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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Continental Aerospace Technologies Holding Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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Continental Aerospace Technologies Holding Limited

大陸航空科技控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 232)

(I) REVISION OF ANNUAL CAP OF CONTINUING CONNECTED TRANSACTIONS FOR THE YEARS ENDING 31 DECEMBER 2023 AND 2024; AND (II) NOTICE OF SPECIAL GENERAL MEETING

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A notice convening the special general meeting (the “SGM”) of the Company to be held at Room II & Forum Boardroom, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 13 November 2023 at 11:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is also enclosed with this circular.

A letter from the Board is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 10 to 11 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 18 of this circular.

Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the SGM (i.e. Saturday, 11 November 2023 at 11:00 a.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

18 October 2023

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“2021 Sale Framework Agreement”	the agreement dated 25 October 2021 and entered into between the Company and China Aviation in relation to the sale of engines, engines parts and related services to China Aviation and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China Aviation”	China Aviation Industry General Aircraft Co., Ltd. (中航通用飛機有限責任公司), a company established with limited liability in the PRC
“Company”	Continental Aerospace Technologies Holding Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 232)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) other than China Aviation, its associates and all other Shareholders who are interested in the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder
“Independent Third Parties”	the independent third parties who are, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiry, independent of and not connected with the Company and the connected person(s) of the Company
“Latest Practicable Date”	10 October 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Annual Cap”	the annual cap amount in respect of the sale of engine, engine parts and related services to China Aviation and its associates by the Group under the 2021 Sale Framework Agreement for the years ending 31 December 2023 and 2024
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Revised Annual Cap”	the revised annual cap amount in respect of the sale engine, engine parts and related services to China Aviation and its associates by the Group under the 2021 Sale Framework Agreement for the years ending 31 December 2023 and 2024

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held on Monday, 13 November 2023 at 11:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued capital of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental 2021 Sale Framework Agreement”	the supplemental sale framework agreement dated 25 September 2023 and entered into between the Company and China Aviation in relation to the revision of the Original Annual Cap
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD

Continental Aerospace Technologies Holding Limited
大陸航空科技控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 232)

Executive Directors:

Mr. Huang Yongfeng

Mr. Yu Xiaodong

Ms. Jiao Yan

Mr. Zhang Zhibiao

Mr. Li Peiyin

Registered office:

Victoria Place, 5th Floor

31 Victoria Street

Hamilton HM 10

Bermuda

Non-executive Director:

Mr. Chow Wai Kam

*Head office and principal place of
business in Hong Kong:*

Unit B, 15th Floor

United Centre

95 Queensway

Hong Kong

Independent non-executive Directors:

Mr. Chu Yu Lin, David

Mr. Li Ka Fai, David

Mr. Zhang Ping

18 October 2023

To the Independent Shareholders

Dear Sir or Madam,

**(I) REVISION OF ANNUAL CAP OF
CONTINUING CONNECTED TRANSACTIONS
FOR THE YEARS ENDING 31 DECEMBER 2023 AND 2024; AND
(II) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

References are made to the announcement of the Company dated 25 October 2021 and the circular of the Company dated 18 November 2021 in relation to, among others, the 2021 Sale Framework Agreement, and the announcement of the Company dated 25 September 2023 in respect of the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

On 25 October 2021, the Company entered into the 2021 Sale Framework Agreement with China Aviation, pursuant to which the Group will sell engines, engine parts and related services to China Aviation and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul.

On 25 September 2023, the Company and China Aviation entered into the Supplemental 2021 Sale Framework Agreement to revise the Original Annual Cap from US\$38.7 million to US\$44.9 million for the year ending 31 December 2023 and from US\$39.2 million to US\$50.4 million for the year ending 31 December 2024.

The purpose of this circular is to provide you with, among other things, (i) further details of the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder; and (iv) a notice of the SGM.

REVISION OF THE ORIGINAL ANNUAL CAP

Principal terms of the Supplemental 2021 Sale Framework Agreement

Date:	25 September 2023
Parties:	China Aviation and the Company
Subject:	The annual cap amount in respect of the sale of engines, engine parts and related services to China Aviation and/or its associates (excluding the Group) by the Group under the Supplemental 2021 Sale Framework Agreement for the years ending 31 December 2023 and 2024 shall be revised as follows:

	For the year ending 31 December 2023 <i>US\$ million</i>	For the year ending 31 December 2024 <i>US\$ million</i>
Original Annual Cap	38.7	39.2
Revised Annual Cap	44.9	50.4

LETTER FROM THE BOARD

- Conditions precedent:
- The Supplemental 2021 Sale Framework Agreement is conditional upon:
- (a) the due execution of the Supplemental 2021 Sale Framework Agreement by the Company and China Aviation;
 - (b) the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder having been approved by the Board and having obtained approval from the Independent Shareholders at the SGM; and
 - (c) the necessary approvals having been obtained by China Aviation.

Basis of determination of the Revised Annual Cap

The actual historical transaction amounts for such sales to China Aviation and/or its associates for the year ended 31 December 2022 and the eight months ended 31 August 2023 are as follows:

	For the year ended 31 December 2022 <i>US\$ million</i>	For the eight months ended 31 August 2023 <i>US\$ million</i>
Actual historical transaction amount	32.78	26.61

The Revised Annual Cap for the year ending 31 December 2023 of US\$44.9 million is determined by (i) the actual historical transaction amount for the eight months ended 31 August 2023 of approximately US\$26.6 million under the 2021 Sale Framework Agreement; (ii) the estimated transaction amount of approximately US\$15.5 million to be purchased by China Aviation and/or its associates (excluding the Group) for the remaining term of the year ending 31 December 2023; and (iii) a buffer of approximately US\$2.8 million, which represents approximately 6.7% of the estimated transaction amount for the year ended 31 December 2023 as determined in (i) and (ii) above.

The Revised Annual Cap for the year ending 31 December 2024 of US\$50.4 million is determined by (i) the Revised Annual Cap for the year ending 31 December 2023; (ii) an estimated annual increase in the engine selling price of approximately 6%; and (iii) an estimated increase in engine sales order of approximately 6%.

LETTER FROM THE BOARD

Reasons for and benefits of the Supplemental 2021 Sale Framework Agreement

Due to the increased operation needs of China Aviation and its associates, the annual cap amount in respect of the sale of engines, engines parts and related services to China Aviation and its associates by the Group under the 2021 Sale Framework Agreement for the years ending 31 December 2023 and 2024 is expected to be higher than the Original Annual Cap under the 2021 Sale Framework Agreement.

The Directors (including the independent non-executive Directors after considering the advice from the Independent Financial Adviser) consider that the Supplemental 2021 Sale Framework Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Supplemental 2021 Sale Framework Agreement and the Revised Annual Cap are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

INFORMATION OF THE GROUP

The Company is a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 232). The Group is principally engaged in general aviation aircraft piston engine business, which is the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and support for piston engines.

INFORMATION OF CHINA AVIATION

China Aviation Industry General Aircraft Co., Ltd. (中航通用飛機有限責任公司) is a company established in the PRC and is owned as to 70% by Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司), a company established in the PRC and is wholly owned by the PRC State-owned Assets Supervision and Administration Commission. Aviation Industry Corporation of China, Ltd. holds 91.14% of the equity interest in AVIC International Holding Corporation (中國航空技術國際控股有限公司), a controlling shareholder of the Company that indirectly owns as to 46.40% of the entire issued share capital of the Company. China Aviation's core businesses consist of general aircraft development, general aviation operations and services, aviation parts and non-aerospace manufacturing.

LISTING RULES IMPLICATIONS

As China Aviation and its associates are connected persons of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Supplemental 2021 Sale Framework Agreement constitute continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the Revised Annual Cap exceeds HK\$10,000,000 and the highest of the relevant applicable percentage ratios calculated under Rule 14.07 under the Listing Rules exceed 5%, the transactions contemplated under the Supplemental 2021 Sale Framework Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and independent shareholders' approval requirements.

As Mr. Huang Yongfeng, Mr. Yu Xiaodong, Ms. Jiao Yan, Mr. Zhang Zhibiao and Mr. Li Peiyin are directors of subsidiaries of AVIC International Holding Corporation, each of Mr. Huang Yongfeng, Mr. Yu Xiaodong, Ms. Jiao Yan, Mr. Zhang Zhibiao and Mr. Li Peiyin had abstained from voting on the resolutions at the meeting of the Board for approving the Supplemental 2021 Sale Framework Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole, and as to how to vote on the proposed resolution to approve the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder at the SGM. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The notice convening the SGM is set out on pages SGM-1 to SGM-2 of this circular. The SGM will be convened and held at Room II & Forum Boardroom, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 13 November 2023 at 11:00 a.m. for the Independent Shareholders to consider and, if thought fit, pass the resolution to approve, among others, the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder. The voting at the SGM will be taken by way of poll.

In view of the interests of China Aviation in the Supplemental 2021 Sale Framework Agreement, China Aviation and its associates will be required to abstain from voting in relation to the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save and except for China Aviation and its associates, no other Shareholder has a material interest in the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder and therefore, no other Shareholder will be required to abstain from voting at the SGM.

LETTER FROM THE BOARD

Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the special general meeting (i.e. Saturday, 11 November 2023 at 11:00 a.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 10 to 11 of the circular. The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser, the text of which is set out on pages 12 to 18 of this circular, considers that the Supplemental 2021 Sale Framework Agreement was entered into on normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and that the terms of the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder.

The Board considers that the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole and therefore recommends that the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

For and on behalf of the Board
Continental Aerospace Technologies Holding Limited
Huang Yongfeng
Chairman

Continental Aerospace Technologies Holding Limited
大陸航空科技控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 232)

18 October 2023

To the Independent Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAP OF
CONTINUING CONNECTED TRANSACTIONS
FOR THE YEARS ENDING 31 DECEMBER 2023 AND 2024**

We refer to the circular of the Company dated 18 October 2023 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee to consider the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole, and as to how the Independent Shareholders should vote on the proposed resolution to approve the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder at the SGM. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the letter of advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 12 to 18 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 9 of the Circular and the additional information set out in the Appendix I to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder, and the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the Supplemental 2021 Sale Framework Agreement was entered into on normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and that the terms of the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution at the SGM to approve the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of
the Independent Board Committee

Mr. Chu Yu Lin, David
*Independent non-executive
Director*

Mr. Li Ka Fai, David
*Independent non-executive
Director*

Mr. Zhang Ping
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor China Building
29 Queen's Road Central
Hong Kong

18 October 2023

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

REVISION OF ANNUAL CAP OF CONTINUING CONNECTED TRANSACTIONS FOR THE YEARS ENDING 31 DECEMBER 2023 AND 2024

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of Continental Aerospace Technologies Holding Limited (the “**Company**”) in respect of the revision of annual caps of the continuing connected transactions in relation to the sale framework agreement for the two years ending 31 December 2023 and 31 December 2024 (the “**Annual Cap Revision**”). Details of the Annual Cap Revision are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company dated 18 October 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 25 October 2021, the Company entered into the 2021 Sale Framework Agreement with China Aviation, pursuant to which the Group will sell engines, engine parts and related services to China Aviation and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul during the term of the 2021 Sale Framework Agreement. The transactions contemplated under the 2021 Sale Framework Agreement were approved by the independent shareholders of the Company at the special general meeting on 6 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Board Letter, due to the increased operation needs of China Aviation and its associates, the expected amounts of transactions under the 2021 Sale Framework Agreement for the years ending 31 December 2023 and 2024 are expected to be higher than the Original Annual Cap. On 25 September 2023, the Company and China Aviation entered into the Supplemental 2021 Sale Framework Agreement to revise the Original Annual Cap to the Revised Annual Cap.

As at the Latest Practicable Date, China Aviation is owned as to 70% by Aviation Industry Corporation of China, Ltd. (“**Aviation Industry**”). Aviation Industry holds 91.14% of the equity interest in AVIC International Holding Corporation, a controlling shareholder of the Company. Therefore, China Aviation and its associates are connected persons of the Company pursuant to the Listing Rules. As the Revised Annual Cap exceeds HK\$10,000,000 and the highest of the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceed 5%, the transactions contemplated under the Supplemental 2021 Sale Framework Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and independent shareholders’ approval requirements.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Zhang Ping, has been established to advise the Independent Shareholders in respect of the Supplemental 2021 Sale Framework Agreement and the Revised Annual Cap. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the “**Engagement**”).

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to continuing connected transactions (details of which are set out in the Company’s circular dated 18 November 2021). The past engagement was limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and China Aviation that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Engagement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group (the “**Management**”) and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group or China Aviation, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the Supplemental 2021 Sale Framework Agreement and the Revised Annual Cap, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in general aviation aircraft piston engine business, which is the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and support for piston engines.

2. Information on China Aviation

China Aviation is a company established in the PRC. The core businesses of China Aviation consist of general aircraft development, general aviation operations and services, aviation parts and non-aerospace manufacturing.

3. Reasons for and benefits of the Annual Cap Revision

As mentioned in the section headed “1. Information on the Group” above, the Group is principally engaged in general aviation aircraft piston engine business, which is the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and support for piston engines.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As discussed with the Management, the Group has carried out sales of engines, engine parts and related services with China Aviation and/or its associates (excluding the Group) under the 2021 Sale Framework Agreement. Cirrus Design Corporation (“**Cirrus**”), a company wholly-owned by China Aviation, is the customer under the 2021 Sale Framework Agreement which has procured engines, engine parts and related services for use in new aircraft manufacture and for the sale of parts in the aftermarket for maintenance, repair and overhaul and will continue to do so on an ongoing basis. We also understand from the Management that the Group has been conducting transactions with Cirrus over the past few years, and Cirrus is the key operating subsidiary of China Aviation to conduct the transactions with the Group under the 2021 Sale Framework Agreement.

Due to the increased operation needs of China Aviation and its associates, including Cirrus, the Management expects that China Aviation and its associates will have a larger demand for the products and services under the 2021 Sale Framework Agreement, and that the Original Annual Cap under the 2021 Sale Framework Agreement for the two years ending 31 December 2023 and 2024 would not be sufficient for the Group to continue to carry out the transactions under the 2021 Sale Framework Agreement. In view of the above, the Company entered into the Supplemental 2021 Sale Framework Agreement with China Aviation to revise the Original Annual Cap to the Revised Annual Cap.

Taking into account that (i) transactions under 2021 Sale Framework Agreement are in line with the Group’s principal business; (ii) the Group has been conducting transactions with Cirrus over the past few years and also under the 2021 Sale Framework Agreement; and (iii) the Revised Annual Cap allows the Group to maintain a stable business relationship with and have sufficient room for conducting further transactions with China Aviation and/or its associates, we concur with the Management’s view that the Annual Cap Revision is in the interests of the Company and the Shareholders as a whole and is in the ordinary and usual course of business of the Group.

4. Determination of the Revised Annual Cap

The Supplemental 2021 Sale Framework Agreement, dated 25 September 2023, was entered into between the Company and China Aviation, to revise the Original Annual Cap to the Revised Annual Cap for the two years ending 31 December 2023 and 2024.

The table below sets out the historical transaction amounts under the 2021 Sale Framework Agreement for the year ended 31 December 2022 and the eight months ended 31 August 2023, as well as the Original Annual Cap and the Revised Annual Cap.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December 2022 <i>US\$ million</i>	For the eight months ended 31 August 2023 <i>US\$ million</i>	For the year ending 31 December 2023 <i>US\$ million</i>	For the year ending 31 December 2024 <i>US\$ million</i>
Historical transaction amounts	32.78	26.61	N/A	N/A
Original Annual Cap	38.3	N/A	38.7	39.2
Revised Annual Cap	N/A	N/A	44.9	50.4

In determining the Revised Annual Cap, the Company has considered the factors as set out in the sub-section headed “Basis of determination of the Revised Annual Cap” under the section headed “REVISION OF THE ORIGINAL ANNUAL CAP” of the Board Letter. For our due diligence purpose, we have obtained and reviewed the calculation of the Revised Annual Cap (the “**Revised Annual Cap Calculation**”) from the Company and discussed with the Management the basis for determining the Revised Annual Cap.

Based on our review, we noted from the Revised Annual Cap Calculation that the Revised Annual Cap for the year ending 31 December 2023 of US\$44.9 million is determined based on (i) the actual historical transaction amount for the eight months ended 31 August 2023 of approximately US\$26.6 million under the 2021 Sale Framework Agreement; (ii) the estimated transaction amount of approximately US\$15.5 million to be purchased by China Aviation and/or its associates (excluding the Group) for the remaining term of the year ending 31 December 2023, based on the orders made by Cirrus for the four months ended 31 December 2023; and (iii) a buffer of approximately US\$2.8 million, which represents approximately 6.2% of the estimated transaction amount for the year ended 31 December 2023 as determined in (i) and (ii) above.

For our due diligence purpose, we have obtained from the Company the purchase order placed by Cirrus in August 2023 for the purchases of engines, which contains the orders placed by Cirrus that are expected to be delivered during 2023. We understand that the Management has also considered the expected manufacturing and delivery schedule of the products, which is in turn estimated based on the actual schedule for the past transactions for the period from January to August 2023, to estimate the expected transaction amount for the period from September to December 2023. In addition, we noted that the Company has applied a buffer of approximately 6.2% to the estimated transaction amount for the year ending 31 December 2023 when determining the Revised Annual Cap for the year ending 31 December 2023. As advised by the Management, the buffer was applied for unforeseeable circumstances such as (a) unexpected increase in demand for products and services; (b) unexpected increase in price of the products; (c) uncertainty of delivery of products; and (d) uncertainty of the schedule of manufacturing. Taking into account (i) that the transactions would mainly be driven by China Aviation and/or its associates based on their own demand and operating circumstances, which are unable to be determined and controlled by the Group; (ii) that in case of costs increase from the supply side, the Group may further adjust its sales price for the transactions; and (iii) the uncertainty of schedule of delivery and manufacturing, we consider such buffer to be justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ending 31 December 2024, the Revised Annual Cap is US\$50.4 million. We noted from the Revised Annual Cap Calculation that such Revised Annual Cap is determined based on (i) the Revised Annual Cap for the year ending 31 December 2023; (ii) an estimated annual increase in the engine selling price of approximately 6%; and (iii) an estimated increase in engine sales order of approximately 6%.

For our due diligence purpose, we have discussed with the Management and understand that the estimated annual increases in engine selling price and engine sales order for the year ending 31 December 2024 were made with reference to the historical growth in engine selling prices and engine sales order. We have obtained from the Management the historical information regarding the sales of engines and note that the engine selling prices are approximately 7.2% higher in 2023 as compared to 2022, and approximately 6.8% higher in 2022 as compared to 2021. As such, we consider such estimation of increase in the engine selling price of approximately 6% to be justifiable. Also, we note that the number of engine sales orders (i) increased from 410 units in 2021 to 428 units in 2022, representing an increase of approximately 4.4%; and (ii) reached 319 units during the eight months ended 31 August 2023, translating into an annualised number of 479 units and such number represents an increase of approximately 11.9% compared to full year of 2022. As advised by the Management, the increases in historical number of engine sales were mainly due to increase in demand as well as the improvement of production efficiency as a result of new production equipment installed in late 2022. Accordingly, we also consider the Management's estimation of increase in the engine sales order of approximately 6% to be justifiable.

Taking into account the details of the Revised Annual Cap and our review of the Revised Annual Cap as set out above, we consider that the Revised Annual Cap is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (i) the Annual Cap Revision is in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole; and (ii) the Revised Annual Cap under the Supplemental 2021 Sale Framework Agreement is fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder (including the Revised Annual Cap).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Name of Director	Capacity	Number of Shares	Percentage of shareholding in the total share capital of the Company
Yu Xiaodong	Beneficial owner	600,000	0.01%

As at the Latest Practicable Date, so far as the Directors were aware, each of Mr. Huang Yongfeng, Mr. Yu Xiaodong, Ms. Jiao Yan, Mr. Zhang Zhibiao and Mr. Li Peiyin is an employee of the AVIC International Holding Corporation, which indirectly owns as to 46.40% of the entire issued share capital of the Company and is deemed to be interested in such Shares under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

None of the Directors or their respective associate(s) are considered to have interests in business which compete or are likely to compete, either directly or indirectly, with the business of the Group which require disclosure under the Listing Rules. In any event, such Directors will be subject to the usual requirement to abstain from voting on resolutions of the Board approving any proposal in which any Director or his associate has a material interest, such that the decision making of the Board should not be affected by such material interest.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group was made up.

6. INTERESTS IN CONTRACTS, ASSETS AND ARRANGEMENT OF SIGNIFICANCE

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2022, the date to which the latest published audited financial statements of the Group were made up.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Somerley Capital Limited	A licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley Capital Limited did not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.cath.com.hk>) for a period of 14 days from the date of this circular:

- (a) the Supplemental 2021 Sale Framework Agreement; and
- (b) the written consent referred to in the section headed “7. Expert and consent” in this Appendix.

NOTICE OF SGM

Continental Aerospace Technologies Holding Limited 大陸航空科技控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 232)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Continental Aerospace Technologies Holding Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at Room II & Forum Boardroom, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 13 November 2023 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution to be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT**

- (a) the supplemental sale framework agreement dated 25 September 2023 (the “**Supplemental 2021 Sale Framework Agreement**”) and entered into between the Company and China Aviation Industry General Aircraft Co., Ltd. (“**China Aviation**”) (a copy of which is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the revised annual cap for the transactions contemplated under the Supplemental 2021 Sale Framework Agreement for the years ending 31 December 2023 and 2024 be and is hereby approved, confirmed and ratified; and
- (c) any one or more of the directors of the Company (the “**Directors**”) be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Supplemental 2021 Sale Framework Agreement and the transactions contemplated thereunder.”

By Order of the Board

Continental Aerospace Technologies Holding Limited

Huang Yongfeng

Chairman

Hong Kong, 18 October 2023

NOTICE OF SGM

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint one or, if he is the holder of two or more shares, more than one person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting at the above meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 11:00 a.m. (Hong Kong time) on Saturday, 11 November 2023.
5. The record date for determining the entitlement of the shareholders of the Company to attend and vote at the special general meeting will be Monday, 13 November 2023. For the purposes of holding the SGM, the register of members of the Company will be closed from Wednesday, 8 November 2023 to Monday, 13 November 2023, both days inclusive, during which period no transfer of shares will be registered, in order to determine the entitlement to attend and vote at the SGM. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 7 November 2023.