

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

(formerly known as AVIC International Holding (HK) Limited)  
(Incorporated in Bermuda with limited liability)

Stock Code: 232

Interim Report  
**2021**



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## CORPORATE INFORMATION

### DIRECTORS

Lai Weixuan (*Chairman*)  
Huang Yongfeng  
Zhang Zhibiao  
Yu Xiaodong  
Zhao Yang (*Chief Executive Officer*)  
Chow Wai Kam\*  
Chu Yu Lin, David\*\*  
Li Ka Fai, David\*\*  
Zhang Ping\*\*

\* *Non-executive Director*

\*\* *Independent Non-executive Directors*

### AUDIT COMMITTEE

Chu Yu Lin, David (*Chairman*)  
Li Ka Fai, David  
Zhang Ping

### REMUNERATION COMMITTEE

Chu Yu Lin, David (*Chairman*)  
Lai Weixuan  
Li Ka Fai, David

### NOMINATION COMMITTEE

Zhang Ping (*Chairman*)  
Chu Yu Lin, David  
Huang Yongfeng

### COMPANY SECRETARY

Kwok Chi Ho

### AUDITORS

Deloitte Touche Tohmatsu

### LEGAL ADVISER

Michael Li & Co.  
19/F., Prosperity Tower  
No. 39 Queen's Road Central  
Central  
Hong Kong

### PRINCIPAL BANKERS

Bank of China  
The Hongkong and Shanghai Banking  
Corporation Limited

### REGISTERED OFFICE

Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10, Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit A, 20/F, Tower 2, Admiralty Centre  
18 Harcourt Road, Admiralty  
Hong Kong

### SHARE REGISTRARS

#### Principal registrar

MUFG Fund Services (Bermuda) Limited  
4th Floor North  
Cedar House  
41 Cedar Avenue  
Hamilton HM 12, Bermuda

#### Hong Kong registrar

Computershare Hong Kong Investor  
Services Limited  
Rooms 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong

### WEBSITE

[www.cath.com.hk](http://www.cath.com.hk)

### STOCK CODE

232

## CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board (the "Board") of directors (the "Directors") of Continental Aerospace Technologies Holding Limited (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2021.

### OVERALL REVIEW

For the first half of 2021, the Group recorded revenue of HK\$729,318,000 (2020: HK\$651,410,000) and gross profit of HK\$213,311,000 (2020: HK\$175,634,000). The Group recorded profit for the period of HK\$27,059,000 (2020: loss of HK\$395,852,000), which was mainly because:

- (1) the general aviation aircraft piston engine business recorded profit for the period of HK\$15,350,000 (2020: loss of HK\$391,280,000); and
- (2) a fair value loss on an investment property of HK\$300,000 (2020: HK\$14,400,000) was recorded for the period;

Basic earnings per share amounted to HK¢0.29 (2020: basic loss per share of HK¢4.25). The return on equity, calculated on the basis of profit/(loss) attributable to owners of the Company as a percentage of equity attributable to owners of the Company, was 1% (2020: -12%).



## **BUSINESS REVIEW**

During the period, the Group has only one reportable operating segment, the general aviation aircraft piston engine business, which engages in 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.

For the first half of 2021, the general aviation aircraft piston engine business recognised revenue of HK\$729,318,000 (2020: HK\$651,410,000) and gross profit of HK\$213,311,000 (2020: HK\$175,634,000), and recorded profit for the period of HK\$15,350,000 (2020: loss of HK\$391,280,000). Impairment of goodwill of HK\$377,336,000 was recorded in the same period of last year mainly due to the COVID-19 pandemic and the deteriorated economic environment. Had the effect from the fair value adjustments on the identifiable assets acquired from the acquisition of the business in 2018 charged to current period's profit or loss of HK\$20,092,000 (2020: HK\$22,991,000) been excluded, the general aviation aircraft piston engine business would have recorded profit of HK\$35,442,000 (2020: loss of HK\$368,289,000).

With the launch of the COVID-19 vaccine and the gradual increase of the vaccination rate, the industries affected by the pandemic have gradually returned to normal demand. It is expected that the United States of America (the "USA") economic growth rate in 2021 and 2022 will reach 5.3% and 5.1%. As a wider vaccine coverage drives the rise of air travel volume, the General Aviation Manufacturers Association (GAMA) announced that the global piston airplane deliveries in the first quarter of 2021 increased by 7.3% compared with the same period of 2020. Under such circumstances, the sales income from the general aviation aircraft piston engine business in the first half of 2021 increased by 12% year-on-year.

In the first half of 2021, the impact of the COVID-19 pandemic lingers on. Facing the cost pressure caused by inflation and the challenge of supply chain shortage, we closely monitor the market trend to proactively adjust the operation strategy and raise our product price in the first half of 2021 to improve our profitability level. In 2021, the number of new orders and sales income exceeds the estimation for the same period of this year and the level for the same period in last year.

## **BUSINESS REVIEW** *(cont'd)*

We conducted a modernised plant renovation named Blue Marlin Factory modernisation program, Alabama USA. To date, we have moved around 65% of staff, 75% of equipment, and 52% of manufacturing centers to the new plant. The manufacturing centers that have been transferred include cylinder, fuel/ignition system, camshaft milling and other system assembly and machining. However, the deliveries and training for certain equipment were delayed due to global travel restrictions. Project expenses are currently in line with budget, and the production process are expected to be fully transferred and ready for operation in the first quarter of 2022. It is expected that such brand-new, modernised plant will significantly enhance our future production capacity and cost competitiveness.

## **FINANCIAL REVIEW**

### ***Listed equity investments***

As at 31 December 2020 and 30 June 2021, the Group held shares issued by Peace Map Holding Limited (“PMH”), which were classified as equity investments designated at fair value through other comprehensive income.

PMH’s shares had been suspended for trading since 2018 and delisted on 3 August 2020. The fair values of the shares have been assessed at nil since 2018.

### **A joint venture and an associate**

The Group has discontinued the recognition of its share of losses of a joint venture as the share of losses of the joint venture exceeded the Group’s interest in it and the Group has no obligation to take up further losses. During the period, the Group recorded share of losses of an associate in an aggregate of HK\$2,425,000 (2020: HK\$730,000).

On 30 November 2020, the Group entered into a share purchase agreement with an independent third party, pursuant to which the purchaser agreed to acquire the Group’s equity interest held in the joint venture with a consideration of RMB11,500,000. The disposal was not completed as at 30 June 2021.



## **FINANCIAL REVIEW** *(cont'd)*

### ***Goodwill***

The Group's goodwill acquired through business combination has been allocated to USA CGU and Germany CGU. As at 30 June 2021, the entire amount of goodwill related to the Germany CGU was HK\$15,305,000 (31 December 2020: HK\$14,927,000). The impairment assessment of Germany CGU was performed with the support of Duff & Phelps, LLC., an independent professionally qualified valuer.

During the six months ended 30 June 2020, the goodwill of HK\$377,336,000 directly related to USA CGU was impaired which was mainly due to the COVID-19 pandemic and the deteriorated economic environment.

### ***Other intangible assets***

Other intangible assets consist of development programs in progress, trademarks, product technology, licence and completed programs, customer relationships and others. As at 30 June 2021, the Group's other intangible assets were HK\$1,630,082,000 (31 December 2020: HK\$1,657,066,000).

### ***Administrative expenses***

Administrative expenses consist of salaries and wages, product liability expenses, engineering expenses, legal and professional expenses and other general expenses. During the period, the Group recorded administrative expenses of HK\$162,086,000 (2020: HK\$149,661,000).

## **LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES**

The Group has consistently maintained sufficient working capital. As at 30 June 2021, the Group had current assets of HK\$1,403,872,000 (31 December 2020: HK\$1,553,030,000), including cash and bank balances and time deposits in an aggregate of HK\$687,781,000 (31 December 2020: HK\$914,072,000). The Group's current liabilities as at 30 June 2021 were HK\$403,085,000 (31 December 2020: HK\$612,235,000).

## **LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES** *(cont'd)*

As at 30 June 2021, the Group's total equity amounted to HK\$2,879,392,000 (31 December 2020: HK\$2,846,140,000), comprising issued capital of HK\$930,337,000 (31 December 2020: HK\$930,337,000) and reserves of HK\$1,949,055,000 (31 December 2020: HK\$1,915,803,000). The Group's interest-bearing debts included interest-bearing bank borrowings of HK\$57,559,000 (31 December 2020: HK\$252,902,000) and lease liabilities of HK\$314,223,000 (31 December 2020: HK\$314,897,000). The Group's gearing ratio, calculated on the basis of the interest-bearing debts as a percentage of total equity plus the interest-bearing debts, was 11% (31 December 2020: 17%).

### **CHARGES ON THE GROUP'S ASSETS**

As at 30 June 2021, there are no assets pledged to secure the Group's bank facilities. The Group has granted a continuing security interest in all assets of Continental Aerospace Technologies, Inc., a subsidiary of the Company and equity interests as the collaterals of certain bank loans as at 31 December 2020.

### **EXPOSURE TO FOREIGN CURRENCY RISK**

As most of the Group's business transactions, assets and liabilities are principally denominated in the functional currencies of the operating units, the Group's exposure to foreign currency risk is minimal.

### **MATERIAL ACQUISITIONS AND DISPOSALS**

Save for the transactions described elsewhere in this interim report, the Group had no material acquisitions or disposals during the period.

### **CONTINGENT LIABILITIES**

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: Nil).





## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2021, there were 541 (31 December 2020: 560) employees in the Group. The employees' wages and salaries, excluding directors' remuneration, amounted to HK\$107,565,000 (2020: HK\$96,833,000) for the period. The Group recognises the importance of good relationship with employees. The Directors believe that the working environment and benefits offered to employees have contributed to building good staff relations and retention. The Group's remuneration policies are formulated based on the performance of individual employees and market conditions and are reviewed regularly. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

## **OUTLOOK**

We still continue to face problems such as fragile supply chains and high absenteeism rate as many other companies do before the general population are vaccinated. We are committed to becoming a leader in the innovation of aviation power systems. Our global research and development team is commencing several projects concerning avgas and jet fuel engines. The current progress of all projects are in line with clients' expectations and will significantly contribute to our future growth. The first half of 2021 witnessed a positive growth in performance, and the second half presents both opportunities and challenges to the Group. We expect that the commissioning of the new plant will further streamline our products and processes, creating a safe, innovative and efficient work environment that facilitate the Group's steady growth in the future.

## **APPRECIATION**

I would like to take this opportunity to express my appreciation to my fellow Directors and all our staff for their support, hard work and dedication.

By order of the Board

**Continental Aerospace Technologies Holding Limited**

**Lai Weixuan**

*Chairman*

Hong Kong, 27 August 2021

## **OTHER INFORMATION**

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

Except for certain Directors who had non-beneficial interests in certain subsidiaries of the Company held for the benefits of the Company, as at 30 June 2021, none of the Directors and chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed in the section of "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and in the section of "SHARE OPTION SCHEME" below, during the period no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company had been granted to any of the Directors or their respective spouses or children under 18 years of age; no such rights had been exercised by them; and none of the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **SHARE OPTION SCHEME**

At the annual general meeting held on 28 May 2014, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants to contribute to the business development and growth of the Group and to enable the Group to recruit high-calibre employees and attract or retain human resources that are valuable to the Group. The Scheme is valid and effective for a period of 10 years from the date of its adoption. Since the adoption of the Scheme, no options have been granted, exercised, lapsed, cancelled or outstanding thereunder as at 30 June 2021.



## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, so far as is known to the Directors, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares, underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name of shareholders	Capacity and nature of interest	Number of ordinary shares of the Company held	Percentage of the Company's issued share capital as at 30 June 2021
Tacko International Limited ("Tacko") <i>(Note)</i>	Beneficial owner	1,895,559,000	20.37
AVIC International (HK) Group Limited ("AVIC International (HK) Group") <i>(Note)</i>	Beneficial owner	2,421,341,390	26.03
AVIC International (HK) Group <i>(Note)</i>	Through a controlled corporation	4,316,900,390	46.40
AVIC International Holding Corporation ("AVIC International") <i>(Note)</i>	Through a controlled corporation	4,316,900,390	46.40
Aviation Industry Corporation of China, Ltd ("AVIC") <i>(Note)</i>	Through a controlled corporation	4,316,900,390	46.40

*Note:* Tacko is a wholly-owned subsidiary of AVIC International (HK) Group, which in turn is a wholly-owned subsidiary of AVIC International. AVIC International is a non-wholly-owned subsidiary of AVIC (91.14% interest controlled by AVIC as at 30 June 2021). Accordingly, each of AVIC International (HK) Group, AVIC International and AVIC is deemed to be interested in the shares of the Company held by Tacko.

Save as disclosed above, as at 30 June 2021, no person had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

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

## **CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

The changes in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below.

Mr. Chu Yu Lin, David resigned as independent non-executive director of Zhuhai Holdings Investment Group Limited on 18 June 2021, the shares of which were delisted on the Stock Exchange on 18 June 2021.

Mr. Li Ka Fai, David resigned as an independent non-executive director of CR Construction Group Holdings Limited (stock code: 1582) on 25 June 2021, the shares of which are listed on the Stock Exchange.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.



## **CORPORATE GOVERNANCE**

The Company is committed to maintain good standards of corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

For the six months ended 30 June 2021, the Company applied the principles of, and complied with all the code provisions and, where applicable, the recommended best practices of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules, except as noted hereunder.

Other than the non-executive Director appointed on 23 June 2015 and the independent non-executive Director appointed on 26 May 2017, the other two independent non-executive Directors were appointed without specific terms, a requirement provided by code provision A.4.1 of the CG Code. In accordance with the Bye-laws of the Company, one-third of the Directors (including non-executive Directors) for the time being shall retire from office by rotation at each annual general meeting provided that every Director shall be subject to retirement at least once every three years. The retiring Directors shall be eligible for re-election. Therefore, the Company is of the view that it has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all of them confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2021.

## **AUDIT COMMITTEE**

The Company has an audit committee (the "Audit Committee") established in compliance with the Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal control systems and the effectiveness of the Company's internal audit function including the review of this interim report. It currently comprises three independent non-executive Directors, namely, Mr. Chu Yu Lin, David (as Chairman), Mr. Li Ka Fai, David and Mr. Zhang Ping.

## **REVIEW OF INTERIM RESULTS**

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 has been reviewed by the Audit Committee, and has also been reviewed by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").



## INTERIM FINANCIAL INFORMATION

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	4	729,318	651,410
Cost of sales and services		(516,007)	(475,776)
Gross profit		213,311	175,634
Other income		2,346	14,093
Other gains and losses		18,117	(3,040)
Impairment of goodwill	10	-	(377,336)
Selling and distribution expenses		(30,871)	(36,903)
Administrative expenses		(162,086)	(149,661)
Research and development costs		(6,317)	(19,896)
Finance costs		(7,670)	(8,859)
Share of results of:			
A joint venture		-	-
An associate		(2,425)	(730)
<b>PROFIT/(LOSS) BEFORE TAX</b>	5	<b>24,405</b>	(406,698)
Income tax credit	6	2,654	10,846
<b>PROFIT/(LOSS) FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>27,059</b>	(395,852)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	7		
Basic		HK0.29 cents	(HK4.25 cents)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME** *(cont'd)*

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>27,059</b>	(395,852)
<b>OTHER COMPREHENSIVE INCOME/ (EXPENSE)</b>		
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<b>6,193</b>	(1,871)
Item that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	(7,458)
<b>OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD</b>	<b>6,193</b>	(9,329)
<b>TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>33,252</b>	(405,181)





## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>30 June 2021 (Unaudited) HK\$'000</b>	31 December 2020 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	466,741	481,329
Right-of-use assets	9	296,514	301,528
Investment property	9	127,900	128,200
Goodwill	10	15,305	14,927
Other intangible assets		1,630,082	1,657,066
Interests in an associate		21,691	12,029
Interests in a joint venture		-	-
Financial assets at fair value through profit or loss		1,938	1,938
Equity investments designated at fair value through other comprehensive income		389	389
Deferred tax assets		24,647	28,120
<b>Total non-current assets</b>		<b>2,585,207</b>	2,625,526
<b>CURRENT ASSETS</b>			
Inventories		508,370	442,878
Trade receivables	11	121,045	122,955
Prepayments, deposits and other receivables		14,504	45,156
Amounts due from fellow subsidiaries		30,533	15,788
Loans to an associate		6,790	11,135
Loans to a joint venture		1,065	1,046
Cash and cash equivalents		687,781	914,072
<b>Assets held for sale</b>	12	<b>1,370,088</b> <b>33,784</b>	1,553,030 -
<b>Total current assets</b>		<b>1,403,872</b>	1,553,030

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

	Note	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Trade payables	13	137,459	107,783
Other payables and accruals		108,271	116,493
Amounts due to intermediate holding companies		23,869	26,456
Tax payable		39,695	38,283
Lease liabilities		6,752	5,311
Provisions and other liabilities		86,083	104,618
Contract liabilities		956	17,948
Bank borrowings		-	195,343
Total current liabilities		403,085	612,235
<b>NET CURRENT ASSETS</b>		1,000,787	940,795
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,585,994	3,566,321
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		213,887	226,902
Bank borrowings		57,559	57,559
Other financial liabilities		40,838	47,897
Lease liabilities		307,471	309,586
Provisions and other liabilities		32,474	32,529
Contract liabilities		37,471	28,935
Defined benefit plan obligations		16,902	16,773
Total non-current liabilities		706,602	720,181
Net assets		2,879,392	2,846,140
<b>EQUITY</b>			
Issued capital		930,337	930,337
Reserves		1,949,055	1,915,803
Total equity		2,879,392	2,846,140



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital HK\$'000	Share premium account HK\$'000	Asset revaluation reserve HK\$'000	Fair value reserve of equity investments designated at fair value through other comprehensive income HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2021 (audited)	930,337	1,857,729	130,615	(224,452)	183	(3,376)	155,104	2,846,140
Profit for the period	-	-	-	-	-	-	27,059	27,059
Other comprehensive income for the period:								
Exchange differences related to foreign operations	-	-	-	-	-	6,193	-	6,193
Total comprehensive income for the period	-	-	-	-	-	6,193	27,059	33,252
At 30 June 2021 (unaudited)	930,337	1,857,729	130,615	(224,452)	183	2,817	182,163	2,879,392

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)**

	Issued capital HK\$ '000	Share premium account HK\$ '000	Asset revaluation reserve HK\$ '000	Fair value reserve of equity investments designated at fair value through other comprehensive income HK\$ '000	Reserve fund HK\$ '000	Exchange fluctuation reserve HK\$ '000	Retained profits HK\$ '000	Total equity HK\$ '000
At 1 January 2020 (audited)	930,337	1,857,729	130,615	(785,235)	5,310	(36,499)	1,471,437	3,573,694
Loss for the period	-	-	-	-	-	-	(395,852)	(395,852)
Other comprehensive expense for the period:								
Exchange differences related to foreign operations	-	-	-	-	-	(1,871)	-	(1,871)
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	(7,458)	-	-	-	(7,458)
Total comprehensive expense for the period	-	-	-	(7,458)	-	(1,871)	(395,852)	(405,181)
Disposal of an unlisted equity investment designated at fair value through other comprehensive income	-	-	-	(3,889)	-	-	3,889	-
At 30 June 2020 (unaudited)	930,337	1,857,729	130,615	(796,582)	5,310	(38,370)	1,079,474	3,168,513



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
	<i>Note</i>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash flows used in operating activities		<b>(15,636)</b>	(35,481)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment	9	<b>(8,392)</b>	(97,412)
Proceeds from disposal of items of property, plant and equipment		–	3
Additions of other intangible assets		<b>(12,929)</b>	(20,026)
Proceeds from disposal of an unlisted equity investment designated at fair value through other comprehensive income		–	3,889
Receipt of repayment of a loan from an associate		<b>4,418</b>	–
Receipt of repayment of a loan from a third party		–	11,268
Bank interest received		<b>1,699</b>	6,276
Net cash flows used in investing activities		<b>(15,204)</b>	(96,002)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS** (cont'd)

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) HK\$'000</b>	2020 (Unaudited) HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank loans	–	172,727
Repayment of bank loans	<b>(195,343)</b>	(86,251)
Repayment of an amount due to an intermediate holding company	–	1,098
Principal portion of lease payments	<b>(3,745)</b>	(2,309)
Interest paid	<b>(566)</b>	(1,613)
Net cash flows (used in) from financing activities	<b>(199,654)</b>	83,652
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(230,494)</b>	(47,831)
Cash and cash equivalents at 1 January	<b>914,072</b>	990,386
Effect of foreign exchange rate changes, net	<b>4,203</b>	(4,867)
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>687,781</b>	937,688



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

Pursuant to a special resolution passed by the Company, the name of the Company was changed from AVIC International Holding (HK) Limited (中國航空工業國際控股(香港)有限公司) to Continental Aerospace Technologies Holding Limited (大陸航空科技控股有限公司) with effect from 4 June 2021. The registration of the new name of the Company in Hong Kong was completed on 7 July 2021.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for an investment property and certain financial instruments, which are measured at fair values.

Other than the additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020. Moreover, the Group has applied the following accounting policies which became relevant to the Group in the current period.

## 2. Principal accounting policies (cont'd)

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### ***Application of amendments to HKFRSs***

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform-Phase 2</i>

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.





### **3. Operating segment information**

The chief operating decision-makers (“CODM”) have been identified as the board of directors of the Company. For management purposes, the Group is organised into business units based on their products and services. The Group has only one reportable operating segment, the general aviation aircraft piston engine business, which is engaged in 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.

Management monitors the results of the Group’s operating segment for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss) before tax, which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) before tax except that certain income, gains and losses, administrative expenses, share of results of a joint venture and an associate are excluded from such measurement.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

### 3. Operating segment information (cont'd)

The following is an analysis of the Group's revenue and results by reportable operating segment for the six months ended 30 June.

	General aviation aircraft piston engine business		Total	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>Segment revenue:</b>				
Sales to external customers	729,318	651,410	729,318	651,410
<b>Segment results</b>	<b>11,245</b>	(402,395)	<b>11,245</b>	(402,395)
<i>Reconciliation:</i>				
Unallocated other income			1,919	6,715
Unallocated other gains and losses			19,522	(3,134)
Unallocated administrative expenses			(5,856)	(7,154)
Share of results of:				
A joint venture			-	-
An associate			(2,425)	(730)
Profit/(loss) before tax			<b>24,405</b>	(406,698)



#### 4. Revenue

An analysis of the Group's revenue is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) HK\$'000</b>	2020 (Unaudited) HK\$'000
<b>Revenue from contracts with customers</b>		
Sales of aircraft engines and spare parts transferred at a point in time	<b>674,588</b>	605,963
Rendering of services transferred over time	<b>54,730</b>	45,447
	<b>729,318</b>	651,410
<b>Disaggregated revenue information – Geographical markets</b>		
USA	<b>560,808</b>	500,262
Europe	<b>103,569</b>	94,581
Others	<b>64,941</b>	56,567
	<b>729,318</b>	651,410

## 5. Profit/(loss) before tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) HK\$'000</b>	2020 (Unaudited) HK\$'000
Cost of inventories sold*	<b>478,127</b>	436,866
Cost of services provided*	<b>37,880</b>	37,639
Write-down of inventories to net realisable value*	–	1,271
Depreciation of property, plant and equipment	<b>23,873</b>	30,441
Depreciation of right-of-use assets	<b>8,089</b>	8,246
Amortisation of other intangible assets	<b>44,168</b>	43,424
Gain on deemed disposal of an associate**	<b>(11,790)</b>	–
Fair value gain on other financial liabilities**	<b>(7,059)</b>	–

\* Included in “cost of sales and services” in the condensed consolidated statement of profit or loss and other comprehensive income.

\*\* Included in “other gains and losses” in the condensed consolidated statement of profit or loss and other comprehensive income.



## 6. Income tax

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2021 and 2020 as the Group did not generate any assessable profits arising in Hong Kong during those periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ jurisdictions in which the Group operates.

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) HK\$'000</b>	2020 (Unaudited) HK\$'000
Current – Hong Kong:		
Underprovision in prior years	–	99
Current – Elsewhere:		
Charge for the period	<b>7,154</b>	4,786
Deferred	<b>(9,808)</b>	(15,731)
	<b>(2,654)</b>	(10,846)

## 7. Earnings/(loss) per share attributable to ordinary equity holders of the Company

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

The calculation of basic earnings/(loss) per share is based on:

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>Earnings/(loss):</b>		
Profit/(loss) attributable to ordinary equity holders of the Company	<b>27,059</b>	(395,852)
	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
<b>Shares:</b>		
Weighted average number of ordinary shares in issue during the period	<b>9,303,374,783</b>	9,303,374,783



## 8. Dividend

No interim dividend was declared for the six months ended 30 June 2021 (2020: Nil).

## 9. Property, plant and equipment, right-of-use assets and investment property

During the six months ended 30 June 2021, the Group has additions of items of property, plant and equipment of HK\$19,359,000 (2020: HK\$97,412,000) and disposal of items of property, plant and equipment with net book value of HK\$52,000 (2020: HK\$8,000).

During the six months ended 30 June 2021, the Group entered into several new leases for buildings and motor vehicles for its operations. On lease commencement, the Group recognised right-of-use assets and lease liabilities of HK\$3,071,000 (2020: Nil).

The Group's investment property consisted of a commercial property in Hong Kong. The Group's investment property was revalued based on valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer. The loss arising from change in fair value of investment property of HK\$300,000 (2020: HK\$14,400,000) has been recognised in profit or loss for the six months ended 30 June 2021.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment property as at 30 June 2021:

	Valuation technique	Key input	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Commercial property	Market comparison approach	Adjusted unit price	HK\$29,559 – HK\$37,564 (31 December 2020: HK\$29,321 – HK\$38,024) per square feet	An increase in the unit price used would result in an increase in the fair value, and vice versa.

## 9. Property, plant and equipment, right-of-use assets and investment property *(cont'd)*

Under the market comparison approach, the property is valued on the market basis assuming sales in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. Comparison is based on prices realised in actual transactions or asking prices of comparable properties. Appropriate adjustments are then made to account for the differences between such properties in terms of age, floor level and other relevant factors.

## 10. Goodwill

The Group's goodwill acquired through business combination has been allocated to the following cash-generating units ("CGU") for impairment testing:

- General aviation aircraft piston engine business in USA CGU ("USA CGU"); and
- General aviation aircraft piston engine business in Germany CGU ("Germany CGU")

As at 30 June 2021 and 31 December 2020, the entire amount of goodwill was related to the Germany CGU. During the six months ended 30 June 2020, the goodwill of HK\$377,336,000 directly related to USA CGU was impaired which was mainly due to the COVID-19 pandemic and the deteriorated economic environment.





## 11. Trade receivables

	<b>30 June 2021 (Unaudited) HK\$'000</b>	31 December 2020 (Audited) HK\$'000
Trade receivables	<b>127,526</b>	131,392
Impairment losses under expected credit loss model	<b>(6,481)</b>	(8,437)
	<b>121,045</b>	122,955

The Group's trading terms with its customers are mainly on credit, where partial advanced payment is required for certain customers. The credit period is generally 30 days and each customer has been assigned a specified credit limit by the Group.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. As at 30 June 2021, the Group had certain concentrations of credit risk as 33% (31 December 2020: 28%) of the Group's trade receivables were due from one of the Group's key customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

## 11. Trade receivables (cont'd)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	<b>30 June 2021 (Unaudited) HK\$'000</b>	31 December 2020 (Audited) HK\$'000
Within 1 month	<b>43,959</b>	63,372
1 to 2 months	<b>31,099</b>	19,029
2 to 3 months	<b>8,708</b>	2,654
Over 3 months	<b>37,279</b>	37,900
	<b>121,045</b>	122,955

## 12. Assets held for sale

During the six months ended 30 June 2021, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain property, plant and equipment and inventories, the disposal group, with carrying values of HK\$10,376,000 and HK\$23,408,000 respectively. The disposal was not completed as at 30 June 2021 and therefore the related assets which are expected to be sold within twelve months have been classified as assets held for sale.



### 13. Trade payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2021 (Unaudited) HK\$'000</b>	31 December 2020 (Audited) HK\$'000
Within 1 month	<b>81,313</b>	52,282
1 to 2 months	<b>37,043</b>	47,926
2 to 3 months	<b>10,458</b>	5,730
Over 3 months	<b>8,645</b>	1,845
	<b>137,459</b>	107,783

The trade payables are non-interest bearing and are normally settled on 45-day terms.

### 14. Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	<b>30 June 2021 (Unaudited) HK\$'000</b>	31 December 2020 (Audited) HK\$'000
Contracted, but not provided for: Plant and machinery	<b>55,907</b>	55,443

## 15. Related party transactions

- (a) In addition to the transactions described elsewhere in these condensed consolidated financial statements, the Group had the following transactions with related parties during the period:

		<b>For the six months ended 30 June</b>	
	<i>Notes</i>	<b>2021 (Unaudited) HK\$'000</b>	2020 (Unaudited) HK\$'000
Interest income on loans to an associate	<i>(i)</i>	<b>244</b>	266
Sales to a fellow subsidiary	<i>(ii)</i>	<b>112,093</b>	74,632
Short term lease payment to an intermediate holding company		<b>(624)</b>	(744)

*Notes:*

- (i) The interest income is charged on the loans to an associate at an interest rate of 6% (2020: 6%) per annum.
- (ii) The sales to a fellow subsidiary are determined according to terms agreed between the Group and the fellow subsidiary.



## 15. Related party transactions *(cont'd)*

- (b) Outstanding balances with related parties:
- (i) The loans to a joint venture are unsecured, non-interest bearing and repayable on demand.
  - (ii) The loans to an associate are unsecured, bear interest at 6% (31 December 2020: 6%) per annum and repayable within one year.
  - (iii) The amounts due to intermediate holding companies are unsecured, non-interest bearing and repayable on demand.
  - (iv) The amounts due from fellow subsidiaries are unsecured, non-interest bearing and with an ageing within three months.
- (c) Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) HK\$'000</b>	2020 (Unaudited) HK\$'000
Short term employee benefits	<b>630</b>	720
Post-employment benefits	<b>18</b>	18
<b>Total compensation paid to key management personnel</b>	<b>648</b>	738

## 16. Fair value and fair value hierarchy of financial instruments

The carrying amounts of the Group's financial instruments measured at fair values, are as follows:

	Carrying amounts	
	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Equity investments designated at fair value through other comprehensive income	389	389
Financial assets at fair value through profit or loss	1,938	1,938
Other financial liabilities	40,838	47,897
	<b>43,165</b>	50,224

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and then reported to the chief executive officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.



## 16. Fair value and fair value hierarchy of financial instruments (cont'd)

Below is a summary of the valuation techniques and significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2021 and 31 December 2020:

Financial instruments	Carrying amount	Valuation technique	Significant unobservable input	Fair value hierarchy	Sensitivity of fair value to the significant unobservable input
Unlisted equity investment	HK\$389,000 (2020: HK\$389,000)	Market approach	Issued prices of recent transactions	Level 3	1% increase/decrease in issued prices of recent transactions would result in increase/decrease in fair value by HK\$4,000
Unlisted debt investment	HK\$1,938,000 (2020: HK\$1,938,000)	Discounted cash flow method based on expected yield rate	Yield rate	Level 3	1% increase/decrease in yield rate would result in decrease/increase in fair value by HK\$124,000/ HK\$134,000
Interest rate swap	HK\$40,838,000 (2020: HK\$47,897,000)	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	Level 2	N/A

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both periods.

There were no movements in fair value measurements within Level 3 during the period.

The management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated financial statements approximate their fair values.

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

# 德勤

**To the Board of Directors of Continental Aerospace Technologies Holding Limited (formerly known as AVIC International Holding (HK) Limited)**

### Introduction

We have reviewed the condensed consolidated financial statements of Continental Aerospace Technologies Holding Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 14 to 38, which comprise the condensed consolidated statement of financial position as of 30 June 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.





## **Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

## **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

27 August 2021