of consumers and safeguard the social and economic order. "*The Trademark Law of the People's Republic of China*" aims to improve the administration of trademarks, protect the exclusive right to the use of a trademark, and encourage producers and dealers to guarantee the quality of their goods and services and preserve the credibility of trademarks, so as to protect the interests of consumers, producers and dealers and promote the development of the socialist market economy. "*The Patent Law of the People's Republic of China*" aims to protect patent rights for inventions-creations, encourage inventions-creations, facilitate the wide application of inventions-creations, enhance the ability of creation, promote the progress of science and technology, and the development of the economy and society.

In 2022, with reference to the above measures adopted, all Major Operating Enterprises generally complied with the legal requirements and did not have material violations of the legal requirements related to product liabilities. Also, no incident exerting material adverse impact was noted.

In 2022, the KPIs of all Major Operating Enterprises of the Company relating to the product quality are in general as follows:

Indicator	Percentage/ number in 2021	**Percentage/ number in 2022**
Percentage of total products sold or shipped subject to recalls for safety and health reasons	0%	**0%**

In order to further improve the operation capacity and operation quality, in addition to ensuring product quality, the Company has also continued to make breakthroughs in innovation capability. Conhui (Hui Zhou) Semiconductor Company Limited, a subsidiary of the Company, was awarded the "High and New Technology Enterprise in Guangdong Province" and Dong Guan Hong Yuen Electronics Co., Limited was awarded the second prize of "Innovative Dongguan Science and Technology Progress Award". The Company also spares no effort in protecting intellectual property rights. In 2022, Conhui (Hui Zhou) Semiconductor Company Limited was awarded the "2022 National Intellectual Property Advantage Enterprise" to enhance the Company's reputation and value in the market.

7. Anti-corruption

In order to create positive corporate atmosphere, the Company has a mechanism to prevent bribery, extortion, fraud and money laundering. All Major Operating Enterprises have also established relevant anti-corruption rules. Through various measures such as integrity education, sound supervision system, and strengthened reporting and accountability mechanism, the Company continuously standardises the management decisions of various businesses of the Company, forming a working mechanism with mutual restriction and supervision, and continuously strengthens the work style development of the Company's units at all levels, alerting risks, and strengthening employees' awareness of anti-corruption, so as to protect the Company's economic benefits and management efficiency.

The Company is committed to demanding the operating enterprises in enhancing the awareness and personal integrity of its employees so as to eliminate the possibility of bribery, accepting bribe, extortion, fraud and money laundering in the course of daily operations. In particular, individual enterprises have formulated the "*Integrity and Ethical Standards Management Procedures*", "*Employee Conflict of Interest Declaration Form*" and "*Reward and Punishment Management Measures*" to clearly regulate the amount of gifts and cash received by employees, prohibit employees from receiving rebates and commissions from customers or suppliers, and take disciplinary actions against employees who violate anti-corruption laws.

Any employees who discover improper trade or operation can place a complaint in the mailbox of the general manager or a complaint box, which will be handled by personnel designated by the general manager. If necessary, law enforcement agency may be required to intervene. In 2022, all Major Operating Enterprises did not receive any complaint from any organisation or individual against an employee's misconduct or other illegal activities.

In order to foster a healthier corporate culture, the Company and all Major Operating Enterprises have arranged corruption prevention training for directors, senior management and staff respectively in 2022.

All Major Operating Enterprises must comply with the laws and requirements related to anti-corruption, mainly the "*Anti-Money Laundering Law of the People's Republic of China*", "*Anti-Unfair Competition Law of the People's Republic of China*", "*Anti-Monopoly Law of the People's Republic of China*", "*Bidding Law of the People's Republic of China*" and "*Interim Provisions on Banning Commercial Bribery*", as well as regulations related to anti-corruption at the place where the companies are located at.

"*The Anti-Money Laundering Law of the People's Republic of China*" aims to prevent money-laundering, preserve financial order, and check the crime of money-laundering as well as related crimes. The "*Anti-Unfair Competition Law of the People's Republic of China*" aims to safeguard the healthy development of socialist market economy, encourage and protect fair competition, repress unfair competition acts, and protect the legitimate rights and interests of business operators and consumers. "*The Anti-Monopoly Law of the People's Republic of China*" aims to prevent and restrain monopolistic conducts, protect fair market competition, enhance economic efficiency, safeguard the interests of consumers and the interests of the society as a whole, and promote the healthy development of socialist market economy. "*The Bidding Law of the People's Republic of China*" aims to regulate bid invitation and bidding activities, protect the interests of the State and the public as well as the legitimate rights and interests of the parties involved in bid invitation and bidding activities, increase economic benefits and ensure project quality. "*The Interim Provisions on Banning Commercial Bribery*" aims to curb commercial bribery and maintain fair competition and order.

In 2022, with reference to the above measures adopted, all Major Operating Enterprises generally complied with the legal requirements and did not have material violations of the legal requirements related to anti-corruption. Also, no incident exerting material adverse impact was noted.

In 2022, none of the Major Operating Enterprises have received any complaints from organisations or individuals about staff misconduct or other breaches of the law, the KPI relating to the number of concluded legal cases regarding corrupt practices is in general as follows:

Indicator	2021	2022
Number of concluded legal cases regarding corrupt practices brought against the Company and the Major Operating Enterprises or their respective employees	0	0

Community

8. Community investment

While developing and growing the Company, the Company does not forget public welfare undertakings and gives back to the society. The Company's Major Operating Enterprises have close interaction with the communities in which they operate, and are very concerned about the needs of different operating regions. When conducting any business operations, they will consider the interests of the communities, and encourage employees to participate in social services and care for the community. Based on the different situations of the surrounding communities or people in need, all Major Operating Enterprises will use appropriate resources to implement necessary assistance to support community activities, such as arranging volunteer activities and setting up charity funds.

Adhering to the spirit of "mutual assistance and spreading love", the Company's volunteer service team actively participates in the volunteer activities organised by local communities. In 2022, individual enterprises carried out voluntary blood donation activities. About 200 employees (including employees and their relatives and friends) jointly participated in volunteer work to assist the sponsoring institutions in handling logistics work. Among them, 92 employees actively participated in blood donation to give back to the society. The KPIs related to community investment are roughly as follows:

Indicator	Number
Resources used in focus areas in the charity sector	Persons involved：200 persons
	Hours involved：5 hours

CONCLUSION

The Company believes that the implementation of current measures on environmental protection and social responsibility is sufficient in compliance with relevant laws and the Listing Rules, but it will make necessary review and revision from time to time in response to the requirements of laws, the Listing Rules and internal management to strengthen its measures on environmental protection and social responsibility.

The Company's Board of Directors reviewed, discussed and approved the contents of this Environmental, Social and Governance Report and its publication on 24 March 2023.

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BIOGRAPHICAL DETAILS OF DIRECTORS

Mr Zhou Limin, aged 59, a Researcher, is the Chairman and Executive Director of the Company, graduated from National University of Defense Technology with a master degree. From 1989 to 2002, he worked in the 11th Institute of 067 Base, and served as Designer, Deputy Supervisor, Deputy Supervisor and Supervisor of the Pressure Vessel Design Office, Director of the Operation and Development Department, Assistant to Director General and Deputy Director General. From 2002 to 2008, he served successively as Deputy Director General and Director General of Beijing Aerospace Propulsion Research Institute. From 2008 to September 2020, he served as Deputy Dean of Academy of Aerospace Propulsion Technology, during which he also served as Director of Beijing Shenzhou Aerospace Software Technology Co., Ltd., Chairman of East China Chemical Engineering Inc., Director General of Beijing Aerospace Propulsion Research Institute, Chairman of Beijing Aerospace Petrochemical Technology & Equipment Engineering Corporation Limited, Beijing Aerospace Petrochemical Technology Energy Conservation & Environmental Protection Corporation Limited, Xi'an Huawei Chemical & Biological Engineering Co., Ltd and China Chang Jiang Energy Corporation; he also served as Chairman of Shaanxi Aerospace Power Hi-tech Co. Ltd, shares of which are listed on Shanghai Stock Exchange (stock code: 600343), from June 2017 to February 2020. Mr Zhou possesses ample experience in enterprise management. In September 2020, he was appointed as the Chairman and Executive Director of the Company.

Mr Song Shuqing, aged 51, Master, Researcher, is an Executive Director and President of the Company, graduated from National University of Defense Technology with a master degree. From 1994 to 2011, he held such positions as the Chief Engineer, the General Manager of Tertiary Industry Division of the China Academy of Space Technology and a Deputy Director General, the Director General of its Infrastructure Department; an Assistant to the General Manager, a Deputy General Manager of Shenzhou Tianchen Science and Technology Industrial Co. Ltd, and a Deputy General Manager of its Assurance Service Division and the Director General of the Infrastructure Department; the Officer-in-charge of the Preparatory Unit of Zhongguancun Aerospace Innovation Park Company Limited. From 2011 to 2019, he served as the General Manager, a Director and the General Manager of Aerospace Times Real Estate Development Co., Ltd. During such period, he also served as a Director of Xian National Civil Aerospace Industry Base Development Co., Ltd. and an Executive Director of Aerospace Times Real Estate Development (Wuhan) Co., Ltd. and a Vice Chairman of Beijing Aerospace Hengrun Real Estate Co., Ltd. From June 2019 to January 2023, he served as a Vice President of China Academy of Aerospace Electronics Technology. Mr Song is currently a Director of China Aerospace Times Electronics Co., Ltd. (shares of which are listed on Shanghai Stock Exchange (stock code: 600879)) and the Chairman of Chongqing Aerospace Rocket Electronics Technology Co., Ltd. Mr Song has extensive experience in corporate management. In February 2023, he was appointed as Executive Director and President of the Company.

Mr Luo Zhenbang, aged 56, is an Independent Non-Executive Director of the Company and a director and managing partner of BDO China Shu Lun Pan Certified Public Accountants LLP. Mr Luo graduated from the School of Business of Lanzhou in 1991 majoring in Enterprise Management. He has been managing the audit works for many listed companies since 1994. He has been an expert supervisor of China Xinda Asset Management Corporation and China Great Wall Asset Management Corporation. He was also an independent director of Long March Vehicle Technology Company Limited, Orient Tantalum Industry Company Limited, Wuzhong Instrument Company Limited, Shengxue Company Limited, Avic Heavy Machinery Co. Ltd., Digital China Information Service Company Ltd., Xinjiang Goldwind Science & Technology Co., Ltd. And Cowell e Holdings Inc., as well as an internal audit expert of Northeast Securities Company Limited, shares of which are listed on Shenzhen Stock Exchange (stock code: 000686). He currently serves as independent director of BII Railway Transportation Technology Holdings Company Limited (formerly known as China City Railway Transportation Technology Holdings Company Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1522), and Glory Health Industry Limited (formerly known as "Guorui Properties Limited"), shares of which are listed on The Stock Exchange of Hong Kong (stock code: 2329). In 2022, Tibet Bureau of the China Securities Regulatory Commission issued a warning letter to BDO China Shu Lun Pan Certified Public Accountants LLP and certain certified public accountants who signed the report, including Mr Luo, owing to certain issues identified in two years of the audit works for Tibet Huayu Mining Co., Ltd. which the firm had involved in. Mr Luo possesses several professional qualifications, such as Chinese certified public accountant, certified accountant in securities and futures industry, Chinese certified assets valuer and Chinese certified tax accountant and has in-depth experience in accounting, auditing and financial management. He is familiar with the audit of listed companies from various sectors and extensively participates in corporate restructuring for listing, listed company restructure and other business consultation services. He was appointed as an Independent Non-Executive Director of the Company in December 2004.

Mr Wang Xiaojun, aged 68, Master of Law, is an Independent Non-Executive Director of the Company. Mr Wang is a practicing solicitor admitted in the Mainland China, Hong Kong and the United Kingdom. Mr Wang Xiaojun obtained a Bachelor's degree in Laws from the Renmin University of China in 1983 and a Master of Laws from the Chinese Academy of Social Sciences in 1986. He joined The Stock Exchange of Hong Kong Limited in 1992 and served Richards Butler from 1993 to 1996. In 1996, he served as an associate director of Peregrine Capital Limited. From 1997 to 2001, he served as a director of ING Barings. He established X. J. Wang & Co. in 2001 and that was associated with Jun He Law Offices in 2005, and was a partner of Jun He Law Offices Hong Kong Branch. He is currently a principal of Wang & Co. From 2011 to 2012, Mr Wang Xiaojun served as managing director of CCB International (Holdings) Limited. He was an independent non-executive director of Norinco International Company Limited, shares of which are listed on Shenzhen Stock Exchange (stock code: 000065), CSSC Offshore & Marine Engineering (Group) Company Limited (formerly known as Guangzhou Shipyard International Company Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 317) and Shanghai Stock Exchange (stock code: 600685), Zijin Mining Group Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 2899) and Shanghai Stock Exchange (stock code: 601899), Yankuang Energy Group Company Limited (formerly known as Yanzhou Coal Mining Company Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1171), Shanghai Stock Exchange (stock code: 600188) and New York Stock Exchange (stock code: YZC), and Livzon Pharmaceutical Group Co., Ltd., shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1513) and Shenzhen Stock Exchange (stock code: 000513), and Wealthking Investments Limited (formerly known as OP Financial Limited), shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 1140). He currently serves as an independent non-executive director of Poly Property Services Co., Ltd., shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 6049). Mr Wang Xiaojun is familiar with corporate listing, merger and acquisition and restructuring, direct investment and so on and possesses many years of relevant experience. Mr Wang was appointed as an Independent Non-Executive Director of the Company in March 2013.

Ms Chen Jingru, aged 58, Master of Law, is an Independent Non-Executive Director of the Company and a global partner of DeHeng Law Offices. Ms Chen obtained a Bachelor's degree majoring in law in 1985 and a Master's degree majoring in law in 1990 from Nankai University. Ms Chen was awarded her professional qualification as a lawyer conferred by the Lawyer Qualification Committee of the PRC Ministry of Justice in 1993. She served as Deputy Officer of the Comprehensive Teaching and Research Office of the Insurance Department of the Central Institute of Finance and Economics (now known as Central University of Finance and Economics), Director of the Beijing Insurance Association, Director of the China Maritime Law Association, Deputy Officer of the Law Department of the Central University of Finance and Economics, and Member of the Third GEM Issuance Examination Committee of the China Securities Regulatory Commission. From May 2011 to January 2014, Ms Chen was an independent director of Cloud Live Technology Group Co., Ltd. ("Zhongke") (formerly known as Beijing Xiangeqing Group Co., Ltd) (stock code: 002306) listed on the Shenzhen Stock Exchange, during which Zhongke and its directors at the relevant time were given an administrative penalty by the China Securities Regulatory Commission due to Zhongke's misleading disclosures in its 2012 annual report. Ms Chen was given a warning and imposed on an administrative fine of RMB30,000. Ms Chen was an independent non-executive director of Glory Health Industry Limited (formerly known as "Guorui Properties Limited") from July 2014 to November 2022, shares of which are listed on The Stock Exchange of Hong Kong (stock code: 2329) and the external internal auditor of BOC International (China) Co., Ltd. (stock code: 601696) from October 2019 to October 2022, shares of which are listed on the Shanghai Stock Exchange. She has been working in DeHeng Law Offices since 1993. She has extensive experience in the corporate and securities aspects. She was appointed as an Independent Non-Executive Director of the Company in August 2022.

Mr Hua Chongzhi, aged 61, Master, is a Non-Executive Director of the Company. He graduated from Harbin Institute of Technology in 1985 with a master degree of Mechanical Engineering and from Tsinghua University with an EMBA degree in 2012, he has been working in aerospace industry field for 36 years. He had been appointed as a Deputy Director of an institute under China Aerospace Corporation in November 1994, the Deputy Director of Foreign Affairs Department of China National Space Administration in June 1996, Deputy Director of Administration Department of China Aerospace Science and Technology Corporation in July 1999 and a Director and Vice President of China Great Wall Industry Cooperation in December 2004. He was the Vice President and a Research Fellow (associate dean grade) of Shanghai Academy of Spaceflight Technology from October 2013 to August 2021. He has been a director of China Great Wall Industry Cooperation since September 2020. He was appointed as a Non-Executive Director of the Company in April 2020.

Mr Teng Fangqian, aged 60, Researcher, is a Non-Executive Director of the Company. He graduated from Shandong Institute of Chemical Technology with a bachelor's degree in chemical engineering and completed a postgraduate programme in corporate management at Zhongnan University of Economics and Law. He joined the Second Film Factory of the Ministry of Chemical Industry in 1983 and held such positions as the Section Head and Deputy Director of the PS plate workshop. From August 1996 to November 2012, he served as the Deputy Factory Director and Factory Director of the Second Film Factory of China Lucky Film Corporation; the General Manager of Lucky Huaguang Graphics Co., Ltd.; the Deputy General Manager of China Lucky Film Corporation and the General Manager of Lucky Huaguang Graphics Co., Ltd. From November 2012 to December 2019, he served as the Deputy General Manager of China Lucky Group Corporation and the General Manager of Lucky Huaguang Graphics Co., Ltd. and the Managing Director of China Lucky Group Corporation. During which, he was the Chairman of Baoding Lucky Innovative Materials Co., Ltd. (shares of which are listed on Shenzhen Stock Exchange (stock code: 300446)) from May 2013 to September 2015. From December 2019 to September 2022, he served as the Chairman of China Lucky Group Corporation. During which, he was the Chairman of Lucky Film Co., Ltd. (share of which are listed on Shanghai Stock Exchange (stock code: 600135)) from November 2014 to February 2020, the Executive Director of Beijing Lucky Technology Co., Ltd. form September 2015 to May 2020, the Chairman of Lucky Huaguang Graphics Co., Ltd. from September 2015 to December 2020. Mr Teng has extensive experience in corporate management. He was appointed as a Non-Executive Director of the Company in March 2023.

Biographical Details of Directors (continued)

Mr Peng Jianguo, aged 55, Doctor, Researcher, is a Non-Executive Director of the Company. He graduated from the National University of Defense Technology, Xi'an Jiaotong University and Northwestern Polytechnical University and obtained a bachelor's degree in engineering, a master's degree in public administration and a doctoral degree in management respectively. From July 1990 to April 2004, he held such positions as the Deputy Division Director, the Division Director of the Finance Division, and the Deputy Chief Accountant and Division Director of the Finance Division of the 11th Institute of China Aerospace. From April 2004 to March 2017, he served as the Deputy Division Director, the Division Director of Accounting and Finance Department, and the Chief Accountant and Division Director of Accounting and Finance Department of the Academy of Aerospace Propulsion Technology. From March 2017 to December 2021, he served as the Chief Accountant of the China Academy of Launch Vehicle Technology. He also served as a Director of Aerospace Science & Technology Finance Company Limited from April 2011 to March 2020, a Director of Western Metal Materials Co., Ltd. (shares of which are listed on Shenzhen Stock Exchange (stock code: 002149)) from July 2011 to April 2017, the Vice Chairman of China Chang Jiang Energy Corporation from November 2016 to August 2017, and concurrently served as a Director of Aerospace Times Real Estate Development Co., Ltd. during August 2017 and May 2019. He has been an associate-level researcher at the China Academy of Launch Vehicle Technology since December 2021; since August 2022 to present, he has been a supervisor of the Supervisory Board of Beijing Aerospace Medical Co., Ltd.; he has been serving as the Chairman of the Supervisory Board of China Aerospace Investment Holdings Ltd. since January 2023 and a Director of China Lucky Group Corporation since February 2023. Mr Peng has extensive experience in financial management. He was appointed as a Non-Executive Director of the Company in March 2023.

Mr Jin Xuesheng, aged 60, a Senior Engineer. He graduated from Harbin Institute of Technology with a bachelor's degree in engineering and the University of Lancaster in the United Kingdom with a MBA degree. From 1984, he held such positions as Deputy Division Director and Division Director of the Planning and Operation Division, Engineer and Deputy Factory Director at Capital Engineering Factory under China Academy of Launch Vehicle Technology, as well as Managing Director of Langfang Hangxing Packaging Machinery Company Limited, the Vice President and Financial Controller of China Spacesat Company Limited (stock code: 600118), the shares of which are listed on Shanghai Stock Exchange, Deputy General Manager of Beijing Aerospace Satellite Applications Company and Deputy General Manager of Aerospace Technology Investment Holdings Limited. Among which, he was the Executive Director and Vice President of the Company from September 1999 to May 2001, and the Director, Deputy General Manager and Financial Controller of Shanghai Aerospace Technology Investment Management Company Limited, a subsidiary of the Company, from November 2006. Mr Jin possesses extensive corporate management experience, especially the experience in financial management. He was appointed as a Non-Executive Director of the Company in March 2008 and was re-designated as an Executive Director and appointed as Executive Vice President in May 2010. He resigned the position of Executive Director in December 2018 but remained the position of Executive Vice President. He was appointed as the Executive Director and President from December 2019 to February 2023.

Mr Liu Xudong, aged 63, a Research Level Accountant. He graduated from Tianjin University of Finance and Economics and Harbin Institute of Technology and obtained a bachelor's degree in economics and a master degree in management respectively. From October 1991 to August 2019, he held such positions as Deputy Division Director, Division Director of Accounting and Finance Department of China Aerospace Science & Industry Aviation Technology Academy; Chief Accountant of the Finance Department of China Aerospace Corporation; Deputy Director of Finance Department, Chief of Audit Bureau, Director General of Audit Department of China Aerospace Science and Technology Corporation; Chief Accountant of China Academy of Space Technology; Director of the Finance Department of China Aerospace Science and Technology Corporation. Mr Liu possesses ample experience in financial management. He was appointed as a Non-Executive Director of the Company from December 2018 to March 2023.

Mr Mao Yijin, aged 60, graduated from the Faculty of Industrial Economics, Hubei Institute of Finance and Economics in 1985. He joined No. 1 Research Academy under China Aerospace Science & Technology Corporation shortly after graduation and held such posts as staff of the Planning Department, a Deputy Division Director and Senior Engineer of the Planning Division, a Division Director of the Finance Division, a Deputy Director General of the General Business Department; a Deputy Director General of No. 18 Research Institute, the Chief Accountant of No. 11 Research Academy, and the Chief Accountant, Deputy Dean, Senior Engineer and researcher of Shanghai Academy of Spaceflight Technology. He is a Director of both China Lucky Group Corporation and China Great Wall Industry Corporation. Mr Mao has ample experience in administration management and financial management. Mr Mao was appointed as a Non-Executive Director of the Company from August 2016 to March 2023.

Ms Leung Sau Fan, Sylvia, aged 59. Ms Leung holds a bachelor's degree of arts in accountancy from City University of Hong Kong and had studied as an external student and passed the approved examinations and obtained a bachelor of laws degree from the University of London. Ms Leung is currently a Responsible Officer of an entity that licensed to conduct, among others, type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, and is also an independent non-executive director of Poly Property Group Co., Limited (stock code: 119), shares of which is listed on The Stock Exchange of Hong Kong Limited. She has over 20 years of experience in company secretarial and corporate finance advisory. She was appointed as an Independent Non-Executive Director of the Company in March 2012 and retired in June 2022.

DIRECTORS' REPORT

The Directors present this annual report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and joint ventures are set out in notes 40, 17 and 18 to the consolidated financial statements, respectively.

BUSINESS REVIEW

The business review of the Company and its subsidiaries is set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" respectively of this Annual Report. Description of the risks and uncertainties facing the Company can be found throughout this Annual Report.

RESULTS AND APPROPRIATION

The results of the Company and its subsidiaries for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss on page 69.

A final dividend of HK2 cents per share in respect of the year ended 31 December 2022 (2021: HK2 cents per share) had been proposed by the directors and is subject to approval by the shareholders in the Annual General Meeting.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company and its subsidiaries acquired land and buildings, plant and equipment, motor vehicles, furniture and other equipment of HK$21,000, HK$187,205,000, HK$1,739,000 and HK$45,371,000 respectively and project in progress of HK$83,300,000 to cope with the expansion of the Company and its subsidiaries. Details of movements in property, plant and equipment are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties during the year are set out in note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2022 comprised the retained profits of approximately HK$901,146,000 (2021: HK$996,614,000).

PURCHASE, SALE AND REDEMPTION OF SHARES

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the Company and its subsidiaries' largest customer and five largest customers were 7% and 22% of the Company and its subsidiaries' consolidated turnover, respectively. The aggregate purchases attributable to the Company and its subsidiaries' five largest suppliers were less than 30% of the Company and its subsidiaries' total purchases.

DIRECTORS

The Directors during 2022 and up to the date of this Report were:

Executive Directors

Zhou Limin *(Chairman)*
Song Shuqing *(President) (appointed on 10 February 2023)*
Jin Xuesheng *(President) (resigned on 10 February 2023)*

Non-Executive Directors

Luo Zhenbang *(Independent)*
Wang Xiaojun *(Independent)*
Chen Jingru *(Independent) (appointed on 30 August 2022)*
Hua Chongzhi
Teng Fangqian *(appointed on 2 March 2023)*
Peng Jianguo *(appointed on 2 March 2023)*
Liu Xudong *(resigned on 2 March 2022)*
Mao Yijin *(resigned on 2 March 2022)*
Leung Sau Fan, Sylvia *(Independent) (retired on 24 June 2022)*

Non-Executive Directors are appointed for a period of 2 years and shall retire by rotation, being eligible, offer themselves for re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

During 2022 and up to the date of this Report, the directors of subsidiary undertakings of the Company in alphabetical order were Messrs. Chen Yongjie, Cheng Zhanheng, Chu Kam Ching, Gao Yuda, Gong Benning, Guo Xiaokui, Han Jinguang, Hu Min, Li Bo, Li Guangneng, Li Wenjie, Lin Jianming, Lin Zhijian, Liu Xin, Ng Kam Tat*, Qiu Jihua, Shum King Mo, Song Dasheng, Sun Jingguo, Wang Hai, Wang Libo, Wang Muchun, Wong Siu Fong Jenny, Yang Honghui, Yin Guang, Yu Kehu and Zhou Weibin.

* Appointed during 2022 or the period up to the date of this Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The Company had adopted the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Listing Rules and *The Code and Enforcement Details for Securities Transactions by Directors* as the required standard for the Directors of the Company to trade the securities of the Company. Having made specific enquiry to all the Directors of the Company and in accordance with information provided, all the Directors have complied with the provisions under the Model Code in 2022.

Up to the date of this Report, save for Mr Peng Jianguo, a Director of the Company, is a senior officer of a subsidiary of the major shareholder of the Company, China Aerospace Science & Technology Corporation, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests or short positions in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance or as otherwise notified to the Company and the *Model Code for Securities Transactions by Directors of Listed Issuers* of The Stock Exchange of Hong Kong Limited and *The Code and Enforcement Details for Securities Transactions by Directors*.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

MAJOR SHAREHOLDERS

As at 31 December 2022, the register of major shareholders maintained by the Company pursuant to Part XV of the Securities & Futures Ordinance discloses the following companies as having 5% or more of the issued capital of the Company:

Name of shareholder	Capacity	Direct Interest (Y/N)	Number of shares held (Long Position)	Percentage of issued share capital of the Company
China Aerospace Science & Technology Corporation	Interested in controlled corporation	N	1,183,598,636	38.37%
Burhill Company Limited	Beneficial owner	Y	1,183,598,636	38.37%

Note: Burhill Company Limited is a wholly-owned subsidiary of China Aerospace Science & Technology Corporation, the shares held by it form the total number of shares in which China Aerospace Science & Technology Corporation was deemed interested.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital or underlying shares of the Company as at 31 December 2022.

LITIGATION

As at the issue date of this report, except for litigation claims as disclosed in the company's announcement on 14 June 2022, 5 July 2022, 30 September 2022, 7 November 2022 and 14 February 2023 about Shenzhen Aerospace (as the plaintiff), a 60% indirect owned subsidiary of the Company claimed against Hangke Houhai (as the defendant) and Huabaorun (as the defendant), Hangke Houhai's counterclaims against the plaintiff, as well as the additional claims by Shenzhen Aerospace against Hangke Houhai and Huabaorun respectively as referred to in the announcement dated 24 March 2023, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware of, no litigation or arbitration or claim of material importance was pending or threatened by or against any member of the Company and the subsidiaries.

EMOLUMENT POLICY

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every director shall be indemnified out of funds of the Company against all liabilities incurred by them to the extent permitted by the Hong Kong Companies Ordinance. In addition, the Company has bought and maintained a director and officer liability insurance for the benefit of directors and officers of the Company and its subsidiaries against liability which may lawfully be insured by the Company.

CONTINUING CONNECTED TRANSACTIONS

The below continuing connected transactions entered into by the Company and its subsidiaries, as confirmed by Independent Non-Executive Directors of the Company, were entered into:

1. in the ordinary course of business of the Company;

2. on normal commercial terms or on terms not less favourable to the terms offered by independent third parties; and

3. in accordance with the terms of the relevant agreements or contracts, respectively, which were fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Company's auditor was engaged to report on the Company and its subsidiaries' continuing connected transactions in accordance with *Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to *Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Company and its subsidiaries in page 61–62 of the Annual Report in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

The transactions as shown in note 37 to the consolidated financial statements which constituted connected transactions of the Company under Chapter 14A of the Listing Rules, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

List of Continuing Connected Transactions for the year ended 31 December 2022

The Company and/or its subsidiary(ies) involved	Connected person(s)	Continuing connected transactions	Annual cap	Amount outstanding as of 31 December 2022
CASIL New Century Technology Development (Shenzhen) Company Limited* (航科新世紀科技發展(深圳) 有限公司) ("New Century")	China Aerospace Science & Technology Corporation ("CASC")	CASC entrusted a loan in the sum of RMB500,000,000 to New Century with maturity of 60 months through Bank of Beijing	N/A	RMB500,000,000 or equivalent to HK$565,611,000
Shenzhen Aerospace Technology Investment Management Limited* (深圳市航天高科投資管理有限公司) ("Shenzhen Aerospace")	Aerospace Science & Technology Finance Company Limited* (航天科技財務有限責任公司) ("Aerospace Finance")	The provision of security by Shenzhen Aerospace to Aerospace Finance for a loan in the amount of RMB1,300,000,000	N/A	RMB769,100,000 or equivalent to HK$870,023,000

DIVIDEND POLICY

The dividend policy reflects the Board's current view on the financial and cash flow positions of the Company and its subsidiaries. The Board will review the dividend policy from time to time, but the Company does not guarantee any payment of dividends in any specific amount at any designated period.

Pursuant to the Company's dividend policy, profit is shared with shareholders in the form of dividend or other forms. Dividend payout ratio for each year is determined based on the then profit attributable to shareholders for the year (after deducting non-cash flow items such as the increase in fair value of investment properties, minority interests and depreciation), and is subject to the following conditions:

1. Dividend distribution by the Company is subject to the laws of Hong Kong and relevant provisions of the articles of association of the Company;

2. Dividend distribution by the Company depends on, among others, the prevailing and future operation, liquidity position and capital requirements of the Company and its subsidiaries;

3. The form, frequency, timing and amount of dividend distribution depend on the operation and profit, capital requirements and surplus, financial position and contractual constraints of the Company and its subsidiaries, as well as other factors affecting the Company and its subsidiaries, including the appropriation of dividend tax payment by subsidiaries and foreign exchange conditions, if applicable;

4. Other factors deemed fit by the Board; and

5. Dividend distribution by the Company is subject to the approval by shareholders at the general meeting.

POST PERIOD EVENTS

In respect of the litigations between Shenzhen Aerospace and Hangke Houhai, including the complaint filed by Shenzhen Aerospace against Hangke Houhai to claim for arrears of rent and penalty for breach of contract (the "First Hangke Houhai Litigation") and the claim filed by Hangke Houhai against Shenzhen Aerospace in relation to the alleged whole-lease operation loss incurred due to delay in inspection for acceptance and confirming completion of construction works (the "Second Hangke Houhai Litigation"), both sides have submitted additional claim and counter-claim during the trial proceedings of the two cases, including an additional claim by Hangke Houhai for a refund from Shenzhen Aerospace for overpaid rent since pandemic of approximately RMB49,800,000 and consequential interest loss, and a counter-claim made by Shenzhen Aerospace against Hangke Houhai for the payment of rent for February 2020 and penalty for breach of contract of approximately RMB74,200,000 (the "Third Hangke Houhai Litigation"). The Hangke Houhai litigations have been heard by the court and are pending judgment of the first instance. In addition, Shenzhen Aerospace has filed a complaint against Huabaorun with the court for a sum of approximately RMB252,913,000 in aggregate, being arrears of rent of approximately RMB52,509,000, the rental late charges in arrears of approximately RMB138,715,000 (accrued up to 31 October 2022 and actual amount be accrued up to the date of settlement), and the sum of approximately RMB61,689,000 being penalty for breach of the whole-lease contract, the performance bonds, the legal fees, and the rentals refund for the rent-free period etc. The complaint is pending a hearing by the court. For details, please refer to the Company's announcement dated 14 February 2023.

In addition to the aforesaid litigations, Shenzhen Aerospace has filed a claim against Hangke Houhai for losses incurred arising from vacant property due to early termination of lease, and for the pre-paid rent collected by Hangke Houhai from the sub-tenants for a total amount of approximately RMB80,984,000 (the "Fourth Hangke Houhai Litigation"). The claim has been accepted by the court and is pending for hearing. In addition, Shenzhen Aerospace has filed an additional claim against Huabaorun for the losses incurred arising from vacant property due to early termination of lease, and for the pre-paid rent collected by Huabaorun from the sub-tenants for a total amount of approximately RMB16,035,000 (the "Second Huabaorun Litigation"), which, together with the litigation against Huabaorun as mentioned in the Company's announcement dated 14 February 2023 (the "First Huabaorun Litigation"), will result in a combined claim of approximately RMB268,948,000 by Shenzhen Aerospace against Huabaorun. These proceedings are pending a hearing by the court.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board,

Song Shuqing
Executive Director & President

Hong Kong, 24 March 2023

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
中國航天國際控股有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 69 to 170, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Valuation of investment properties — retail and office premises in the People's Republic of China other than Hong Kong (the "PRC")

Key audit matter

The Group's investment properties portfolio comprises industrial premises, office premises, retail and office premises, and carparks in the PRC and Hong Kong. As disclosed in notes 4 and 16 to the consolidated financial statements as at 31 December 2022, the fair value of investment properties is HK$8,895,276,000, with a fair value gain recorded in the consolidated statement of profit or loss of HK$139,571,000.

All the Group's investment properties are stated at fair value based on valuations performed by independent qualified professional valuers (the "Valuers"). Details of the valuation techniques and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements.

We have identified the valuation of investment properties — retail and office premises in the PRC as disclosed in note 16, with the fair value of HK$8,571,483,000 as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole combined with the significant judgements and estimates required in determining the fair value.

The valuations are dependent on certain key inputs that require significant management judgements and estimates, which involves certain estimates of market conditions and assumptions made on the investment properties including comparable market transactions with adjustments to reflect different age, locations or other individual factors, and comparable market rents and capitalisation rate.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of investment properties — retail and office premises in the PRC included:

- Obtaining the valuation report and evaluating the management's process in respect of reviewing the valuation performed by the Valuers.
- Evaluating the competence, capabilities and objectivity of the Valuers.
- Evaluating the valuation techniques and assessing the reasonableness of the key inputs used in the valuations based on available market data.
- Assessing the integrity of information provided by the management to the Valuers by comparing the details of rentals on a sample basis to the respective underlying existing lease agreements.
- Checking, on a sample basis, the market transactions and market rents/capitalisation rate of similar properties and locations, and assessing the appropriateness of specific assumptions made on adjustments of the properties by reference to age, location and other individual factors which affect the valuation of properties.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lin Sze Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Revenue	5	4,501,532	4,745,367
Cost of sales		(3,512,426)	(3,670,707)
Gross profit		989,106	1,074,660
Other income	7(a)	82,446	76,899
Other gains and losses	7(b)	(27,311)	3,801
Net (loss) gain on lease terminations	7(c)	(570,813)	200,861
Impairment loss under expected credit loss ("ECL") model, net of reversal		(174,921)	(121,701)
Selling and distribution expenses		(69,826)	(69,360)
Administrative expenses		(451,894)	(417,002)
Research and development expenses		(155,523)	(140,236)
Fair value changes of investment properties	16	139,571	(47,724)
Finance costs	9	(76,243)	(76,946)
Share of results of associates		(10,147)	20,375
Share of results of joint ventures		(168)	(17,525)
(Loss) profit before taxation	10	(325,723)	486,102
Taxation	11	73,001	(82,888)
(Loss) profit for the year		(252,722)	403,214
(Loss) profit for the year attributable to:			
Owners of the Company		(119,918)	345,764
Non-controlling interests		(132,804)	57,450
		(252,722)	403,214
(Loss) earnings per share	12		
Basic and diluted		(HK3.89 cents)	HK11.21 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
(Loss) profit for the year	(252,722)	403,214
Other comprehensive (expense) income includes:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations		
— subsidiaries	(682,298)	227,877
— associates	(20,245)	9,154
— joint ventures	(6,844)	2,378
	(709,387)	239,409
Total comprehensive (expense) income for the year	(962,109)	642,623
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	(652,295)	523,839
Non-controlling interests	(309,814)	118,784
	(962,109)	642,623

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	14	1,855,965	1,561,752
Right-of-use assets	15	279,281	188,188
Investment properties	16	8,895,276	9,796,960
Interests in associates	17	254,481	288,347
Interests in joint ventures	18	141,764	148,776
Financial assets at fair value through profit or loss ("FVTPL")	22	130,585	—
Deposit paid for property, plant and equipment		32,753	17,820
Long-term bank deposits	23	—	161,369
Pledged bank deposits	23	11,425	8,068
Long term assets	19	920	458,622
		11,602,450	12,629,902
Current assets			
Inventories	20	513,484	729,599
Trade and other receivables	19	1,049,900	1,558,942
Amount due from a related party	21	11,950	208
Financial assets at FVTPL	22	6,232	5,564
Pledged bank deposits	23	30,240	55,193
Restricted bank deposits	23	30,245	32,325
Short-term bank deposits	23	372,340	462,291
Cash and cash equivalents	23	1,648,987	1,395,138
		3,663,378	4,239,260
Current liabilities			
Trade and other payables	24	1,374,178	1,495,937
Contract liabilities	25	49,510	73,759
Lease liabilities	26	37,811	31,499
Amount due to a joint venture	18	37,375	37,375
Loan from a major shareholder	27	565,611	—
Loan from a related party	28	8,523	13,508
Taxation payable		86,839	119,743
		2,159,847	1,771,821
Net current assets		1,503,531	2,467,439
Total assets less current liabilities		13,105,981	15,097,341

Consolidated Statement of Financial Position (continued)

At 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Lease liabilities	26	118,386	65,803
Loan from a major shareholder	27	—	611,247
Loan from a related party	28	870,023	952,445
Deferred taxation	29	2,332,909	2,625,080
		3,321,318	4,254,575
		9,784,663	10,842,766
Capital and reserves			
Share capital	30	1,154,511	1,154,511
Reserves		6,504,183	7,233,603
Equity attributable to owners of the Company		7,658,694	8,388,114
Non-controlling interests		2,125,969	2,454,652
		9,784,663	10,842,766

The consolidated financial statements on pages 69 to 170 were approved and authorised for issue by the Board of Directors on 24 March 2023 and are signed on its behalf by:

Zhou Limin
Director

Song Shuqing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000 *(Note b)*	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2021	1,154,511	14,044	89,495	145,266	30,523	44,926	6,447,210	7,925,975	2,359,763	10,285,738
Profit for the year	–	–	–	–	–	–	345,764	345,764	57,450	403,214
Exchange differences arising on translating foreign operations										
– subsidiaries	–	–	–	166,543	–	–	–	166,543	61,334	227,877
– associates	–	–	–	9,154	–	–	–	9,154	–	9,154
– joint ventures	–	–	–	2,378	–	–	–	2,378	–	2,378
Total comprehensive income for the year	–	–	–	178,075	–	–	345,764	523,839	118,784	642,623
Dividend recognised as distribution *(Note 13)*	–	–	–	–	–	–	(61,700)	(61,700)	–	(61,700)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	(23,895)	(23,895)
Transfer to general reserve	–	–	20,421	–	–	–	(20,421)	–	–	–
	–	–	20,421	–	–	–	(82,121)	(61,700)	(23,895)	(85,595)
At 31 December 2021	1,154,511	14,044	109,916	323,341	30,523	44,926	6,710,853	8,388,114	2,454,652	10,842,766

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2022

	Attributable to owners of the Company									
	Share capital HK$'000	Special capital reserve HK$'000	General reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserves HK$'000 *(Note b)*	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2022	1,154,511	14,044	109,916	323,341	30,523	44,926	6,710,853	8,388,114	2,454,652	10,842,766
Loss for the year	–	–	–	–	–	–	(119,918)	(119,918)	(132,804)	(252,722)
Exchange differences arising on translating foreign operations										
– subsidiaries	–	–	–	(505,288)	–	–	–	(505,288)	(177,010)	(682,298)
– associates	–	–	–	(20,245)	–	–	–	(20,245)	–	(20,245)
– joint ventures	–	–	–	(6,844)	–	–	–	(6,844)	–	(6,844)
Total comprehensive expense for the year	–	–	–	(532,377)	–	–	(119,918)	(652,295)	(309,814)	(962,109)
Dividend recognised as distribution *(Note 13)*	–	–	–	–	–	–	(77,125)	(77,125)	–	(77,125)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	(18,869)	(18,869)
Transfer to general reserve	–	–	2,735	–	–	–	(2,735)	–	–	–
	–	–	2,735	–	–	–	(79,860)	(77,125)	(18,869)	(95,994)
At 31 December 2022	1,154,511	14,044	112,651	(209,036)	30,523	44,926	6,511,075	7,658,694	2,125,969	9,784,663

Notes:

(a) The general reserve represents statutory surplus reserve that are non-distributable and the transfer to these reserves is determined by the board of directors of subsidiaries established in the People's Republic of China other than Hong Kong (the "PRC") in accordance with the Articles of Association of the subsidiaries. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries of the Company and the allocation basis are decided by their board of directors annually.

(b) The other reserves represent (i) capital contribution from a major shareholder of the Company arising from acquisition of subsidiaries, (ii) the difference between the amount of non-controlling interests and fair value of consideration paid upon acquisition of additional interests in subsidiaries, and (iii) amount arising from deemed disposal of partial interest in a subsidiary without a loss of control.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	(325,723)	486,102
Adjustments for:		
Interest income	(37,186)	(37,109)
Interest expense	76,243	76,946
Depreciation of property, plant and equipment	245,374	201,817
Depreciation of right-of-use assets	41,647	41,446
Impairment loss under ECL model, net of reversal	174,921	121,701
Fair value changes of investment properties	(139,571)	47,724
Net gain from change in fair value of financial assets at fair value through profit or loss	(18,290)	(1,669)
Allowance for obsolete inventories	16,152	369
Share of results of associates	10,147	(20,375)
Share of results of joint ventures	168	17,525
Gain on deemed partial disposal of an associate	—	(5,289)
Net loss (gain) on lease terminations	570,813	(200,861)
Loss (gain) on disposal/written off of property, plant and equipment	1,076	(17)
Operating cash flows before movements in working capital	615,771	728,310
Decrease (increase) in inventories	156,033	(251,093)
Decrease (increase) in trade and other receivables	150,648	(309,272)
(Decrease) increase in trade and other payables	(64,306)	59,597
(Decrease) increase in contract liabilities	(19,538)	31,019
Cash generated from operations	838,608	258,561
Hong Kong Profits Tax (paid) refunded	(9,075)	4,126
PRC Enterprise Income Tax paid	(76,866)	(75,212)
NET CASH FROM OPERATING ACTIVITIES	752,667	187,475

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
INVESTING ACTIVITIES		
Placement of short-term bank deposits	(388,147)	(451,797)
Withdrawal of short-term bank deposits	445,936	123,014
Placement of pledged bank deposits	(36,120)	(17,704)
Withdrawal of pledged bank deposits	53,940	8,961
Placement of long-term bank deposits	—	(38,232)
Withdrawal of long-term bank deposits	155,660	—
Placement of restricted bank deposits	—	(31,096)
Withdrawal of restricted bank deposits	488	—
Interest received	37,186	37,109
Purchase of property, plant and equipment	(301,443)	(431,635)
Deposit paid for property, plant and equipment	(24,535)	(32,441)
Payment for subscription of financial asset at FVTPL	(118,507)	—
Payments for right-of-use assets	(51,975)	—
Advance to amount due from a related party	(12,428)	(208)
Repayment from amount due from a related party	172	—
Payment for development costs incurred in respect of investment properties	(6,630)	(13,276)
Proceeds from disposal of property, plant and equipment	2,347	896
Dividend received from an associate	3,474	—
Proceeds from lessor on land resumption	—	330,178
Advance receipt from a joint venture	—	36,527
NET CASH USED IN INVESTING ACTIVITIES	(240,582)	(479,704)
FINANCING ACTIVITIES		
Dividend paid	(77,052)	(61,645)
Dividend paid to non-controlling interests of a subsidiary	(18,869)	(23,895)
Interest paid	(70,947)	(72,409)
Interest paid on lease liabilities	(5,311)	(4,537)
Repayments of lease liabilities	(34,555)	(32,260)
Repayment of loan from a related party	(11,792)	(11,947)
Proceeds from discounted bills with recourse	8,885	13,201
NET CASH USED IN FINANCING ACTIVITIES	(209,641)	(193,492)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	302,444	(485,721)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,395,138	1,863,141
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(48,595)	17,718
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH	1,648,987	1,395,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

China Aerospace International Holdings Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report. China Aerospace Science & Technology Corporation ("CASC") is the major shareholder with significant influence over the Company, established in the PRC.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries, associates and joint ventures are set out in notes 40, 17 and 18, respectively.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND AGENDA DECISION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (THE "COMMITTEE")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual periods beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

In addition, the Group applied the agenda decision of the Committee, including "Lessor forgiveness of lease payments" (International Financial Report Standard ("IFRS") 9 "Financial Instruments" and IFRS 16 "Leases"), which is relevant to the Group.

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

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND AGENDA DECISION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (THE "COMMITTEE") (continued)

Amendments to HKFRSs that are mandatorily effective for the current year (continued)

Impacts on application of Amendments to HKAS 16 "Property, Plant and Equipment" — Proceeds before Intended Use

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 "Inventories".

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of 1 January 2021. The application of the amendments in the current year has had no material impact on the Group's financial position and performance.

Impacts on application of the agenda decision of the Committee — Lessor Forgiveness of Lease Payments (IFRS 9 "Financial Instruments" and IFRS 16 "Leases")

In October 2022, the Committee published the agenda decision related to the accounting for a rent concession where the lessor legally releases the lessee from its obligation to make specifically identified lease payments. Some of these lease payments are contractually due but not paid and some of them are not yet contractually due. The Committee concluded that, before the rent concession is granted, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable, the measurement of ECL should include the lessor's expectations of forgiving the related lease payments. In addition, the lessor accounts for the rent concession on the date it is granted by applying: (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor has recognised as operating lease receivables; and (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor has not recognised as an operating lease receivable.

The application of the Committee's agenda decision has had no material impact on the Group's financial position and performance.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND AGENDA DECISION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (THE "COMMITTEE") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2024

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND AGENDA DECISION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (THE "COMMITTEE") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKFRS 10 and HKAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments to HKFRS 10 "Consolidated Financial Statements" and HKAS 28 "Investments in Associates and Joint Ventures" deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020)"(the "2020 Amendments") and Amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND AGENDA DECISION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (THE "COMMITTEE") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020)"(the "2020 Amendments") and Amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments") (continued)

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on 1 January 2024, with early application permitted. If an entity applies the 2020 Amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the 2020 Amendments and the 2022 Amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

HKAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND AGENDA DECISION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERPRETATIONS COMMITTEE (THE "COMMITTEE") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKAS 8 "Definition of Accounting Estimates"

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$142,661,000 and HK$150,414,000 respectively. The application of the amendments is not expected to have significant impact on the financial position or performance of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values of the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's control in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Basis of consolidation (continued)

Changes in the Group's control in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Changes in the Group's interest in associates

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Revenue from contracts with customers (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of performance obligation

Output Method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Contract cost

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight line basis over the lease term except for investment properties measured under fair value model.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 "Revenue from Contracts with Customers" to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases (continued)

The Group as a lessor (continued)

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are amounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Lease termination

Lease termination is when a lessee or lessor decide to break the lease agreement before its expiration. The exercise of termination option which was included as part of the original lease agreement does not constitute a lease modification. Upon the lease termination of an operating lease through exercise of a termination option, the Group revises its calculation of the lease income to ensure the remaining lease payments (which include termination penalty, if any), are recognised on a straight-line basis over the remaining lease term. Accrued rental income, in excess of the remaining lease payments, if any, are reversed and derecognised on the effective date of lease termination. The difference between the compensation received from the land resumption and the carrying amount of the right-of-use assets is recognised in profit or loss as the gain on lease termination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Foreign currencies (continued)

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which cases, the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. Settlements of monetary items which formed part of net investment in foreign operations without changes in the Group's ownership interests is not considered as partial disposals.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are presented under "other income".

Employee benefits

Retirement benefits costs

Payments to defined contribution retirement benefit schemes including Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presumed to be recovered entirely through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Taxation (continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are tangible assets that held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of HKAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Property, plant and equipment (continued)

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at the fair values, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

If a property becomes an owner-occupied property because its use has been changed as evidenced by commencement of owner-occupation, the fair value of the property at the date of change in use is considered as the deemed cost for subsequent accounting.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Intangible assets

Internally-generated intangible assets — research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (or a cash-generating unit) is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Contingent liabilities (continued)

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under ECL on financial assets (including trade receivables, other receivables, amount due from a related party, pledged bank deposits, short-term bank deposits, restricted bank deposits, long-term bank deposits and bank balances) and other items (including lease receivables), which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-months ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables arising from contracts with customers.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables subject to impairment assessment under HKFRS 9 (continued)

(i) Significant increase in credit risk (continued)

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables subject to impairment assessment under HKFRS 9 (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings or when the management considers that the past due balances are not recoverable. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. Trade receivables with significant balances and credit-impaired are assessed individually. The Group has assessed the ECL on the remaining balances collectively taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- past-due status and historical credit loss experience;
- nature, size and industry of debtors; and
- internal credit ratings.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a joint venture, loan from a major shareholder and loan from a related party are subsequently measured at amortised cost, using the effective interest method.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies (continued)

(a) Deferred taxation on investment properties

For the purposes of measuring deferred taxes arising from investment properties that are depreciable and measured using the fair value model, the management has reviewed the Group's investment properties portfolios and concluded that for certain portion of the Group's investment properties which is classified as retail and offices premises located in the PRC, are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation arising from these investment properties, the management determined that the presumption that these investment properties measured using the fair value model are recovered through sale is not rebutted. As a result, the Group has recognised deferred tax liabilities on changes in fair value of these investment properties taking into account the Land Appreciation Tax ("LAT") and Enterprise Income Tax ("EIT") payable upon sales of those investment properties.

For the Group's investment properties located in Hong Kong and certain investment properties in the PRC are being held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation arising from these investment properties located in these locations, the management determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted.

The deferred tax impact of the Group is recognised at the end of the reporting period as shown in note 29.

(b) Revenue recognition from sales of manufacturing products with no alternative use at a point in time

Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. After considering the contract terms and the relevant local laws that apply to those relevant contracts, the terms of the relevant sales contracts do not create an enforceable right to payment for performance completed to date. Accordingly, the sales of manufacturing products with no alternative use is considered to be performance obligation satisfied at a point in time.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

The following is the key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

(a) Fair value of investment properties

Investment properties are stated at fair value based on the valuations performed by independent professional valuers. The determination of the fair value involves certain assumptions of market conditions which are set out in note 16.

In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2022, the carrying amount of the Group's investment properties is HK$8,895,276,000 (2021: HK$9,796,960,000).

(b) Provision of ECL for trade receivables from contracts with customers and leases receivables

Trade receivables and leases receivables for the two whole lease tenants with significant balances and/or credit-impaired, are assessed for ECL individually. In addition, the Group estimates ECL on the remaining balances collectively through groupings of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, industry, ageing, repayment histories and/or past due status of respective debtors and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The volatility in the financial markets and the increase in uncertainties in the PRC real estate sector, the Group has increased the expected loss rates in the current year as the volatility in the financial markets could lead to increased credit default rates. The information about the ECL and the Group's trade receivables and lease receivables are disclosed in note 36.

5. REVENUE

(i) Disaggregation of revenue

	For the year ended 31 December 2022 Timing for revenue recognition A point in time HK$'000	 Overtime HK$'000	 Total HK$'000
Manufacturing of goods *(Note)*	4,171,427	—	4,171,427
Property management fee	—	63,281	63,281
Others	7,941	—	7,941
Revenue from contracts with customer	4,179,368	63,281	4,242,649
Leases			258,883
Total revenue			4,501,532

	For the year ended 31 December 2021 Timing for revenue recognition A point in time HK$'000	 Overtime HK$'000	 Total HK$'000
Manufacturing of goods *(Note)*	4,277,508	—	4,277,508
Property management fee	—	85,104	85,104
Others	12,273	—	12,273
Revenue from contracts with customer	4,289,781	85,104	4,374,885
Leases			370,482
Total revenue			4,745,367

Note: Manufacturing of goods represents external sales of plastics products, liquid crystal display, printed circuit boards and intelligent chargers under Hi-Tech Manufacturing Business, as detailed in segment information.

5. REVENUE (continued)

(ii) Performance obligations for contracts with customers

a) *Manufacturing of goods (revenue recognised at a point in time)*

The Group sells plastic products, liquid crystal display, printed circuit boards and intelligent chargers to customers.

For sales of plastic products, liquid crystal display, printed circuit boards and intelligent chargers (including those manufacturing products with no alternative use but the Group has no enforceable right to payable for performance completed to date), revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers. The contracts with customers are with fixed consideration and the duration is within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Advance payments maybe received based on terms of sales contract and any transactions price received by the Group is recognised as a contract liability until the goods have been delivered to the customers. The average normal credit term is 30 to 105 days upon delivery.

Sales-related warranties associated with sales of goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

b) *Property management fee (revenue recognised over time)*

The Group invests in properties in Shenzhen Aerospace Science & Technology Plaza (the "S&T Plaza") and other properties including industrial and office premises in Hong Kong and the PRC. Property management fee income is recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group applied the practical expedient in HKFRS 15 by recognising revenue in the amount to which the Group has right to invoice, since the Group is entitled to bill the value of the Group's performance completed to date according to the terms of the relevant agreements. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the President, the chief operating decision maker ("CODM") of the Group, that are used to make strategic decisions. There are 6 reportable segments, namely Hi-Tech Manufacturing Business (including plastic products, liquid crystal display, printed circuit boards, intelligent chargers and industrial property investment) and Aerospace Service (including property investment in the S&T Plaza) which represent the major industries in which the Group is engaged.

6. SEGMENT INFORMATION (continued)

In addition to the above reportable segments, other operating segments include property investments and management in properties other than those included in the above reportable segments and provision for other services. None of these segments met the quantitative thresholds for the reportable segment in both current and prior year. Accordingly, these were grouped in "Other Business".

(a) An analysis of the Group's revenue and results by reportable segments is as follows:

For the year ended 31 December 2022

	Revenue			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	1,430,081	48,080	1,478,161	16,422
Liquid crystal display	1,104,540	—	1,104,540	51,265
Printed circuit boards	1,258,426	—	1,258,426	135,543
Intelligent chargers	378,380	6,367	384,747	10,372
Industrial property investment	9,485	25,670	35,155	(1,114)
	4,180,912	80,117	4,261,029	212,488
Aerospace Service				
Property investment in S&T Plaza	310,268	2,866	313,134	389,340
Reportable segments total	4,491,180	82,983	4,574,163	601,828
Elimination	—	(82,983)	(82,983)	—
Other Business	10,352	—	10,352	650
	4,501,532	—	4,501,532	602,478
Unallocated corporate income				37,600
Unallocated corporate expenses				(85,696)
Unallocated gains and losses				(17,508)
Net loss on lease terminations				(570,813)
Impairment loss under ECL model, net of reversal				(174,921)
Provision for litigation				(30,305)
Share of results of associates				(10,147)
Share of results of joint ventures				(168)
Finance costs				(76,243)
Loss before taxation				(325,723)

6. SEGMENT INFORMATION (continued)

(a) An analysis of the Group's revenue and results by reportable segments is as follows: (continued)

For the year ended 31 December 2021

	Revenue			
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000
Hi-Tech Manufacturing Business				
Plastic products	1,459,512	69,572	1,529,084	32,084
Liquid crystal display	1,062,204	—	1,062,204	57,430
Printed circuit boards	1,334,669	—	1,334,669	85,650
Intelligent chargers	421,123	27,937	449,060	7,230
Industrial property investment	11,260	25,280	36,540	7,125
	4,288,768	122,789	4,411,557	189,519
Aerospace Service				
Property investment in S&T Plaza	440,370	877	441,247	301,009
Reportable segments total	4,729,138	123,666	4,852,804	490,528
Elimination	—	(123,666)	(123,666)	—
Other Business	16,229	—	16,229	5,890
	4,745,367	—	4,745,367	496,418
Unallocated corporate income				53,010
Unallocated corporate expenses				(73,819)
Unallocated gains and losses				5,429
Net gain on lease terminations				200,861
Impairment loss under ECL model				(121,701)
Share of results of associates				20,375
Share of results of joint ventures				(17,525)
Finance costs				(76,946)
Profit before taxation				486,102

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by/loss from each segment without allocation of share of results of associates, share of results of joint ventures, finance costs, net (loss) gain on lease terminations, provision of litigation, impairment loss under ECL model (net of reversal), unallocated gains and losses (including unallocated exchange gains (losses), change in fair value of financial assets at FVTPL and gain on deemed partial disposal of an associate), unallocated corporate income (including interest income and other unallocated income) and unallocated corporate expenses. Since the management considers that the loss on lease terminations with the two whole lease tenants as detailed in note 7(c) and the impairment loss under ECL model recognised during the year as detailed in note 19 regarding the Aerospace Services are one-off event, the amounts are excluded from the segment result for the year ended 31 December 2022 and 2021. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

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

6. SEGMENT INFORMATION (continued)

(b) The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

	2022 HK$'000	2021 HK$'000
Segment assets		
Hi-Tech Manufacturing Business		
Plastic products	1,255,596	1,390,789
Liquid crystal display	685,946	787,713
Printed circuit boards	1,077,136	1,257,736
Intelligent chargers	225,132	271,298
Industrial property investment	269,341	250,903
	3,513,151	3,958,439
Aerospace Service		
Property investment in S&T Plaza	8,934,794	10,170,930
Total assets for reportable segments	12,447,945	14,129,369
Other Business	109,183	121,152
Interests in associates	254,481	288,347
Interests in joint ventures	141,764	148,776
Unallocated assets	2,312,455	2,181,518
Consolidated assets	15,265,828	16,869,162
Segment liabilities		
Hi-Tech Manufacturing Business		
Plastic products	498,660	431,241
Liquid crystal display	202,284	245,423
Printed circuit boards	369,262	453,188
Intelligent chargers	75,761	103,730
Industrial property investment	7,152	6,146
	1,153,119	1,239,728
Aerospace Service		
Property investment in S&T Plaza	12,448	62,600
Total liabilities for reportable segments	1,165,567	1,302,328
Unallocated liabilities	4,315,598	4,724,068
Consolidated liabilities	5,481,165	6,026,396

6. SEGMENT INFORMATION (continued)

(b) The following is an analysis of the Group's assets and liabilities by operating and reportable segments: (continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than cash and cash equivalents, short-term bank deposits, restricted bank deposits, pledged bank deposits, long-term bank deposits, amount due from a related party, financial assets at FVTPL, interests in joint ventures, interests in associates, and the other unallocated assets; and

- all liabilities are allocated to operating and reportable segments other than taxation payable, deferred taxation, loan from a major shareholder, loan from a related party, amount due to a joint venture and the other unallocated liabilities.

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

2022

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value loss (gain) on investment properties HK$'000	(Gain) loss on disposal/ written off of property, plant and equipment HK$'000	Loss on lease terminations HK$'000	Impairment loss under expected credit loss model, net of reversal HK$'000	Allowance for obsolete inventories HK$'000
Hi-Tech Manufacturing Business							
Plastic products	148,623	86,348	560	(53)	–	–	68
Liquid crystal display	44,261	43,887	–	942	–	–	–
Printed circuit boards	207,191	110,346	–	(358)	–	–	12,157
Intelligent chargers	13,204	7,569	–	340	–	–	3,927
Industrial property investment	54,470	26,914	223	205	–	–	–
	467,749	275,064	783	1,076	–	–	16,152
Aerospace Service							
Property investment in S&T Plaza	7,089	6,367	(144,246)	–	–	–	–
Reportable segments total	474,838	281,431	(143,463)	1,076	–	–	16,152
Other Business	540	5,590	3,892	–	–	–	–
Unallocated	–	–	–	–	570,813	174,921	–
Total	475,378	287,021	(139,571)	1,076	570,813	174,921	16,152

6. SEGMENT INFORMATION (continued)

(c) Other segment information (continued)

2021

	Capital additions HK$'000	Depreciation and amortisation HK$'000	Fair value loss (gain) on investment properties HK$'000	Loss (gain) on disposal/ written off of property plant and equipment HK$'000	Net gain on land resumptions HK$'000	Impairment loss under expected credit loss model, net of reversal HK$'000	Allowance for obsolete inventories HK$'000
Hi-Tech Manufacturing Business							
Plastic products	118,786	80,297	–	157	–	–	–
Liquid crystal display	113,281	30,017	–	–	–	–	–
Printed circuit boards	193,682	106,630	–	(60)	–	–	369
Intelligent chargers	7,761	7,447	–	235	–	–	–
Industrial property investment	11,789	11,148	(5,986)	(349)	–	–	–
	445,299	235,539	(5,986)	(17)	–	–	369
Aerospace Service							
Property investment in S&T Plaza	10,983	2,740	52,156	–	–	–	–
Reportable segments total	456,282	238,279	46,170	(17)	–	–	369
Other Business	10,798	4,984	1,554	–	–	–	–
Unallocated	625	–	–	–	(200,861)	121,701	–
Total	467,705	243,263	47,724	(17)	(200,861)	121,701	369

6. SEGMENT INFORMATION (continued)

(d) Geographical information

The Group operates in two principal geographical areas — Hong Kong and the PRC.

The Group's revenue from external customers based on the location of operation and information about its non-current assets, excluded those relating to financial instruments, by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2022	2021	2022	2021
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	2,600,137	2,531,110	433,673	270,643
The PRC	1,866,343	2,202,182	10,821,167	11,976,990
Overseas	35,052	12,075	205,600	212,832
	4,501,532	4,745,367	11,460,440	12,460,465

Information about major customers

No individual customer of the Group has contributed over 10% of the revenue of the Group for both reporting periods.

7. OTHER INCOME, OTHER GAINS AND LOSSES, AND NET (LOSS) GAIN ON LEASE TERMINATIONS

(a) Other income

	2022	2021
	HK$'000	HK$'000
The Group's other income comprises:		
Interest income	37,186	37,109
Sales of scrap materials	23,570	24,733
Government subsidies *(Note (i))*	11,651	9,928
Government grants in respect of Covid-19-related subsidies *(Note (ii))*	2,272	—

Notes:

(i) The government subsidies mainly represent the incentive provided by the PRC local authorities to the Group for encouragement of business development. There were no specific conditions attached to the grants and the Group recognised the grants upon receipts.

(ii) During the year ended 31 December 2022, the Group recognised government grants in respect of Covid-19-related subsidies, including subsidies from the Employment Support Schedule provided by the Hong Kong Government of HK$2,272,000 (2021: Nil).

7. OTHER INCOME, OTHER GAINS AND LOSSES, AND NET (LOSS) GAIN ON LEASE TERMINATIONS (continued)

(b) Other gains and losses

	2022 HK$'000	2021 HK$'000
The Group's other gains and losses mainly comprise:		
Net exchange loss	(8,712)	(3,400)
Net gain from change in fair value of financial assets at FVTPL	18,290	1,669
Net (loss) gain on disposal/written off of property, plant and equipment	(1,076)	17
Gain on deemed partial disposal of an associate	—	5,289
Provision for litigation *(Note)*	(30,305)	—

Note: In prior years, a subsidiary of the Group was involved in a litigation with a third party in relation to the contract dispute and no provision was made in prior year based on the legal advice. During the year ended 31 December 2022, since the court has ruled in favor of the third party and a provision is recorded. Details are set out in note 23.

(c) Net (loss) gain on lease terminations

	2022 HK$'000	2021 HK$'000
Net loss on lease termination	(570,813)	—
Net gain on land resumptions *(Note 15)*	—	200,861
	(570,813)	200,861

S&T Plaza is one of the Group's key investment properties in Nanshan District, Shenzhen, the PRC, which generates a stable source of income for the Group. The S&T Plaza is held by a non-wholly owned subsidiary of the Group, Shenzhen Aerospace Technology Investment Company Limited ("Shenzhen Aerospace"). The S&T Plaza was leased to two whole lease tenants namely Shenzhen Hangke Houhai Investment Development Company Limited ("Hangke Houhai") and Shenzhen Huabaorun Management Limited ("Huabaorun"), and the Group's rental income is accrued and recognised on an effective rental basis after taking into account the rent-free period and progressive rentals which are recorded as unbilled lease receivables in the consolidated financial statements of the Group. As affected by market conditions, the rental and price of properties in Nanshan District had decreased in general and the Group had also encountered issues in collecting rent and management fees as a result of the uncertainty in the economy in 2021. As detailed in note 36, the Group recognised impairment losses under the ECL model on the lease receivables arising from the S&T Plaza, including both billed and unbilled portions in 2021.

7. OTHER INCOME, OTHER GAINS AND LOSSES, AND NET (LOSS) GAIN ON LEASE TERMINATIONS (continued)

(c) Net (loss) gain on lease terminations (continued)

During the year ended 31 December 2022, the Group has announced that despite the fact that various approaches have been adopted to recover the rental arrears from Hangke Houhai, who entered into a 10-year office whole-lease agreement with the Group in 2016, the rental arrears issues remain unresolved as Hangke Houhai encountered difficulties in cash flows owing to the unsatisfactory subletting rate after the withdrawal of the lease of the major tenants. Shenzhen Aerospace filed civil complaints with Shenzhen City Nanshan District People's Court, Guangdong Province (the "Nanshan Court") in 2022 and the Nanshan Court has officially accepted the filing of the complaint against Hangke Houhai as the defendant, to claim for the outstanding amount of the billed lease receivables and penalty for breach of the whole-lease contract.

Meanwhile, during the year ended December 2022, Shenzhen Aerospace received a civil complaint (the "Hangke Houhai Complaint") served by the Nanshan Court in relation to a claim filed by Hangke Houhai against Shenzhen Aerospace. Pursuant to the Hangke Houhai Complaint, Hangke Houhai requested the court to order Shenzhen Aerospace to pay Hangke Houhai the sum of approximately RMB119,000,000, being (i) the operating loss incurred due to the delay in delivery of property and provision of realty title certificate to Hangke Houhai; (ii) the damages for late payment to be calculated according to the double of the PRC's loan prime rate, from the date when the loss report was made (i.e. 8 November 2018) until the date of actual payment; and (iii) the litigation expenses associated with the claim. In addition, Hangke Houhai has filed an additional claim for a refund from Shenzhen Aerospace for overpaid rent since Covid-19 pandemic of approximately RMB49,800,000 and consequential interest loss. As at the date of this report, the abovesaid litigations with Hangke Houhai have been heard by the Nanshan Court and are pending judgment of the first instance.

After considering the advice from the legal advisor of Shenzhen Aerospace, the directors of the Company believe that the claims can be successfully defended and it is not probable that an outflow of resources embodying economic benefits will be required to settle the claims. Therefore, the litigations are disclosed as contingent liabilities as set out in note 41 and no provision is made.

In addition, during the year ended 31 December 2022, the Group has further announced that Huabaorun, who entered into a 15-year commercial properties whole-lease agreement with the Group in 2016, has continuously failed to pay the rental, and despite various approaches adopted by Shenzhen Aerospace to recover the arrears and numerous discussions with Huabaorun, the rental arrears issue remains unresolved. Shenzhen Aerospace filed a civil complaint with Nanshan Court and subsequent to the year end, the Nanshan Court has officially accepted the filing of the complaint against Huabaorun as the defendant, to claim for the outstanding amount of the billed lease receivables and the penalty for breach of the whole-lease contract.

Further details of the abovesaid lease terminations and litigations, and additional claims against Hangke Houhai and Huabaorun subsequent to the year ended 31 December 2022 are set out in the Company's announcements published on the website of the Stock Exchange.

As Hangke Houhai and Huabaorun have failed to fulfill its obligation under the original lease agreement, the Group has terminated the lease agreements and accounted for the lease terminations in accordance with HKFRS 16. On the effective date of the abovesaid leases termination, the gross carrying amount of unbilled lease receivables which represent accrued rental income recognised on effective rental basis is derecognised and resulting in a loss on lease terminations amounting to HK$570,813,000.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 9 (2021: 8) directors are as follows:

	Executive directors		Non-executive directors			Independent non-executive directors				
	Zhou Limin HK$'000	Jin Xuesheng* HK$'000	Hua Chongzhi HK$'000	Liu Xudong## HK$'000	Mao Yijin## HK$'000	Luo Zhenbang HK$'000	Chen Jingru# HK$'000	Leung Sau Fan, Sylvia^ HK$'000	Wang Xiaojun HK$'000	2022 Total HK$'000
Directors' fees										
Executives	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	94	95	19	–	–	–	–	208
Independent non-executives	–	–	–	–	–	190	65	91	190	536
	–	–	94	95	19	190	65	91	190	744
Other emoluments										
Salaries and other benefits	1,602	1,602	14	14	2	118	44	67	58	3,521
Bonuses	1,028	1,028	–	–	–	–	–	–	–	2,056
Contributions to retirement benefits scheme	179	304	–	–	–	–	–	–	–	483
	2,809	2,934	14	14	2	118	44	67	58	6,060
Total emoluments	2,809	2,934	108	109	21	308	109	158	248	6,804

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Executive directors		Non-executive directors			Independent non-executive directors			
	Zhou Limin HK$'000	Jin Xuesheng* HK$'000	Hua Chongzhi HK$'000	Liu Xudong## HK$'000	Mao Yijin## HK$'000	Luo Zhenbang HK$'000	Leung Sau Fan, Sylvia^ HK$'000	Wang Xiaojun HK$'000	2021 Total HK$'000
Directors' fees									
Executives	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	32	95	–	–	–	–	127
Independent non-executives	–	–	–	–	–	150	150	150	450
	–	–	32	95	–	150	150	150	577
Other emoluments									
Salaries and other benefits	1,602	1,602	13	11	–	87	110	60	3,485
Bonuses	232	930	–	–	–	–	–	–	1,162
Contributions to retirement benefits scheme	188	231	–	–	–	–	–	–	419
	2,022	2,763	13	11	–	87	110	60	5,066
Total emoluments	2,022	2,763	45	106	–	237	260	210	5,643

Note: The bonuses are determined with reference to the operating results, individual performance and comparable market statistics for the year.

Mr. Jin Xuesheng was also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group while the non-executive and independent non-executive directors' emoluments shown above are for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Appointed on 30 August 2022
^ Retired on 24 June 2022
* Resigned on 10 February 2023
Resigned on 2 March 2023

8. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Highest paid individuals' emoluments

During the year, the five highest paid individuals included two directors (2021: one director), details of whose emoluments are set out above. The emoluments of the remaining three (2021: four) highest paid individuals are as follows:

	2022 HK$'000	2021 HK$'000
Salaries and other benefits	1,899	3,571
Bonuses *(Note)*	12,568	10,041
Contributions to retirement benefits scheme	80	440
	14,547	14,052

Note: The bonuses are determined with reference to the operating results, individual performance and comparable market statistics for the year.

The emoluments of highest paid employees who are not the directors of the Company were within the following band:

Emoluments band	**Number of individuals** 2022	 2021
HK$6,000,001 to HK$6,500,000	1	—
HK$5,500,001 to HK$6,000,000	1	—
HK$5,000,001 to HK$5,500,000	—	1
HK$4,000,001 to HK$4,500,000	—	1
HK$2,500,001 to HK$3,000,000	1	—
HK$2,000,001 to HK$2,500,000	—	2

During the year, no emoluments were paid by the Group to the directors and five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments during the year.

9. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest expenses on		
— loan from a major shareholder	29,891	30,283
— loan from a related party	41,041	42,126
— lease liabilities	5,311	4,537
	76,243	76,946

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

10. (LOSS) PROFIT BEFORE TAXATION

	2022 HK$'000	2021 HK$'000
(Loss) profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	4,403	3,669
Cost of inventories charged to profit or loss including net reversal of allowance for obsolete inventories of HK$16,152,000 (2021: HK$369,000)	3,462,625	3,624,196
Depreciation of property, plant and equipment *(Note)*	245,374	201,817
Depreciation of right-of-use assets *(Note)*	41,647	41,446
Staff costs, including directors' remuneration *(Note)*	944,229	941,199
Gross rental income from investment properties	(258,883)	(370,482)
Less: Direct operating expenses for investment properties that generated rental income during the year	11,451	10,934
	(247,432)	(359,548)

Note: Staff costs, and depreciation of property, plant and equipment and right-of-use assets disclosed above included amounts capitalised in inventories.

11. TAXATION

The tax charge (credit) for the year comprises:

	2022 HK$'000	2021 HK$'000
Current tax:		
Hong Kong Profits Tax	9,309	13,639
PRC EIT	52,677	118,065
	61,986	131,704
Overprovision in prior years:		
Hong Kong Profits Tax	(2,765)	(225)
PRC EIT	(1,012)	—
	(3,777)	(225)
Deferred tax (credit) charge *(Note 29)*	(131,210)	(48,591)
	(73,001)	82,888

11. TAXATION (continued)

The income tax expense for the year can be reconciled to the (loss) profit before taxation per consolidated statement of profit or loss as follows:

	2022 HK$'000	2021 HK$'000
(Loss) profit before taxation	(325,723)	486,102
Tax at applicable income tax*	(81,431)	121,526
Tax effect of share of results of associates	2,536	(5,094)
Tax effect of share of results of joint ventures	42	4,381
Tax effect of expenses not deductible for tax purpose	14,458	6,497
Tax effect of income not taxable for tax purpose	(10,602)	(15,614)
Tax effect of deductible temporary difference not recognised	3,905	7,081
Land appreciation tax	31,964	(11,451)
Tax effect of land appreciation tax deductible for PRC EIT	(7,991)	2,863
Super deduction for research and development expenses	(28,343)	(26,678)
Tax effect of tax losses not recognised	15,421	15,232
Utilisation of tax losses previously not recognised	(3,604)	(4,776)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3,883)	(10,160)
Effect of income tax on concessionary rates for certain subsidiaries	(1,377)	(1,184)
Overprovision in prior years	(3,777)	(225)
Others	(319)	490
Income tax expenses for the year	(73,001)	82,888

* The tax rate of 25% represents the domestic tax rate (which is PRC EIT) in the jurisdiction where the major current tax is charged.

Hong Kong Profits Tax for both periods is calculated at 16.5% of the estimated assessable profits for the period, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Three subsidiaries (2021: three subsidiaries) of the Company operating in the PRC are eligible as High and New Technology Enterprise till the dates ranging from 1 December 2023 to 30 November 2025 (2021: from 1 December 2022 to 30 November 2023) and the income tax rate of these subsidiaries is 15%.

11. TAXATION (continued)

According to the requirements of the Provisional Regulations of the PRC on LAT effective from 1 January 1994 and amended on 8 January 2011, and the Implementation Rules on the Provisional Regulations of the PRC on LAT effective from 27 January 1995, all gains arising from the sale or transfer of real estate in the PRC with effect from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and expenses for the development of the land or for construction of new buildings and supporting facilities, or the assessed value for old buildings and structures, tax payable relating to transfer of the real estate and other deductible items prescribed by the Ministry of Finance.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprise engaging in research and development activities are entitled to claim 200% (2021: 200%) of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction").

Details of deferred taxation are set out in note 29.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2022 HK$'000	2021 HK$'000
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	(119,918)	345,764

	2022 Number of shares	2021 Number of shares
Number of shares		
Number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	3,085,022,000	3,085,022,000

The computation of diluted loss per share for the year ended 31 December 2022 assumes the conversion of convertible loan notes issued by its associate but has no impact on the overall diluted loss per share. (2021: No diluted earnings per share have been presented as there was no potential ordinary shares outstanding for the year).

13. DIVIDENDS

	2022 HK$'000	2021 HK$'000
Dividends recognised as distribution during the year:		
2022 interim dividend of HK0.5 cents per ordinary share	15,425	—
2021 final dividend of HK2 cents (2021: 2020 final dividend of HK2 cents) per ordinary share	61,700	61,700
	77,125	61,700

A final dividend of HK2 cents per share in respect of the year ended 31 December 2022 (2021: HK2 cents) has been proposed by the board of directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

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For the year ended 31 December 2022

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK$'000	Leasehold land and buildings outside Hong Kong HK$'000	Plant and equipment HK$'000	Motor vehicles HK$'000	Furniture and office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2021	76,875	726,817	1,235,231	29,296	379,914	100,166	2,548,299
Exchange realignment	—	18,319	35,989	499	11,151	(289)	65,669
Additions	—	230	269,985	165	39,110	117,010	426,500
Disposals/written off	—	(90,322)	(12,728)	(102)	(4,117)	—	(107,269)
Transfer	—	118,189	30,800	2,433	33,104	(184,526)	—
At 31 December 2021	76,875	773,233	1,559,277	32,291	459,162	32,361	2,933,199
Exchange realignment	—	(64,865)	(114,440)	(1,508)	(23,550)	(2,072)	(206,435)
Additions	—	21	187,205	1,739	45,371	83,300	317,636
Disposals/written off	—	(7,078)	(42,603)	(1,214)	(24,193)	—	(75,088)
Transfer from investment properties	—	329,825	—	—	—	—	329,825
Transfer	—	22,535	16,142	—	12,760	(51,437)	—
At 31 December 2022	76,875	1,053,671	1,605,581	31,308	469,550	62,152	3,299,137
DEPRECIATION AND IMPAIRMENT							
At 1 January 2021	48,760	229,767	654,664	23,946	218,797	—	1,175,934
Exchange realignment	—	8,037	17,001	401	6,373	—	31,812
Provided for the year	1,985	22,502	128,435	1,852	47,043	—	201,817
Eliminated on disposals/written off	—	(23,949)	(9,981)	(87)	(4,099)	—	(38,116)
At 31 December 2021	50,745	236,357	790,119	26,112	268,114	—	1,371,447
Exchange realignment	—	(37,928)	(53,756)	(1,201)	(9,099)	—	(101,984)
Provided for the year	1,985	29,856	151,399	1,573	60,561	—	245,374
Eliminated on disposals/written off	—	(3,990)	(42,413)	(1,069)	(24,193)	—	(71,665)
At 31 December 2022	52,730	224,295	845,349	25,415	295,383	—	1,443,172
CARRYING VALUES							
At 31 December 2022	24,145	829,376	760,232	5,893	174,167	62,152	1,855,965
At 31 December 2021	26,130	536,876	769,158	6,179	191,048	32,361	1,561,752

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the terms of lease, or 50 years
Plant and equipment	5%–20%
Motor vehicles	10%–25%
Furniture and office equipment	5%–20%

15. RIGHT-OF-USE ASSETS

	Leasehold land HK$'000	Leased properties HK$'000	Total HK$'000
As at 31 December 2022 Carrying amount	130,965	148,316	279,281
As at 31 December 2021 Carrying amount	98,777	89,411	188,188
For the year ended 31 December 2022 Depreciation charge	6,499	35,148	41,647
For the year ended 31 December 2021 Depreciation charge	8,449	32,997	41,446

	2022 HK$'000	2021 HK$'000
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	28	12
Expense relating to short-term leases	1,426	1,348
Total cash outflow for leases	93,295	38,157
Total cash inflow for leases	—	330,178
Additions to right-of-use assets	154,910	32,461

For both years, the Group leases various offices and warehouses for its operations in the PRC and Vietnam. Other than short-term leases, lease contracts are entered into for fixed term of 15 months to 30 years (2021: 14 months to 30 years). In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

15. RIGHT-OF-USE ASSETS (continued)

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold land. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

During the year, the Group entered into new lease agreements for the use of leased properties from 12 months to 25 months (2021: 14 months to 10 years). On the lease commencement, the Group recognised right-of-use assets and lease liabilities of HK$2,262,000 (2021: right-of-use assets and lease liabilities of HK$11,594,000). In addition, lease terms of certain leases were extended through modification from 12 months to 5 years (2021: 2 years to 5 years) and the Group recognised additions to right-of-use assets and lease liabilities of HK$100,673,000 (2021: right of use assets and lease liabilities of HK$20,867,000). Both of these transactions constitute non-cash transactions.

During the year ended 31 December 2022, the Group makes an upfront payment of HK$51,975,000 for leasehold land in the PRC for 50 years (2021: Nil).

The Group regularly entered into short-term leases for staff quarters and machineries. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expenses.

During the year ended 31 December 2022, there is no lease terminated. During the year ended 31 December 2021, the Group entered into several land resumption agreements with a government authority in Huizhou, the PRC, for returning the leasehold land of carrying amount of HK$61,042,000 to the government at a consideration of HK$330,178,000, details of which were disclosed in the Company's announcement dated 29 June 2021. Certain property, plant and equipment with carrying amount of HK$68,275,000 were written off due to the land resumption and a net gain on land resumptions of HK$200,861,000 was recognised in profit and loss and included in net loss on lease terminations.

16. INVESTMENT PROPERTIES

The Group leases out various industrial and offices premises, and retail shops under operating leases with rentals payable monthly. Rental deposits ranging from one to three months are received upon the inception of the lease. The leases typically run for an initial period of 1 to 10 years and rent-free periods has been granted to certain tenants. None of the leases included variable lease payment.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2022 HK$'000	2021 HK$'000
FAIR VALUE		
At 1 January	9,796,960	9,594,734
Exchange realignment	(714,262)	241,206
Addition	2,832	8,744
Net change in fair value recognised in profit or loss	139,571	(47,724)
Transfer to property, plant and equipment	(329,825)	—
At 31 December	8,895,276	9,796,960
Unrealised gain (loss) on property revaluation included in profit or loss of current year		
— Investment properties	136,376	(47,724)
— Property, plant and equipment, transferred from investment properties during the year	3,195	—

The fair values of the Group's investment properties at date of transfer, 31 December 2022 and 31 December 2021 have been arrived at on the basis of valuations carried out on that date by Jones Lang LaSalle Limited ("Jones Lang") for properties situated in Hong Kong and Knight Frank Petty Limited ("Knight Frank") for properties situated in the PRC. Jones Lang and Knight Frank are independent qualified professional valuers not connected with the Group.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs to the model. The management reports the findings to the board of directors of the Company every half-year to explain the cause of fluctuation in fair value of property.

The Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. There has been no change from the valuation technique used in the prior year.

16. INVESTMENT PROPERTIES (continued)

Fair value measurements and valuation processes (continued)

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The fair value of certain investment properties have been adjusted to exclude prepaid or accrued operating lease income to avoid double count.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at 31.12.2022 HK$'000	Fair value as at 31.12.2021 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
The PRC						
Industrial premises	69,910	75,343	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly market rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 7.5% per annum (2021: 7.5% per annum).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property, of RMB10.5/sq.m. (2021: RMB10.5/sq.m.) on average for the base level.	The higher the monthly market rent, the higher the fair value.
Office premises	91,403	102,812	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly market rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.0% — 5.25% per annum (2021: 4.0% — 5.25% per annum).	The higher the capitalisation rate, the lower the fair value.
					Monthly rent, using direct market comparable and taking into account of age, location and individual factors such as size of property and layout/design, of RMB92–190/sq.m. (2021: RMB92 — RMB205/sq.m.) on average.	The higher the monthly market rent, the higher the fair value.

16. INVESTMENT PROPERTIES (continued)

Fair value measurements and valuation processes (continued)

	Fair value as at 31.12.2022 HK$'000	Fair value as at 31.12.2021 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Retail and office premises*	8,571,483	9,455,365	Level 3	Income Capitalisation Approach The key inputs are: (1) Capitalisation rate; (2) Monthly market rent	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 6.5% per annum (2021: 7.0% per annum) (retail) and 4.0% per annum (2021: 4.0% per annum) (office).	The higher the capitalisation rate, the lower the fair value.
					Monthly market rent, using direct market comparable and taking into account of age, location and individual factors such as size of property, of RMB101–155/sq.m. (2021: RMB130 — RMB144/sq.m.) for retail and 189/sq.m. (2021: RMB194/sq.m.) for office.	The higher the monthly market rent, the higher the fair value.
Hong Kong						
Industrial premises	130,880	134,040	Level 3	Direct comparison method based on market observable transactions of similar properties adjusted timing of reference transactions and property-specific adjustments including nature, location and condition of the property	Adjusted market unit rate, mainly taking into account the conditions and location, between the comparables, at HK$5,000 — HK$7,900 (2021: HK$5,300 — HK$7,700) per square feet.	The higher the adjusted market unit rate, the higher the fair value.
Carparks	31,600	29,400	Level 3	Direct comparison method based on market observable transactions of similar properties adjusted timing of reference transactions and property-specific adjustments including nature, location and condition of the property	Adjusted market unit rate, mainly taking into account the conditions and location, between the comparables, at HK$2,000,000 — HK$2,200,000 (2021: HK$1,600,000 — HK$2,300,000).	The higher the adjusted market unit rate, the higher the fair value.

* The fair value of these investment properties have been adjusted to exclude prepaid or accrued operating lease income to avoid double count.

16. INVESTMENT PROPERTIES (continued)

Fair value measurements and valuation processes (continued)

The valuations are dependent on certain key inputs that require significant management judgements and estimates, which involves certain estimates of market conditions and assumptions made on the investment properties including comparable market transactions with adjustments to reflect different age, locations or conditions and information about the valuation techniques and inputs used in determining the fair value of the Group's investment properties, including comparable market transactions with adjustments to reflect different locations or conditions, and comparable market rents and capitalisation rate, are disclosed above.

There were no transfers into or out of level 3 during both years.

17. INTERESTS IN ASSOCIATES

	2022 HK$'000	2021 HK$'000
Cost of investments in associates	217,487	217,487
Share of post-acquisition profits, net of dividends received	49,031	62,652
Exchange realignment	(12,037)	8,208
Share of net assets	254,481	288,347

Details of the Group's associates at 31 December 2022 and 2021 are as follows:

Name of associates	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group % 2022	2021	Principal activities
Registered and operating in the PRC:				
航天新商務信息科技有限公司*	RMB132,000,000	15.15	15.15	Provision of information service
航天數聯信息技術(深圳)有限公司	HK$128,460,000	32.13	32.13	Development and sale of software and related products, and warehouse and logistic services
深圳瑞華泰薄膜科技股份有限公司 ("Shenzhen Rayitek") and its subsidiary	RMB135,000,000	23.38	23.38	Manufacturing and distribution of polyimide films and related composite materials

* The Group has the ability to exercise significant influence over this associate because it has the power to appoint one representative in the board of that company. Accordingly, it is regarded as an associate of the Group.

On 28 April 2021, Shenzhen Rayitek was officially listed on the Sci-Tech Innovation Board of Shanghai Stock Exchange. The issue price per share was RMB5.97, and a total of 45,000,000 new shares were issued, which was equivalent to approximately 25% of the enlarged issued share capital. As such, the Company's indirect interest in Shenzhen Rayitek was diluted from 31.17% to approximately 23.38%, a gain on deemed partial disposal of an associate of HK$5,289,000 was recorded.

17. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

This associate is accounted for using the equity method in these consolidated financial statements.

Shenzhen Rayitek

	2022 HK$'000	2021 HK$'000
Current assets	546,300	399,221
Non-current assets	2,074,296	1,203,172
Current liabilities	(804,291)	(252,165)
Non-current liabilities	(867,439)	(263,651)
Revenue	341,303	378,701
(Loss)/profit and total comprehensive (expenses) income for the year	(47,374)	70,870
Dividend received	3,474	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in Shenzhen Rayitek recognised in the consolidated financial statements:

	2022 HK$'000	2021 HK$'000
Net assets of Shenzhen Rayitek	948,866	1,086,577
Proportion of the Group's ownership interest in Shenzhen Rayitek	23.38%	23.38%
Carrying amount of the Group's interest in Shenzhen Rayitek*	221,845	254,042

* The market value of the Group interest in Shenzhen Rayitek is determined based on the quoted market bid price multiplied by the quantity of shares held by the Group, amounting to HK$1,132,053,000 (2021: HK$1,621,460,000).

17. INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material

	2022 HK$'000	2021 HK$'000
The Group's share of profit and total comprehensive income for the year	929	3,168
Aggregate carrying amount of the Group's interests in these associates	32,636	34,305

18. INTERESTS IN JOINT VENTURES AND AMOUNT DUE TO A JOINT VENTURE

Interests in joint ventures

	2022 HK$'000	2021 HK$'000
Cost of unlisted investments in joint ventures	253,877	253,877
Share of post-acquisition losses	(87,884)	(87,716)
Exchange realignment	(24,229)	(17,385)
	141,764	148,776

Amount due to a joint venture

	2022 HK$'000	2021 HK$'000
Amount due to a joint venture	37,375	37,375

The amount due to a joint venture is non-trade in nature, unsecured, interest free and repayable on demand.

18. INTERESTS IN JOINT VENTURES AND AMOUNT DUE TO A JOINT VENTURE (continued)

Details of the Group's joint ventures at 31 December 2022 and 2021 are as follows:

Name of joint ventures	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:			
China Aerospace New World Technology Limited ("Aerospace New World")	HK$30,000,000	50	Investment holding
Registered and operating in the PRC:			
Hainan Aerospace Investment Management Company Limited 海南航天投資管理有限公司 ("Hainan Aerospace")	RMB200,000,000	50	Land development

According to the legal form and the contractual arrangements, each of the joint ventures in the joint ventures, under the joint control arrangement, has rights to the net assets of the entities, hence it is regarded as joint venture.

Notes to the Consolidated Financial Statements (continued)
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18. INTERESTS IN JOINT VENTURES AND AMOUNT DUE TO A JOINT VENTURE (continued)

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Hainan Aerospace

	2022 HK$'000	2021 HK$'000
Current assets	137,820	147,592
Non-current assets	15,569	17,247
Current liabilities	(893)	(315)

The above amounts of assets include the following:

Cash and cash equivalents	137,524	147,328

	2022 HK$'000	2021 HK$'000
Other income	6,812	4,211
Profit (loss) and total comprehensive income (expenses) for the year	265	(31,121)

The above profit (loss) for the year include the following:

	2022 HK$'000	2021 HK$'000
Depreciation and amortisation	(434)	(434)
Interest income	4,585	3,959

18. INTERESTS IN JOINT VENTURES AND AMOUNT DUE TO A JOINT VENTURE (continued)

Summarised financial information of material joint ventures (continued)

Hainan Aerospace (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Hainan Aerospace recognised in the consolidated financial statements:

	2022 HK$'000	2021 HK$'000
Net assets of Hainan Aerospace	152,496	164,524
Proportion of the Group's ownership interest in Hainan Aerospace	50%	50%
Carrying amount of the Group's interest in Hainan Aerospace	76,248	82,262

Aerospace New World

	2022 HK$'000	2021 HK$'000
Current assets	117,377	117,912
Non-current assets	16,287	16,561
Current liabilities	(1,746)	(1,028)
Non-current liabilities	(886)	(417)

The above amounts of assets include the following:

Cash and cash equivalents	42,383	52,748

	2022 HK$'000	2021 HK$'000
Other income	658	768
Loss and total comprehensive expense for the year	(601)	(3,929)

18. INTERESTS IN JOINT VENTURES AND AMOUNT DUE TO A JOINT VENTURE (continued)

Summarised financial information of material joint ventures (continued)

Aerospace New World (continued)

The above loss for the year include the following:

	2022 HK$'000	2021 HK$'000
Interest income	478	282
Income tax credit/(expenses)	633	(167)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Aerospace New World recognised in the consolidated financial statements:

	2022 HK$'000	2021 HK$'000
Net assets of Aerospace New World	131,032	133,028
Proportion of the Group's ownership interest	50%	50%
Carrying amount of the Group's interest	65,516	66,514

19. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS

	2022 HK$'000	2021 HK$'000
Trade receivables from contracts with customers		
— Hi-Tech Manufacturing Business	942,376	1,231,291
— Aerospace Services	58,940	44,978
	1,001,316	1,276,269
Less: Allowance for credit losses	(54,684)	(30,034)
	946,632	1,246,235
Lease receivables		
— billed	281,784	167,968
— unbilled	920	603,345
	282,704	771,313
Less: Allowance for credit losses	(279,284)	(114,070)
	3,420	657,243
Total trade receivable for contracts with customers and leases receivables	950,052	1,903,478
Other receivables, deposits and prepayment	158,720	176,714
Less: Allowance for credit losses	(57,952)	(62,628)
	100,768	114,086
Total trade and other receivables	1,050,820	2,017,564
Current	1,049,900	1,558,942
Non-current as long term assets	920	458,622
	1,050,820	2,017,564

The Group allows an average credit period of 30 to 120 days to its trade customers. No credit period was granted to tenants of rental of premises. Receivables are unsecured and interest-free.

As at 1 January 2021, trade receivables arising from contracts with customers amounted to HK$1,055,015,000.

Notes to the Consolidated Financial Statements (continued)
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19. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS (continued)

The following is an aged analysis of trade receivables arising from contracts with customers, net of allowance for credit losses, presented based on invoice date at the end of the reporting period:

	2022 HK$'000	2021 HK$'000
Within 90 days	**819,865**	1,074,453
Between 91–180 days	**115,987**	156,979
Between 181–365 days	**10,780**	14,803
	946,632	1,246,235

As at 31 December 2022, included in the Group's trade receivables arising from contracts with customers is bills received amounting to HK$107,430,000 (2021: HK$113,244,000) which are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$119,205,000 (2021: HK$215,588,000) which are past due as at the reporting date. Out of the past due balances, HK$22,918,000 (2021: HK$27,390,000) has been past due 90 days or more and is not considered as in default. The Group considers the information developed internally or obtained from external sources and considered that the debtor is likely to pay its creditors, including the Group, and the past due balances are therefore, not considered as in default.

The Group's rental income is accrued and recognised on an effective rental basis after taking into account of rent free period and progressive rentals which are recorded as unbilled lease receivables which are accrued rental income that are expected to be realised when the rental payment over the effective rental. Lease receivables are invoiced to tenants on a monthly basis after the rent free period and are due for settlement upon the issuance of invoices. As disclosed in note 7(c), upon the early termination of lease agreements with Hangke Houhai and Huabaorun, the gross carrying amount of unbilled lease receivables which represent accrued rental income recognised on effective rental basis amounting to HK$570,813,000 is derecognised during the year ended 31 December 2022.

19. TRADE AND OTHER RECEIVABLES AND LONG-TERM ASSETS (continued)

The following are the aged analysis of billed lease receivables, net of allowance for credit losses, presented based on invoice date which are also past due balances at the end of the reporting period:

	2022 HK$'000	2021 HK$'000
Within 90 days	3,420	100,781
Between 91–180 days	—	47,011
	3,420	147,792

The Group's internal credit risks assessments on Hangke Houhai and Huabaorun changed from doubtful to loss during the year ended 31 December 2022, and recognised additional impairment under ECL model on billed lease receivables of HK$237,906,000, as detailed in note 36. In addition, upon the termination of the lease agreement with Hangke Houhai and Huabaorun as detailed in note 7(c), an impairment loss under ECL model previously recognised on unbilled lease receivables of HK$90,572,000 is reversed during the year and included in impairment loss under ECL model line item, as the unbilled lease receivables are derecognised upon the early termination of the lease agreement and no longer assessed under ECL model.

Included in the Group's other receivables, deposits and prepayments at 31 December 2022 is value-added tax recoverable of HK$26,617,000 (2021: HK$46,533,000).

Details of impairment assessment of trade and other receivables are set out in note 36.

20. INVENTORIES

	2022 HK$'000	2021 HK$'000
Raw materials	216,779	308,173
Work-in-progress	101,939	159,744
Finished goods	194,766	261,682
	513,484	729,599

21. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party represented the deposits placed with Aerospace Science & Technology Finance Company Limited (航天科技財務有限責任公司) ("Aerospace Finance"), a subsidiary of China Aerospace Science & Technology Corporation ("CASC"). The amount was non-trade related, unsecured, receivable on demand and carried interests at prevailing market rate (Note (37)(a)(i)).

Details of impairment assessment of amount due from a related party are set out in note 36.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK$'000	2021 HK$'000
Financial assets mandatorily measured at FVTPL:		
Convertible bonds	130,585	—
Equity securities		
— listed in Hong Kong	6,232	5,564
	136,817	5,564
Analysed as:		
Current assets	6,232	5,564
Non-current assets	130,585	—
	136,817	5,564

On 18 August 2022, the Group subscribed for the convertible bonds issued by Shenzhen Rayitek (the "RYT CB"), with a principal amount of RMB100,494,000 (equivalent to HK$118,507,000) at a consideration of RMB100,494,000 (equivalent to HK$118,507,000), which carries interest rate ranged from 0.2% in the first year to 2% in the sixth year. The Group may convert the RYT CB since the first trading day (i.e. 24 February 2023) immediately following the expiry of the six-month period after the end of the issue date of the RYT CB (i.e. 24 August 2022) and until the maturity date (i.e. 17 August 2028) with the conversion price of RMB30.98.

The investments in listed convertible bonds are held for long-term strategic purpose and are therefore classified as non-current assets.

23. CASH AND CASH EQUIVALENT, PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS, LONG-TERM BANK DEPOSITS, RESTRICTED BANK DEPOSITS

Cash and cash equivalents include short term deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 1.83% to 4.75% (2021: 0.19% to 2.75%).

The Group's bank deposits amounting to HK$41,665,000 (2021: HK$63,261,000) have been pledged to secure general banking facilities of the Group and except for the amount of HK$11,425,000 (2021: HK$8,068,000) are classified as non-current assets as the period pledged is longer than one year, the remaining balances are classified as current assets.

During the year ended 31 December 2021, the Group's bank deposits amounting to HK$32,325,000 was restricted due to the involvement in a litigation regarding the contract dispute and the directors of the Company believed that, based on legal advice, the action could be successfully defended and therefore no losses would be incurred and no provision was made. However, the court has ruled in favor of the third party in November 2022 and a provision of HK$30,305,000 is made based on the court order. The Group is in the process of filing the appeal and the related bank deposits restricted in 2021 of HK$30,245,000 remains restricted as at 31 December 2022 due to this litigation.

At 31 December 2022, short-term bank deposits with maturity more than three months but less than one year carry fixed interest rates which range from 1.83% to 4.75% per annum (2021: 0.19% to 2.75%).

At 31 December 2022, there is no long-term bank deposits while at 31 December 2021, long-term bank deposits with maturity more than one year carry fixed interest rate from 2.03% to 3.79%.

At 31 December 2022, bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.001% to 2.1% (2021: 0.001% to 2.1%) per annum.

The Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of pledged bank deposits, short-term bank deposits, long-term bank deposits, restricted bank deposits and bank balances are set out in note 36.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

24. TRADE AND OTHER PAYABLES

	2022 HK$'000	2021 HK$'000
Trade payables	519,564	702,640
Accrued charges and provisions	116,287	100,836
Accrued salaries and wages and others	201,130	178,689
Refundable deposits received	48,870	26,207
Other payables	488,327	487,565
	1,374,178	1,495,937

Other payables included an amount of HK$54,000,000 (2021: HK$54,000,000) received on behalf of CASC, payables with respect to development costs for investment properties of HK$14,015,000 (2021: HK$19,083,000), and payables for acquisition of property, plant and equipment of HK$77,819,000 (2021: HK$75,712,000).

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

	2022 HK$'000	2021 HK$'000
Within 90 days	505,251	694,483
Between 91–180 days	14,313	8,157
	519,564	702,640

25. CONTRACT LIABILITIES

The amounts represent advances from customers in relation to their purchase orders of goods placed with the Group in which the Group does not expect to refund any of the advance payments.

Contract liabilities, that are expected to be settled within the Group's normal operating cycle, are classified as current based on the Group's earliest obligation to transfer goods or services to the customers.

As at 1 January 2021, contract liabilities amounted to HK$40,968,000.

During the year ended 31 December 2022, revenue recognised in current year of HK$73,759,000 (2021: HK$40,968,000) was included in the contract liability balance at the beginning of the year.

26. LEASE LIABILITIES

	2022 HK$'000	2021 HK$'000
Lease liabilities payable:		
Within one year	**37,811**	31,499
Within a period of more than one year but not more than two years	**32,111**	18,765
Within a period of more than two years but not more than five years	**74,905**	28,593
Within a period of more than five years	**11,370**	18,445
	156,197	97,302
Less: Amount due for settlement within 12 months shown under current liabilities	**(37,811)**	(31,499)
Amount due for settlement after 12 months shown under non-current liabilities	**118,386**	65,803

The incremental borrowing rates applied to lease liabilities range from 2.91% to 5.8% (2021: from 2.91% to 5.8%).

27. LOAN FROM A MAJOR SHAREHOLDER

The loan is unsecured, repayable in 2023, and bears a fixed interest rate at 5% per annum (note 37(a)(ii)).

28. LOAN FROM A RELATED PARTY

The amount represents loan from Aerospace Finance. The amount is secured, bears a variable interest rate at 4.41% (2021: 4.41%) per annum, which is determined by the People's Bank of China Benchmark Rate, and is repayable in 2028 (note 37(a)(iii)) and are classified as non-current liabilities.

During the year ended 31 December 2022, the Group discounted bills with recourse in aggregate of HK$8,885,000 (2021: HK$13,201,000) to Aerospace Finance for short-term financing. In addition, during the year, the discounted bills with recourse of HK$13,030,000 have been settled through the account of loan from a related party as the amounts are received by Aerospace Finance directly upon the maturity of those bills from the financial institutions who issued the bills, which constitute non-cash transactions (2021: Nil). As at 31 December 2022, the associated borrowings amounted to HK$8,523,000 (2021: HK$13,508,000) and are classified as current liabilities.

29. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Accrued rent HK$'000 *(Note 1)*	Others HK$'000 *(Note 2)*	Total HK$'000
At 1 January 2021	3,358	2,473,284	139,798	(7,991)	2,608,449
Exchange realignment	65	62,394	3,575	(812)	65,222
Charge (credit) to profit or loss for the year *(Note 11)*	2,455	(22,017)	(583)	(28,446)	(48,591)
At 31 December 2021	5,878	2,513,661	142,790	(37,249)	2,625,080
Exchange realignment	90	(160,661)	(5,051)	4,661	(160,961)
(Credit) charge to profit or loss for the year *(Note 11)*	(5,120)	58,935	(137,739)	(47,286)	(131,210)
At 31 December 2022	**848**	**2,411,935**	**–**	**(79,874)**	**2,332,909**

Notes:

(1) The amount represents the temporary differences arising from accrued rent and the amount is reversed during the year ended 31 December 2022 due to the lease termination with the two major tenants as detailed in note 7(c).

(2) The amount mainly represents temporary differences arising from allowances for credit losses.

For the purpose of presentation in the consolidated statement of financial position, the above deferred tax assets and liabilities have been offset.

As at 31 December 2022, the Group has unused tax losses of HK$1,025 million (2021: HK$986 million) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$1,025 million (2021: HK$986 million) due to the unpredictability of future profit streams. Included in the unrecognised tax losses, HK$877 million (2021: HK$904 million) may be carried forward indefinitely and the remaining balance will expire at various dates up to the end of 2032 (2021: expire at various dates up to the end of 2031).

29. DEFERRED TAXATION (continued)

At the end of the reporting period, the Group has the deductible temporary difference of HK$57,952,000 (2021: HK$62,628,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred taxation has not been recognised in respect of the temporary differences attributable to the undistributed retained profits earned by the subsidiaries in the PRC amounting to approximately HK$4,554 million (2021: HK$4,718 million) starting from 1 January 2008 under the EIT Law of the PRC that requires withholding tax upon the distribution of such profits to the non-PRC shareholders as the directors are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. SHARE CAPITAL

	HK$'000
Issued and fully paid:	
At 1 January 2021, 31 December 2021 and 31 December 2022	
— 3,085,022,000 ordinary shares with no par value	1,154,511

31. PLEDGE OF OR RESTRICTION ON ASSETS

Pledged of assets

At 31 December 2022, bank deposits of HK$41,665,000 (2021: HK$63,261,000), bills held for future settlement of trade receivables of HK$83,449,000 (2021: HK$83,005,000) and investment properties of approximately HK$2,152,154,000 (2021: HK$2,325,799,000) were pledged to banks and Aerospace Finance to secure general banking facilities granted to the Group.

Restriction on assets

In addition, lease liabilities of HK$156,197,000 (2021: HK$97,302,000) are recognised with related right-of-use assets of HK$148,316,000 (2021: HK$89,411,000) as at 31 December 2022. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Furthermore, restricted bank deposits for settlement of a provision under litigation is disclosed in note 23.

32. CAPITAL COMMITMENTS

	2022 HK$'000	2021 HK$'000
Capital expenditure contracted for but not provided		
in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	150,274	87,746

33. OPERATING LEASES ARRANGEMENTS

The Group as lessor

The properties held by the Group for rental purposes have committed lessees for the next one to ten years (2021: one to eleven years) and rent-free periods has been granted to certain tenants with accrued lease receivables disclosed in note 19.

At 31 December 2022, minimum lease payment receivable is as follows:

	2022 HK$'000	2021 HK$'000
Within one year	123,296	431,291
In the second year	117,556	465,218
In the third year	71,455	490,891
In the fourth year	28,041	518,080
In the fifth year	28,250	350,136
Over five years	47,785	457,859
	416,383	2,713,475

34. RETIREMENT BENEFIT SCHEMES

Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme, limited to HK$18,000 per annum per staff.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of profit or loss of HK$30,145,000 (2021: HK$30,779,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

Defined benefit plan

Pursuant to the Hong Kong Employment Ordinance, Chapter 57, the Group has the obligation to pay Long Service Payment ("LSP") to qualifying employees in Hong Kong upon retirement, subject to a minimum of 5 years employment period, based on the following formula: Last monthly wages (before termination of employment) × 2/3 × Years of service. Last monthly wages are capped at HK$22,500 while the amount of long service payment shall not exceed HK$390,000. This obligation is accounted for as a post-employment defined benefit plan.

34. RETIREMENT BENEFIT SCHEMES (continued)

Defined benefit plan (continued)

Furthermore, the Mandatory Provident Fund Schemes Ordinance passed in 1995 permits the Group to utilise the Group's mandatory MPF contributions, plus/minus any positive/negative returns thereof (collectively, the "Eligible Offset Amount"), for the purpose of offsetting LSP payable to an employee (the "Offsetting Arrangement').

The Employment & Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 was gazetted on 17 June 2022, which will eventually abolish the Offsetting Arrangement. The Amendment will come into effect prospectively from a date to be determined by the Hong Kong SAR Government, which is expected to be in 2025 (the "Transition Date"). Under the amended Ordinance, the Eligible Offset Amount after the Transition Date can only be applied to offset the pre-Transition Date LSP obligation but no longer eligible to offset the post-Transition Date LSP obligation. Furthermore, the LSP obligations before the Transition Date will be grandfathered and calculated based on the Last monthly wages immediately preceding the Transition Date.

The Group's LSP obligation, taking into consideration the Offsetting Arrangement, is considered to be insignificant and no provision has been recognised as at 31 December 2022 and 31 December 2021.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which mainly includes the borrowings disclosed in notes 27 and 28 and lease liabilities disclosed in note 26, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 HK$'000	2021 HK$'000
Financial assets		
Financial assets at FVTPL	136,817	5,564
Financial assets at amortised cost	3,043,129	3,515,541
Financial liabilities		
Financial liabilities at amortised cost	2,252,219	2,576,014

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party, pledged bank deposits, long-term bank deposits, short-term bank deposits, restricted bank deposits, cash and cash equivalents, financial assets at FVTPL, trade and other payables, amount due to a joint venture, loan from a major shareholder, loan from a related party and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, loan from a major shareholder (see notes 23 and 27 for details of these deposits and borrowings) and lease liabilities (see note 26). The Group currently does not have a policy on hedging of interest rate risks. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to loan from a related party (see note 28 for details). In addition, the Group is exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on bank balances. However, the management considers the Group's exposure of the bank balances is not significant as interest bearing bank balances are within short maturity period and thus it is not included in sensitivity analysis.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rate risk for loan from a related party. The analysis is prepared assuming the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period. A 50-basis-point (2021: 50-basis-point) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss after taxation for the year ended 31 December 2022 would have increased/decreased by HK$3,263,000 (2021: profit after taxation for the year would have decreased/increased by HK$3,976,000).

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

Price risk

The Group is exposed to price risk through its investments in listed equity securities and listed convertible bonds. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly on equity instruments operating in aerospace and energy sector quoted in the Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the financial assets at fair value through profit or loss had been 10% (2021: 10%) higher/lower, the Group's loss after taxation for the year ended 31 December 2022 would have decreased/increased by HK$13,682,000 (2021: profit after taxation for the year would have increased/decreased by HK$556,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

Foreign currency risk

The Group is not exposed to significant foreign currency risk as majority of its transactions are denominated in HK$ (or US$, in which HK$ is pegged to US$) and Renminbi ("RMB") (the functional currencies of the Group's major subsidiaries) except for the foreign currency risk on certain inter-company balances that form part of net investments of the relevant foreign operations in which the exchange differences are recognised in other comprehensive income. In the management opinion, the Group's foreign currency risk exposure is insignificant and hence, no sensitivity analysis is prepared at the end of the reporting period.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group.

The Group's credit risk exposures are primarily attributable to the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets except that the credit risks associated with settlements of certain trade receivables are settled by bills issued by reputable financial institutions.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The Group performed impairment assessment for financial assets and leases receivables under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below.

The Group's internal credit risk grading assessment comprises the following categories:

		Trade receivables and billed leases receivables	Other financial assets/ other items
"Strong":	The counterparty has low probability of default.	Lifetime ECL — not credit-impaired	12m ECL
"Satisfactory":	The counterparty has moderate default risk.	Lifetime ECL — not credit-impaired	12m ECL
"Doubtful":	There is evidence indicating that significant increase in credit risk since initial recognition through information developed internally.	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
"Loss":	There is evidence indicating the asset is credit-impaired.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
"Write-off":	There is evidence indicating that the debtors is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets and lease receivables, which are subject to ECL assessment:

	External credit rating	Internal credit rating	12m or lifetime ECL	2022 Gross carrying amount		2021 Gross carrying amount	
				HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at amortised cost							
Pledged bank deposits	BB+ to BBB−	N/A	12m ECL		41,665		63,261
Restricted bank deposits	BBB−	N/A	12m ECL		30,245		32,325
Short-term bank deposits	BBB− to BBB	N/A	12m ECL		372,340		462,291
Long-term bank deposits	BBB	N/A	12m ECL		–		161,369
Bank balances	BBB- to A+	N/A	12m ECL		1,648,566		1,394,891
Other receivables	N/A	Satisfactory	12m ECL	261		7,377	
		Loss *(Note 1)*	Lifetime ECL (credit-impaired)	57,952	58,213	62,278	69,655
Trade receivables							
– Contract with customers *(Note 2)*							
Individual assessment							
(i) Trade receivables backed by bills	BB+ to A+ *(Note 3)*	Strong	Lifetime ECL (not credit-impaired)		107,430		113,244
(ii) Trade receivables – Hi-Tech Manufacturing	N/A	Strong	Lifetime ECL (not credit-impaired)	384,402		541,887	
(iii) Trade receivables – Aerospace Services		Satisfactory	Lifetime ECL (not credit-impaired)	9,634		3,827	
		Loss	Lifetime ECL (credit-impaired)	49,306	443,342	24,222	569,936
Collective assessment							
(i) Trade receivables – Hi-Tech Manufacturing	N/A	Strong	Lifetime ECL (not credit-impaired)	380,309		513,948	
		Satisfactory	Lifetime ECL (not credit-impaired)	70,235	450,544	79,141	593,089
Other item							
Lease receivables	N/A	Loss (2021: Doubtful)	Lifetime ECL (credit-impaired) (2021: Lifetime ECL (not credit-impaired))	279,284		771,313	
	N/A	Satisfactory	Lifetime ECL (not credit-impaired)	3,420	282,704	–	771,313

Notes:

(1) For the purposes of internal credit risk management, the Group use historical repayment information to assess whether credit risk has increased significant since initial recognition.

(2) For the trade receivables arising from contracts with customers, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. For trade receivables from Hi-Tech Manufacturing Business, except for debtors with significant outstanding balances, balances backed by bills issued by reputable banks, or credit-impaired that are assessed for impairment individually, the remaining balances are assessed collectively through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, industry ageing, repayment histories and/or past due status of respective debtors.

(3) These represent credit rating grades of the related banks.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued by reputable PRC banks if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the relevant debtors is insignificant.

Except for certain large customers, the remaining trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The Group has no significant concentration of credit risk in trade receivables, with exposure spread over a number of counterparties and customers.

In order to minimise the credit risk, the management of the Group has delegated a team, at the respective reportable segment, responsible for determination of credit limits and credit approvals.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure the details of relevant assessment is updated. The Group has increased the expected loss rates in the current year as the volatility in the financial market could lead to increased credit default rates.

Details of the quantitative disclosures are set out below in this note.

As part of the Group's credit risk assessment, the Group assessed credit risk of its customers with significant balance, which may be backed by bills, by reference to external credit rating and internal information, and to assess the credit risk for those credit-impaired debtor individually. The following table provides information about the exposure to credit risk for trade receivables not backed by bank bills which are assessed individually as at 31 December 2022 and 2021 within lifetime ECL.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment ***(continued)***

Trade receivables arising from contracts with customers (continued)

Gross carrying amount

Individual assessment

Credit rating	Hi-Tech Manufacturing Trade receivables (not credit-impaired)			
	2022		2021	
	Range of loss rate	HK$'000	Range of loss rate	HK$'000
Strong	0.08%–0.23%	384,402	0.06%–0.19%	541,887

Credit rating	Aerospace Services Trade receivables			
	2022		2021	
	Loss rate	HK$'000	Loss rate	HK$'000
Satisfactory	N/A	9,634	N/A	3,827
Loss	100%	49,306	100%	24,222
		58,940		28,049

Collective assessment

Credit rating	Hi-Tech Manufacturing Trade receivables (not credit-impaired)			
	2022		2021	
	Average loss rate	HK$'000	Average loss rate	HK$'000
Strong	0.65%	380,309	0.52%	513,948
Satisfactory	3.03%	70,235	2.90%	79,141
		450,544		593,089

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables arising from contracts with customers (continued)

Gross carrying amount (continued)

During the year ended 31 December 2022, the Group provided net reversal of allowances for credit losses of HK$81,000 (2021: recognised allowance of HK$3,182,000) for non-credit-impaired trade receivables based on collective assessment and net reversal of allowances for credit losses of HK$125,000 (2021: recognised allowance of HK$125,000) for non-credit-impaired trade receivables based on individual assessment. Net allowance for credit losses of HK$27,793,000 (2021: Net allowance for credit losses of HK$13,363,000) were made on credit-impaired debtors.

In determining the ECL for trade receivables backed by bill, the management of the Group considers the probability of default is negligible on the basis of banks issuing the bills, and accordingly, no loss allowance for credit losses is made in the consolidated financial statement.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Note	**Lifetime ECL (not credit-impaired)** HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
At 1 January 2021		2,367	13,633	16,000
Impairment losses recognised		5,674	13,363	19,037
Impairment losses reversed		(2,367)	—	(2,367)
Write-off	(i)	—	(3,327)	(3,327)
Exchange realignment		138	553	691
At 31 December 2021		5,812	24,222	30,034
Impairment losses recognised		5,606	27,793	33,399
Impairment losses reversed		(5,812)	—	(5,812)
Exchange realignment		(228)	(2,709)	(2,937)
At 31 December 2022		**5,378**	**49,306**	**54,684**

Note:

(i) The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed into liquidation or when the management considers that the past due balances are not recoverable.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Lease receivables from the two major tenants, namely Hangke Houhai and Huabaorun as detailed in note 7(c), and leases receivables from the new tenants

The Group had concentration of credit risk as the lease receivables were due from the two tenants of the Group. For lease receivables, the Group makes periodic individual assessment on the recoverability based on the historical credit loss experience and forward-looking information. During the year ended 31 December 2022, due to the fact as detailed in note 7(c), the Group's internal credit risk assessment on the two major tenants changed from doubtful to loss and the balances are assessed under life-time ECL — credit-impaired. In addition, upon the early termination of the lease agreements, the impairment loss under ECL model previously recognised on unbilled lease receivables of HK$90,572,000 is reversed during the year and included in impairment loss under ECL model line item, as the unbilled leases receivables are derecognised upon the early termination of the lease agreements and no longer assessed under ECL model (2021: Due to the persistent of uncertainties in the PRC's property market, the directors of the Company believed that there was an increase in credit risk of these amounts since initial recognition and consider that there was an increase in the loss rate. The Group's internal credit risk assessment on these two tenants was changed from strong to doubtful and measured the loss allowance on lifetime ECL basis).

For the year ended 31 December 2022, an allowance for credit losses of HK$237,906,000 was made on leases receivables from Hangke Houhai and Huabaorun based on loss rate of 100%, net of the reversal of allowance of HK$90,572,000 (2021: allowance for credit losses of HK$111,481,000 was made on lease receivables after considering the deposits received as security, net of reversal of allowance of HK$6,450,000). As at 31 December 2022, the accumulated allowance for credit losses is HK$279,284,000 (2021:HK$114,070,000).

As at 31 December 2022, the lease receivables from the new tenants is amounting to HK$3,420,000 and no impairment allowance is made on the leases receivables from the new tenants as the directors of the Company, after considering the deposits received as security, consider the allowance for credit losses is insignificant.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Lease receivables from the two major tenants, namely Hangke Houhai and Huabaorun as detailed in note 7(c), and leases receivables from the new tenants (continued)

The following table shows the movement in lifetime ECL that has been recognised for lease receivables under the simplified approach.

	Note	**Lifetime ECL (not credit-impaired)** HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
At 1 January 2021		6,450	—	6,450
Impairment losses recognised		111,481	—	111,481
Write-off	(i)	(6,450)	—	(6,450)
Exchange realignment		2,589	—	2,589
At 31 December 2021		114,070	—	114,070
Transfer to credit-impaired		(19,462)	19,462	—
Impairment losses recognised		—	237,906	237,906
Impairment losses reversed		(90,572)	—	(90,572)
Exchange realignment		(4,036)	21,916	17,880
At 31 December 2022		—	279,284	279,284

Other receivables

In determining the ECL for other receivables, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate. As at 31 December 2022, the accumulated allowance for credit losses is HK$57,952,000 (2021: HK$62,628,000) for the amounts due from a particular counterparty which had financial difficulties in prior year and full allowance is provided for that balances. The management of the Group has considered the consistently low historical default rate in connection with the remaining other receivables, and concluded that credit risk inherent in the Group's remaining balance of other receivables is insignificant.

Amount due from a related party

For amount due from a related party, the balance is assessed individually and the management of the Group consider the loss allowance is insignificant.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Pledged bank deposits, restricted bank deposits, short-term bank deposits, long-term bank deposits and bank balances

The management of the Group considers the pledged bank deposits, restricted bank deposits, short-term bank deposits, long-term bank deposits and bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management of the Group considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, loss allowance is considered as insignificant.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. When the amount payable is not fixed, the amount disclosed has been determined by reference to the interest rates at year end. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate %	On demand and less than 1 month HK$'000	1 month to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2022							
Financial liabilities							
Trade and other payable	–	505,251	302,811	–	–	808,062	808,062
Loan from a major shareholder	5.00 p.a.	–	600,506	–	–	600,506	565,611
Loan from a related party	1.46–4.41 p.a.	–	8,523	–	1,164,178	1,172,701	878,546
		505,251	911,840	–	1,164,178	2,581,269	2,252,219
Lease liabilities	4.68 p.a.	3,278	35,340	120,981	17,198	176,797	156,197

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2022

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

	Weighted average interest rate %	On demand and less than 1 month HK$'000	1 month to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2021							
Financial liabilities							
Trade and other payable	–	694,483	304,331	–	–	998,814	998,814
Loan from a major shareholder	5.00 p.a.	–	–	679,519	–	679,519	611,247
Loan from a related party	1.46–4.41 p.a.	–	13,508	–	1,274,467	1,287,975	965,953
		694,483	317,839	679,519	1,274,467	2,966,308	2,576,014
Lease liabilities	4.68 p.a.	2,816	29,316	52,359	27,364	111,855	97,302

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

The fair value of financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market bid prices.

The classification of the Group's financial assets at 31 December 2022 and 2021 using the fair value hierarchy is Level 1 (see note 22) as the fair value of those financial assets are determined based on the quoted bid prices in an active market. The directors of the Company consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their carrying amounts.

37. RELATED PARTY TRANSACTIONS

Balances of related parties of the Group have been disclosed in respective notes. In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following related party transactions:

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significantly influenced by the PRC government (hereinafter collectively referred to as "government-related entities"). The Company's major shareholder that with significant influence over the Company, CASC, is a state-owned enterprise under the direct supervision of the State Council of the PRC. During the year, except as disclosed below, the Group did not have any individually significant transactions with other government-related entities in its ordinary and usual course of business.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with the CASC and its subsidiaries

(i) As at 31 December 2022, deposits placed with Aerospace Finance by the Group amounted to RMB10,564,000 (equivalent to approximately HK$11,950,000) and were included in amount due from a related party (2021: HK$208,000).

(ii) During the year ended 31 December 2013, the Group entered into a long-term loan agreement with CASC for an amount of RMB500,000,000 for a period of five years from the first drawdown date. The loan had been renewed for another five years during the year ended 31 December 2019. As at 31 December 2022, the Group has drawn down RMB500,000,000 (equivalent to approximately HK$565,611,000) (2021: RMB500,000,000 (equivalent to approximately HK$611,247,000)). Such loan carries a fixed interest rate of 5% per annum and the interest incurred to CASC for the year ended 31 December 2022 is RMB25,347,000 (equivalent to approximately HK$29,891,000) (2021: RMB25,347,000 (equivalent to approximately HK$30,283,000)).

(iii) During the year ended 31 December 2016, the Group entered into a facility with Aerospace Finance, for advances up to RMB1,300,000,000 for a period of 12 years from the first drawdown date. The property ownership certificates of a portion of the S&T Plaza with a valuation amount of approximately RMB1,902,504,000 has been mortgaged in favour of Aerospace Finance by Shenzhen Aerospace Technology Investment Company Limited ("Shenzhen Aerospace"). As at 31 December 2022, the Group has drawn down RMB769,100,000 (equivalent to approximately HK$870,023,000) (2021: RMB779,100,000 (equivalent to approximately HK$952,445,000)). Such loan carries a variable rate of 4.41% per annum and the interest paid to loans drawn from the facility in the current year amounted to RMB34,802,000 (equivalent to approximately HK$41,041,000) (2021: RMB35,259,000 (equivalent to approximately HK$42,126,000)).

(b) Transactions with other government-related entities

Apart from the transactions with CASC Group which have been disclosed above, the Group also conducts business with other government-related entities.

The Group has deposits placements, borrowings and other general banking facilities, with certain banks which are government-related entities in its ordinary course of business. Other than the substantial amount of bank balances, the facility with these banks and sales transactions, remaining transactions with other government-related entities are individually insignificant.

(c) Compensation of key management personnel

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 8.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Loan from a major shareholder HK$'000 *(Note 27)*	Loan from a related party HK$'000 *(Note 28)*	Interest payable HK$'000	Dividend payable HK$'000	Dividend payable to non-controlling interests of a subsidiary HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2021	595,948	940,524	1,267	318	–	94,880	1,632,937
Financing cash flows	–	1,254	(72,409)	(61,645)	(23,895)	(36,797)	(193,492)
New leases entered	–	–	–	–	–	32,461	32,461
Interest expenses	–	–	72,409	–	–	4,537	76,946
Dividend declared	–	–	–	61,700	–	–	61,700
Dividend declared to non-controlling interests of a subsidiary	–	–	–	–	23,895	–	23,895
Exchange realignment	15,299	24,175	16	–	–	2,221	41,711
At 31 December 2021	611,247	965,953	1,283	373	–	97,302	1,676,158
Financing cash flows	–	(2,907)	(70,947)	(77,052)	(18,869)	(39,866)	(209,641)
New leases entered	–	–	–	–	–	102,935	102,935
Interest expenses	–	–	70,932	–	–	5,311	76,243
Dividend declared	–	–	–	77,125	–	–	77,125
Dividend declared to non-controlling interests of a subsidiary	–	–	–	–	18,869	–	18,869
Non-cash settlement	–	(13,030)	–	–	–	–	(13,030)
Exchange realignment	(45,636)	(71,470)	(96)	–	–	(9,485)	(126,687)
At 31 December 2022	565,611	878,546	1,172	446	–	156,197	1,601,972

39. FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of financial position of the Company is set out below:

	2022 HK$'000	2021 HK$'000
Non-current assets		
Property, plant and equipment	484	695
Right-of-use assets	5,392	8,987
Interests in subsidiaries	2,356,704	2,165,347
Amounts due from subsidiaries	1,088,066	1,435,417
Interests in joint ventures	15,000	15,000
	3,465,646	3,625,446
Current assets		
Other receivables	2,751	2,666
Amounts due from subsidiaries	113,822	34,245
Bank balances and cash	1,891	27,200
	118,464	64,111
Current liabilities		
Other payables	107,235	104,491
Lease liabilities	3,700	3,699
Amounts due to subsidiaries	784,651	793,833
Taxation payable	80	80
	895,666	902,103
Net current liabilities	(777,202)	(837,992)
Non-current liabilities		
Lease liabilities	1,810	5,352
Net assets	2,686,634	2,782,102
Capital and reserves		
Share capital	1,154,511	1,154,511
Reserves *(Note 39(b))*	1,532,123	1,627,591
	2,686,634	2,782,102

The Company's statement of financial position are approved and authorised for issue by the Board of Directors on 24 March 2023 and are signed on its behalf by:

Zhou Limin *Director*	**Song Shuqing** *Director*

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2022

39. FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Reserves

	Share premium HK$'000 *(Note a)*	Special capital reserve HK$'000 *(Note a)*	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2021	–	630,977	–	1,073,418	1,704,395
Loss and total comprehensive expense for the year	–	–	–	(15,104)	(15,104)
Dividend recognised as distribution	–	–	–	(61,700)	(61,700)
At 31 December 2021	–	630,977	–	996,614	1,627,591
Loss and total comprehensive expense for the year	–	–	–	(18,343)	(18,343)
Dividend recognised as distribution	–	–	–	(77,125)	(77,125)
At 31 December 2022	–	630,977	–	901,146	1,532,123

Notes:

(a) Under the terms of the court order in the reduction of the share premium on 11 July 1994 and 1 November 2005 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and 1 November 2005 and any write back of the total provisions which have been made against at the effective date the investments will be transferred to a special capital reserve account until the amount of paid up capital, share premium and the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisions stated in (3) and or (4) below of this note. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.

On 1 November 2005, an order of petition (the "Order") was granted by the High Court of Hong Kong Special Administrative Region (the "High Court"). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 25 August 2005, was confirmed.

The capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK$10,000,000,000 divided into 10,000,000,000 ordinary shares of HK$1.00 each (of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid) to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorised share capital of the Company would be increased from HK$1,000,000,000 to HK$10,000,000,000 by creation of additional 90,000,000,000 share of HK$0.10 each. Accordingly, after the approval of the Order, the authorised share capital of the Company was HK$10,000,000,000 divided into 100,000,000,000 shares of HK$0.10 each, of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK$939,048,000 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

39. FINANCIAL INFORMATION OF THE COMPANY (continued)

(b) Reserves (continued)

Notes: (continued)

(a) (continued)

The Company provided an undertaking that in the event of the Company makes any future recoveries in respect of the assets, in respect of which provisions for impairment were made in the financial statements of the Company for the 7 years ended 31 December 2004 "Non-Permanent Loss Assets" beyond the written down value in the Company's audited financial statements as at 31 December 2004, all such recoveries beyond that written down value will be credited to a special capital reserve in the accounting records of the Company and that so long as there shall remain outstanding any debt of or claim against the Company which, if the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective were the date of the commencement of the winding up of the Company would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an un-distributable reserve of the Company for the purposes of Sections 290 and 298 of the Companies Ordinance or any statutory re-enactment or modification thereof provided that:

(1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;

(2) the amount standing to the credit of the special capital reserve shall not exceed the lesser of (a) the amount of provision provided for in respect of the Non-Permanent Loss Assets for the 7 years ended 31 December 2004; or (b) the amount due to the creditors of the Company as at the date when the proposed reduction of capital and cancellation of share premium shall become effective;

(3) the said overall aggregate limit in respect of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits;

(4) the said overall aggregate limit in respect of the special capital reserve may be reduced upon the realisation, after the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective, of any of the Non-Permanent Loss Assets by the total provision made in relation to each such assets as at 31 December 2004 less such amount (if any) as is credited to the said special capital reserve as a result of such realisations; and

(5) in the event that the amount standing to the credit of the said special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (3) and or (4) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserve of the Company and the same shall become available for distribution.

The Company further undertook that for so long as the undertaking remains effective, to (1) cause or procure its statutory auditors to report by way of a note or otherwise a summary of the undertaking in its audited consolidated financial statements or in the management accounts of the Company published in any other form; and (2) publish or cause to be published in any prospectus issued by or on behalf of the Company a summary of the undertaking.

(b) The Company's reserves available for distribution to shareholders as at 31 December 2022 comprised the retained profits of HK$901,146,000 (2021: HK$996,614,000).

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company % 2022	2021	Percentage of equity held by subsidiaries % 2022	2021	Percentage of equity attributable to the Company % 2022	2021	Principal activities
Incorporated and operating in Hong Kong:								
CASIL Clearing Limited	HK$10,000,000	100	100	–	–	100	100	Provision of treasury services
CASIL Electronic Products Limited	HK$15,000,000	100	100	–	–	100	100	Distribution of plastic and metal products and moulds
CASIL Semiconductor Limited	HK$15,000,000	100	100	–	–	100	100	Distribution of liquid crystal displays
China Aerospace Industrial Limited	HK$1,000,000	100	100	–	–	100	100	Property investment
Chee Yuen Industrial Company Limited	HK$20,000,000	100	100	–	–	100	100	Distribution of plastic and metal products and moulds
Digilink Systems Limited	HK$60,000,000	100	100	–	–	100	100	Investment holding
Hong Yuen Electronics Limited	HK$5,000,000	100	100	–	–	100	100	Distribution of printed circuit boards
Hong Yuen Circuit Technology Company Limited	HK$10,000,000	–	–	100	100	100	100	Distribution of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	100	100	–	–	100	100	Distribution of intelligent battery chargers and electronic components
Jeckson Electronics Company Limited	HK$10,000,000	100	100	–	–	100	100	Distribution of intelligent battery chargers and electronic components

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2022

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company % 2022	2021	held by subsidiaries % 2022	2021	attributable to the Company % 2022	2021	Principal activities
Registered and operating in the PRC:								
Chee Yuen Plastic Products (Huizhou) Company Limited#	HK$72,000,000	–	–	100	100	100	100	Manufacturing of plastic and metal products and moulds
China Aerospace (Huizhou) Industrial Garden Limited##	US$12,000,000	90	90	–	–	90	90	Property investment
Conhui (Huizhou) Semiconductor Company Limited#	HK$90,400,000	–	–	100	100	100	100	Manufacturing and distribution of liquid crystal displays and LCD modules
東莞康源電子有限公司#	RMB482,100,000	–	–	100	100	100	100	Manufacturing and distribution of printed circuit boards
Huizhou Jeckson Electric Company Limited##	US$1,000,000	–	–	90	90	90	90	Manufacturing of intelligent battery chargers and electronic products
南通康源電路科技有限公司	RMB200,000,000	–	–	100*	–	100	–	Manufacturing and distribution of printed circuit boards
志豪微電子(惠州)有限公司	RMB90,000,000	–	–	100**	–	100	–	Packaging of intelligent power module
志源表面處理(惠州)有限公司#	RMB60,000,000	–	–	100	100	100	100	Electroplating of metals
志源電子科技(惠州)有限公司#	RMB10,500,000	–	–	100	100	100	100	Distribution of packing products
Shenzhen Chee Yuen Plastics Company Limited#	HK$25,000,000	–	–	100	100	100	100	Manufacturing and distribution of plastic products
航科新世紀科技發展(深圳)有限公司#	US$50,000,000	100	100	–	–	100	100	Investment holding

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %		Percentage of equity held by subsidiaries %		Percentage of equity attributable to the Company %		Principal activities
		2022	2021	2022	2021	2022	2021	
Registered and operating in the PRC: (continued)								
深圳市航天高科投資管理有限公司## ("Shenzhen Aerospace")	RMB700,000,000	–	–	60	60	60	60	Property investment
深圳市航天高科物業管理有限公司	RMB5,000,000	–	–	100	100	60	60	Property management
Incorporated and operating in Vietnam:								
CONG TY TNHN CONG NGHE DIEN TU CHEE YUEN (VIETNAM)	US$14,000,000	–	–	100	100	100	100	Manufacturing of plastic products

\# Wholly foreign-owned enterprises registered in the PRC

\## Sino-foreign joint equity enterprises registered in the PRC

* The subsidiary was incorporated on 10 December 2021

** The subsidiary was incorporated on 17 May 2022

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss) profit for the year attributable to non-controlling interests		Accumulated non-controlling interests	
		2022	2021	2022 HK$'000	2021 HK$'000	2022 HK$'000	2021 HK$'000
Shenzhen Aerospace and its subsidiary	PRC	40%	40%	(133,425)	42,983	2,097,763	2,424,898
Individually immaterial subsidiaries with non-controlling interests				621	14,467	28,206	29,754
				(132,804)	57,450	2,125,969	2,454,652

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of Shenzhen Aerospace and its subsidiary is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2022 HK$'000	2021 HK$'000
Current assets	83,228	265,625
Non-current assets	8,958,694	9,929,900
Current liabilities	(562,287)	(565,458)
Non-current liabilities	(3,235,227)	(3,567,822)
Equity attributable to owners of the Company	3,146,645	3,637,347
Non-controlling interests	2,097,763	2,424,898
Income	624,663	442,016
Expenses	(958,224)	(334,558)
(Loss) profit for the year	(333,561)	107,458
(Loss) profit attributable to owners of the Company	(200,136)	64,475
(Loss) profit attributable to the non-controlling interests	(133,425)	42,983
(Loss) profit for the year	(333,561)	107,458
Other comprehensive (expenses) income attributable to owners of the Company	(256,618)	90,970
Other comprehensive (expenses) income attributable to the non-controlling interests	(174,841)	60,647
Other comprehensive (expenses) income for the year	(431,459)	151,617
Total comprehensive (expenses) income attributable to owners of the Company	(456,754)	155,445
Total comprehensive (expenses) income attributable to the non-controlling interests	(308,266)	103,630
Total comprehensive (expenses) income for the year	(765,020)	259,075

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	2022 HK$'000	2021 HK$'000
Net cash inflow from operating activities	147,502	171,210
Net cash (outflow) inflow from investing activities	(26,169)	10,286
Net cash outflow from financing activities	(118,262)	(199,494)
Net cash inflow (outflow)	3,071	(17,998)
Effect of foreign exchange rate changes	(8,560)	305
Total dividends paid	47,170	59,737
Dividends paid to non-controlling interests of Shenzhen Aerospace	18,869	23,895

41. CONTINGENT LIABILITIES

During the year ended 31 December 2022, Shenzhen Aerospace is defendant in a claim of approximately RMB119,000,000, by its major tenant, Hangke Houhai, for the operating loss in the past. In addition, Hangke Houhai has filed an additional claim for a refund from Shenzhen Aerospace for overpaid rent since Covid-19 pandemic of approximately RMB49,800,000 and consequential interest loss.

After considering the advice from the legal advisor of Shenzhen Aerospace, the directors of the Company believe that the claims can be successfully defended, and it is not probable that an outflow of resources embodying economic benefits will be required to settle the claims. Therefore, the litigations are disclosed as contingent liabilities and no provision is made.

Further details of the litigations were set out in the Company's announcements dated 12 May 2022, 14 June 2022, 5 July 2022, 30 September 2022 and 14 February 2023.

APPENDIX I FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2022	2021	2020	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 *(Note 1)*
Revenue	**4,501,532**	4,745,367	3,580,121	3,450,824	3,690,804
(Loss) profit before taxation	**(325,723)**	486,102	442,845	547,064	665,364
Taxation	**73,001**	(82,888)	(64,280)	(109,206)	(145,184)
(Loss) profit for the year	**(252,722)**	403,214	378,565	437,858	520,180
Attributable to:					
Owners of the Company	**(119,918)**	345,764	296,681	338,350	404,115
Non-controlling interests	**(132,804)**	57,450	81,884	99,508	116,065
	(252,722)	403,214	378,565	437,858	520,180

ASSETS AND LIABILITIES

	At 31 December				
	2022	2021	2020	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**11,602,450**	12,629,902	12,380,371	11,656,155	11,518,775
Current assets	**3,663,378**	4,239,260	3,736,393	3,049,116	2,800,505
Current liabilities	**(2,159,847)**	(1,771,821)	(1,622,356)	(1,369,666)	(1,248,674)
Non-current liabilities	**(3,321,318)**	(4,254,575)	(4,208,670)	(3,954,619)	(3,890,239)
Total equity	**9,784,663**	10,842,766	10,285,738	9,380,986	9,180,367
Attributable to:					
Owners of the Company	**7,658,694**	8,388,114	7,925,975	7,245,792	7,084,257
Non-controlling interests	**2,125,969**	2,454,652	2,359,763	2,135,194	2,096,110
	9,784,663	10,842,766	10,285,738	9,380,986	9,180,367

Note:

(1) In 2019, the Group had applied HKFRS 16. Accordingly, certain information for the years ended 31 December 2018 may not be comparable to the year ended 31 December 2019, 2020, 2021 and 2022 as such information was prepared under HKAS 17.

APPENDIX II INVESTMENT PROPERTIES

Location	Lot number	Existing use	Approximate gross floor area/ site area (sq. m)	Group's interest (%)
MEDIUM TERM LEASES IN HONG KONG				
Units 402, 405 to 407 on 4th Floor the whole of 17th Floor and Car Park Nos. P1, L3, LD1, LD2 and LD5 on Ground Floor, Car Park Nos. P17, P18 and P24 on 1st Floor and Car Park Nos. P34, P36 and P37 on 2nd Floor China Aerospace Centre 143 Hoi Bun Road Kwun Tong Kowloon	Kwun Tong Inland Lot. No. 528	Industrial	3,290	100
Unit A on 2nd Floor of Tsun Win Factory Building, No. 60 Tsun Yip Street, Kwun Tong Kowloon	Kwun Tong Inland Lot No. 10	Industrial	230	100
MEDIUM TERM LEASES IN THE PRC				
China Aerospace Industrial Estate Zhong Kai Development Zone Huizhou City Guangdong Province The PRC	—	Industrial	22,124	90
South of Bin Hai Avenue and the East of Hou Hai Bin Road Nanshan District Shenzhen Guangdong Province The PRC	—	Retail and office	157,825	60
LONG TERM LEASEHOLD IN THE PRC				
Level 8, Zhong Hai Building Zhong Hai Hua Ting North Zone No. 399 Fu Hua Road Futian District Shenzhen Guangdong Province The PRC	—	Office	1,043	100