

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



Interim Report
2022

CONTENTS

| | |
|---|----|
| Corporate Information | 2 |
| Chairman's Statement and Management Discussion and Analysis | 3 |
| Other Information | 10 |
| Interim Financial Information | 14 |
| Report on Review of Condensed Consolidated Financial Statements | 37 |

CORPORATE INFORMATION

DIRECTORS

Huang Yongfeng (*Chairman*)
Yu Xiaodong (*Chief Executive Officer*)
Jiao Yan
Zhao Yang
Li Peiyin
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*)
Yu Xiaodong
Li Ka Fai, David

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Kwok Chi Ho

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors

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 B, 15th Floor, United Centre
95 Queensway, 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

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 2022.

OVERALL REVIEW

For the first half of 2022, the Group recorded a revenue of HK\$853,449,000 (2021: HK\$729,318,000) and a gross profit of HK\$240,089,000 (2021: HK\$213,311,000). The Group recorded a profit for the period of HK\$58,350,000 (2021: HK\$27,059,000), which was mainly because of the general aviation aircraft piston engine business recorded a profit for the period of HK\$56,640,000 (2021: HK\$15,350,000).

Basic earnings per share amounted to HK¢0.63 (2021: HK¢0.29). The return on equity, calculated on the basis of profit attributable to owners of the Company as a percentage of equity attributable to owners of the Company, was 2% (2021: 1%).

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 2022, the general aviation aircraft piston engine business recognised a revenue of HK\$853,449,000 (2021: HK\$729,318,000) and a gross profit of HK\$240,089,000 (2021: HK\$213,311,000), and recorded a profit for the period of HK\$56,640,000 (2021: HK\$15,350,000). The increase in profit was mainly attributable to the increase in revenue and the decrease in selling and distribution expenses, administrative expenses and finance costs during the period. 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\$10,411,000 (2021: HK\$20,092,000) been excluded, the general aviation aircraft piston engine business would have recorded a profit of HK\$67,051,000 (2021: HK\$35,442,000).

BUSINESS REVIEW *(cont'd)*

General aviation aircraft deliveries continue to show strong progress as we emerge from the impacts of the pandemic. Piston airplane deliveries especially continue their positive trajectory and exceed last year's numbers as well as the first quarter numbers of 2020 and 2019. According to the General Aviation Manufacturers Association ("GAMA") first quarter 2022 report, compared to the same period in 2021, aircraft unit deliveries across each aircraft segment have been increasing. Piston airplane shipments increased by 13.9% with 263 units while business jet shipments increased by 4.4% with 118 units. GAMA report shows increasing light airplane deliveries from several companies that have leveraged the new CS/Part 23 airworthiness standards for both new aircraft models and upgrades. We are optimistic that further implementation of these standards across global regulators will continue to advance safety while bringing new and exciting aircraft to the general aviation market.

Despite challenges of the COVID impacts, supply chain bottleneck, inflation, labor shortage, and machine downtime, the Company continued to navigate the turbulent time and reported a strong first half year performance. Order intakes are strong so the backlog will support production till 2023. Compared to last year, revenue increased by 17.0% and profit before tax increased by 107.4%. As a result, the Company has been creating positive cash flow from operating activities.

Under the Blue Marlin project, through to June 2022, the Company successfully completed above 65% Production Part Approval Processes and partially launched production transitions. With the increased in production capacity through the implementation of the Blue Marlin project, production delivery has continued to improve.

The Company continuously strives to innovate to be the first choice in the general aviation power sector. The Company has launched major Original Equipment Manufacturer ("OEM") applications and won interest and commitment from new and existing leading OEM manufacturers. We streamlined our product portfolio, focused on adding value to newer products and technologies and developed strategic initiatives in-line with the voice of the market and our customers.

FINANCIAL REVIEW

A joint venture and an associate

During the period, the Group recorded a share of losses of an associate in an aggregate of HK\$1,777,000 (2021: HK\$2,425,000).

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 a joint venture with a consideration of RMB11,500,000. The disposal was completed on 28 April 2022. During the period, the Group recorded a disposal gain of a joint venture of HK\$6,515,000.

Goodwill

The Group's goodwill acquired through business combination has been allocated to a cash-generating unit in USA ("USA CGU") and a cash-generating unit in Germany ("Germany CGU"). As at 30 June 2022, the entire amount of the goodwill related to the Germany CGU was HK\$13,277,000 (31 December 2021: HK\$14,163,000). The impairment assessment of USA CGU and Germany CGU was performed with the support of Kroll, LLC, an independent professionally qualified valuer.

During the six months ended 30 June 2022 and 2021, no impairment loss is recognised.

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 2022, the Group's other intangible assets were HK\$1,514,856,000 (31 December 2021: HK\$1,564,078,000).

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\$153,422,000 (2021: HK\$162,086,000).

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2022, the Group had current assets of HK\$1,404,290,000 (31 December 2021: HK\$1,290,759,000), including cash and bank balances and time deposits in an aggregate of HK\$740,759,000 (31 December 2021: HK\$623,119,000). The Group's current liabilities as at 30 June 2022 were HK\$416,768,000 (31 December 2021: HK\$390,863,000).

As at 30 June 2022, the Group's total equity amounted to HK\$2,829,006,000 (31 December 2021: HK\$2,784,461,000), comprising issued capital of HK\$930,337,000 (31 December 2021: HK\$930,337,000) and reserves of HK\$1,898,669,000 (31 December 2021: HK\$1,854,124,000). The Group's interest-bearing debts included lease liabilities of HK\$311,599,000 (31 December 2021: HK\$311,018,000). 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 10% (31 December 2021: 10%).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2022 and 31 December 2021, there are no assets pledged to secure the Group's bank facilities.

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 announcement, the Group had no material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: Nil).



EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, there were 532 (31 December 2021: 510) employees in the Group. The employees' wages and salaries, excluding directors' remuneration, amounted to HK\$98,688,000 (2021: HK\$107,565,000) 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

The global economy outlook continues to soften as the interaction between financial markets and the real economy clouds the outlook for both. The impacts of the COVID are still having a depressing impact on the global economy which is further reinforced by worries of a potential recession in the US and, more likely, in Europe. Higher energy prices, expectations of higher interest rates and the associated rise in the risk of recession in key economies are driving the global GDP growth to slow down, and the unsettled inflation outlook is clearly and evidently leading the risen risks of a recession.

While the Company has a healthy backlog that will be fulfilled till 2023, we are aiming at internal efficiency and leadtime improvements. The Company's strategy across the market sectors focuses on providing a reliable quality product while delivering exceptional customer service and value to our customers. The Company is determined to deliver profitability across the business segment through a series of targeted strategic initiatives centered around customer satisfaction, profit enhancement, and cash generation. Focusing on these key strategic priorities will create a robust foundation for future growth opportunities.

OUTLOOK *(cont'd)*

We anticipate that our North America's production processes will be fully transitioned and production-ready by the first quarter of 2023. This greenfield Blue Marlin facility is expected to significantly increase capacity and efficiency for future growth while ensuring a competitive cost base, therefore improving profit margins. With the Kanban system implemented, the key legacy engine specs lead time is expected to be reduced by 60%. The Company also expanded the Titan/Prime production capacity to cut the leadtime by 50%.

We are planning to increase our research and development budget in 2023 significantly to support multiple global projects for both the Avgas and Jet-A product lines, including the fuel improvement project. The Company has officially submitted a formal application to Federal Aviation Administration for the expansion of the use of unleaded fuel in select lower compression avgas engines. If approved, it will authorize more than 100 popular engine models to use 91/94 UL.

To facilitate business growth and efficiency improvement, The Company is implementing new Enterprise Resource Planning System ("ERP") for all global business units in 2022. The new ERP will provide robust platforms to better manage our manufacturing processes and operational costs, assist in business growth, streamline supply chain, inventory, and reporting processes. We expect to complete the new ERP in the second quarter of 2023.

Signals of a slowdown in the global economy have mounted. Business activity is buckling under the weight of higher interest rates, and business investment is downshifting amid growing recession fears. The Company hence created a playbook to manage the potential recession risks. It includes how to implement the new ERP, accelerate Blue Marlin manufacturing transition, increase capacity to reduce lead time, and develop new products and technologies in order to improve competition power, expand market share, and continually deliver the promising operational results.

In a nutshell, the Company is delivering a very strong performance in the first half of 2022 and presents many growth opportunities, though with headwinds. The Company looks forward to building reliable products and serving customers from world-class facilities that set the new standard in the general aviation industry.



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

Huang Yongfeng

Chairman

Hong Kong, 31 August 2022

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 2022, 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 2022.

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

As at 30 June 2022, 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 2022 |
|---|----------------------------------|---|---|
| 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 2022). 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 2022, 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.

CORPORATE GOVERNANCE

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

For the six months ended 30 June 2022, 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 as set out in Appendix 14 to the Listing Rules.

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 2022.



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 2022 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.

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Revenue | 4 | 853,449 | 729,318 |
| Cost of sales and services | | (613,360) | (516,007) |
| Gross profit | | 240,089 | 213,311 |
| Other income | | 4,813 | 2,346 |
| Other gains and losses | | 8,848 | 18,117 |
| Selling and distribution expenses | | (26,850) | (30,871) |
| Administrative expenses | | (153,422) | (162,086) |
| Research and development costs | | (13,995) | (6,317) |
| Finance costs | | (7,081) | (7,670) |
| Share of results of an associate | | (1,777) | (2,425) |
| PROFIT BEFORE TAX | 5 | 50,625 | 24,405 |
| Income tax credit | 6 | 7,725 | 2,654 |
| PROFIT FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY | | 58,350 | 27,059 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | 7 | | |
| Basic | | HK0.63 cents | HK0.29 cents |

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

| | Six months ended 30 June | |
|---|--|--|
| | 2022 <i>HK\$'000</i> (Unaudited) | 2021 <i>HK\$'000</i> (Unaudited) |
| PROFIT FOR THE PERIOD | 58,350 | 27,059 |
| OTHER COMPREHENSIVE (EXPENSE) INCOME | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations | (21,401) | 6,193 |
| Reclassification of cumulative translation reserve upon disposal of a joint venture | 7,596 | – |
| OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD | (13,805) | 6,193 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY | 44,545 | 33,252 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | <i>Notes</i> | At 30 June 2022 HK\$'000 (Unaudited) | At 31 December 2021 HK\$'000 (Audited) |
|--|--------------|---|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 585,690 | 458,727 |
| Right-of-use assets | 9 | 285,257 | 289,033 |
| Investment property | 9 | – | 123,800 |
| Goodwill | 10 | 13,277 | 14,163 |
| Other intangible assets | | 1,514,856 | 1,564,078 |
| Interest in an associate | | 17,811 | 20,371 |
| Interest in a joint venture | | – | – |
| Financial assets at fair value through profit or loss | | 1,960 | 1,938 |
| Equity investments designated at fair value through other comprehensive income | | 392 | 389 |
| Total non-current assets | | 2,419,243 | 2,472,499 |
| CURRENT ASSETS | | | |
| Inventories | | 459,781 | 492,972 |
| Loans to an associate | | 7,024 | 7,121 |
| Loans to a joint venture | | – | 7 |
| Trade receivables | 11 | 156,238 | 117,435 |
| Prepayments, deposits and other receivables | | 23,689 | 24,282 |
| Amounts due from fellow subsidiaries | | 16,799 | 25,823 |
| Bank balances and cash | | 740,759 | 623,119 |
| Total current assets | | 1,404,290 | 1,290,759 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

| | <i>Note</i> | At 30 June 2022 HK\$'000 (Unaudited) | At 31 December 2021 HK\$'000 (Audited) |
|---|-------------|---|---|
| CURRENT LIABILITIES | | | |
| Trade payables | 12 | 136,431 | 133,422 |
| Other payables and accruals | | 116,471 | 99,980 |
| Amounts due to intermediate holding companies | | 26,719 | 27,495 |
| Tax payable | | 39,379 | 40,003 |
| Contract liabilities | | 25,276 | 8,139 |
| Provisions | | 65,800 | 75,291 |
| Lease liabilities | | 6,692 | 6,533 |
| Total current liabilities | | 416,768 | 390,863 |
| NET CURRENT ASSETS | | 987,522 | 899,896 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,406,765 | 3,372,395 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 194,024 | 211,518 |
| Contract liabilities | | 33,043 | 29,253 |
| Provisions | | 35,513 | 32,394 |
| Lease liabilities | | 304,907 | 304,485 |
| Defined benefit plan obligations | | 10,272 | 10,284 |
| Total non-current liabilities | | 577,759 | 587,934 |
| Net assets | | 2,829,006 | 2,784,461 |
| EQUITY | | | |
| Share capital | | 930,337 | 930,337 |
| Reserves | | 1,898,669 | 1,854,124 |
| Total equity | | 2,829,006 | 2,784,461 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share 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 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total equity HK\$'000 |
|---|---------------------------|-----------------------------------|---------------------------------------|--|--------------------------|---------------------------------|------------------------------|--------------------------|
| At 1 January 2022 (audited) | 930,337 | 1,857,729 | 130,615 | (224,452) | 183 | (15,918) | 105,967 | 2,784,461 |
| Profit for the period | - | - | - | - | - | - | 58,350 | 58,350 |
| Other comprehensive (expense) income for the period: | | | | | | | | |
| Exchange differences on translations of foreign operations | - | - | - | - | - | (21,401) | - | (21,401) |
| Reclassification of cumulative translation reserve upon disposal of a joint venture | - | - | - | - | - | 7,596 | - | 7,596 |
| Total comprehensive (expense) income for the period | - | - | - | - | - | (13,805) | 58,350 | 44,545 |
| At 30 June 2022 (unaudited) | 930,337 | 1,857,729 | 130,615 | (224,452) | 183 | (29,723) | 164,317 | 2,829,006 |

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

| | Share 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 | Translation 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 on translations of 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 CASH FLOWS

| | Six months ended 30 June | |
|--|--|--|
| | 2022 <i>HK\$'000</i> (Unaudited) | 2021 <i>HK\$'000</i> (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net cash from (used in) operating activities | 149,204 | (15,636) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Placement of bank deposits | (290,238) | – |
| Purchases of items of property, plant and equipment | (17,623) | (8,392) |
| Additions of other intangible assets | (8,941) | (12,929) |
| Bank interest received | 1,774 | 1,699 |
| Receipt of repayment of a loan from an associate | – | 4,418 |
| Net cash used in investing activities | (315,028) | (15,204) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal portion of lease payments | (2,949) | (3,745) |
| Interest paid | (75) | (566) |
| Advance from intermediate holding companies | 736 | – |
| Repayment of bank borrowings | – | (195,343) |
| Net cash used in financing activities | (2,288) | (199,654) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

| | Six months ended 30 June | |
|--|--|--|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (168,112) | (230,494) |
| Cash and cash equivalents at beginning the period | 623,119 | 914,072 |
| Effect of foreign exchange rate changes, net | (4,486) | 4,203 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 450,521 | 687,781 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 740,759 | 687,781 |
| Less: bank deposits with maturity over three months | (290,238) | – |
| | 450,521 | 687,781 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as 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, as appropriate.

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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.



2. Principal accounting policies (cont'd)

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 Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

| | |
|-----------------------|---|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment – Proceeds before Intended Use</i> |
| Amendments to HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract</i> |
| Amendments to HKFRSs | <i>Annual Improvements to HKFRSs 2018-2020</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 reported to the chief executive officer of the Group, the chief operating decision maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on type of goods or 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 separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit before tax, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that certain income, gains and losses, administrative expenses and share of results of an associate are excluded from such measurement.

3. Operating segment *(cont'd)*

The CODM makes decisions according to operating results of the 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.

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 | |
|-------------------------------------|---|---------------------------------|---------------------------------|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Segment revenue: | | | | |
| Sales to external customers | 853,449 | 729,318 | 853,449 | 729,318 |
| Segment results | 47,179 | 11,245 | 47,179 | 11,245 |
| Unallocated other income | | | 3,212 | 1,919 |
| Unallocated other gains and losses | | | 9,721 | 19,522 |
| Unallocated administrative expenses | | | (7,710) | (5,856) |
| Share of results of an associate | | | (1,777) | (2,425) |
| Profit before tax | | | 50,625 | 24,405 |

4. Revenue

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

| | Six months ended 30 June | |
|---|-------------------------------------|-------------|
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Revenue from contracts with customers | | |
| Sale of aircraft engines and spare parts transferred at a point in time | 810,151 | 674,588 |
| Rendering of services transferred over time | 43,298 | 54,730 |
| | 853,449 | 729,318 |
| Disaggregated revenue information – Geographical markets | | |
| USA | 690,834 | 560,808 |
| Europe | 106,583 | 103,569 |
| Others | 56,032 | 64,941 |
| | 853,449 | 729,318 |

5. Profit before tax

Profit before tax has been arrived at after charging (crediting) the following items:

| | Six months ended 30 June | |
|--|--|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Cost of inventories sold* | 583,058 | 478,127 |
| Cost of services provided* | 30,302 | 37,880 |
| Write-down of inventories (included in cost of inventories sold) | 2,547 | – |
| Depreciation of property, plant and equipment | 16,604 | 23,873 |
| Depreciation of right-of-use assets | 7,032 | 8,089 |
| Amortisation of other intangible assets | 42,170 | 44,168 |
| Gain on deemed disposal of an associate** | – | (11,790) |
| Gain on disposal of a joint venture** | (6,515) | – |
| Fair value gain on other financial liabilities** | – | (7,059) |

* 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 credit

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2022 and 2021 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.

| | Six months ended 30 June | |
|-----------------------|-------------------------------------|-------------|
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Current – Elsewhere: | | |
| Charge for the period | 5,684 | 7,154 |
| Deferred tax | (13,409) | (9,808) |
| | (7,725) | (2,654) |

7. Earnings per share

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to owners of the Company and the number of ordinary shares in issue during the period.

The calculation of basic earnings per share is based on:

| | Six months ended 30 June | |
|--|--|---------------------------------|
| | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Earnings: | | |
| Profit attributable to owners of the Company | 58,350 | 27,059 |

| | Six months ended 30 June | |
|--|-------------------------------------|---------------------|
| | 2022 (Unaudited) | 2021 (Unaudited) |
| Shares: | | |
| Number of ordinary shares in issue during the period | 9,303,374,783 | 9,303,374,783 |

8. Dividends

No dividends were paid, declared or proposed during the six months ended 30 June 2022 (2021: Nil).

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

During the six months ended 30 June 2022, the Group has additions of items of property, plant and equipment of HK\$18,389,000 (six months ended 30 June 2021: HK\$19,359,000).

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

During the six months ended 30 June 2021, the Group had disposal of items of property, plant and equipment with a carrying value of HK\$52,000.

The Group's investment property consisted of a commercial property in Hong Kong. During the six months ended 30 June 2022, the Group's investment property was transferred to property, plant and equipment at the carrying amount of HK\$124,500,000 on commencement of owner occupation. The carrying amount has been arrived at on the basis of a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer. The gain arising from change in fair value of investment property of HK\$700,000 (six months ended 30 June 2021: loss of HK\$300,000) has been recognised in profit or loss for the six months ended 30 June 2022.

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 2022 and 31 December 2021, the entire amount of goodwill was related to the Germany CGU. The goodwill related to the USA CGU has been fully impaired in prior years.

11. Trade receivables

| | At 30 June 2022 HK\$'000 (Unaudited) | At 31 December 2021 HK\$'000 (Audited) |
|--|---|--|
| Trade receivables | 162,014 | 123,190 |
| Impairment losses under expected credit loss model | (5,776) | (5,755) |
| | 156,238 | 117,435 |

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.

11. Trade receivables (cont'd)

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. As at 30 June 2022, the Group had certain concentrations of credit risk as 37% (31 December 2021: 50%) 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.

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:

| | At 30 June 2022 HK\$'000 (Unaudited) | At 31 December 2021 HK\$'000 (Audited) |
|----------------|---|--|
| Within 1 month | 118,292 | 88,666 |
| 1 to 2 months | 30,405 | 14,509 |
| 2 to 3 months | 1,520 | 3,923 |
| Over 3 months | 6,021 | 10,337 |
| | 156,238 | 117,435 |

12. 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:

| | At 30 June 2022 HK\$'000 (Unaudited) | At 31 December 2021 HK\$'000 (Audited) |
|----------------|---|--|
| Within 1 month | 113,610 | 99,589 |
| 1 to 2 months | 8,861 | 16,146 |
| 2 to 3 months | 8,000 | 1,999 |
| Over 3 months | 5,960 | 15,688 |
| | 136,431 | 133,422 |

The trade payables are normally settled on 45 days terms.

13. Capital commitments

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

| | At 30 June 2022 HK\$'000 (Unaudited) | At 31 December 2021 HK\$'000 (Audited) |
|--|---|--|
| Contracted, but not provided for: Plant and machinery | 56,093 | 54,347 |

14. 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:

| | | Six months ended 30 June | |
|--|--------------|--|---------------------------------|
| | <i>Notes</i> | 2022 HK\$'000 (Unaudited) | 2021 HK\$'000 (Unaudited) |
| Interest income on loans to an associate | <i>(i)</i> | 199 | 244 |
| Sales to fellow subsidiaries | <i>(ii)</i> | 117,349 | 112,093 |
| Purchases from a fellow subsidiary | <i>(iii)</i> | (554) | – |
| Short-term lease payment to immediate holding company | | (400) | (624) |
| Management fee income from immediate holding company | | 422 | – |

Notes:

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

14. Related party transactions (cont'd)

- (b) Outstanding balances with related parties:
- (i) The loans to a joint venture was unsecured, interest bearing at 5% per annum and repayment on demand.
 - (ii) The loans to an associate are unsecured, interest bearing at 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:

| | Six months ended | |
|---|-------------------------|-------------|
| | 30 June | |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Short-term employee benefits | 889 | 630 |
| Post-employment benefits | 41 | 18 |
| Total compensation paid to key management personnel | 930 | 648 |

15. 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 2022 <i>HK\$'000</i> (Unaudited) | 31 December 2021 <i>HK\$'000</i> (Audited) |
| Equity investments designated at fair value through other comprehensive income | 392 | 389 |
| Financial assets at fair value through profit or loss | 1,960 | 1,938 |

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.

15. 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 2022 and 31 December 2021:

| Financial instruments | Fair values as at | | Fair value hierarchy | Valuation technique | Key unobservable inputs sensitivity analysis |
|----------------------------|----------------------|------------------|----------------------|--|--|
| | 30 June 2022 | 31 December 2021 | | | |
| Unlisted equity investment | HK\$392,000 | HK\$389,000 | Level 3 | Market approach using issued prices of transactions | Recent transaction prices 1% (2021: 1%) increase/decrease in issued prices of transactions would result in increase/decrease in fair value by HK\$4,000 (2021: HK\$4,000) |
| Unlisted debt investment | HK\$1,960,000 | HK\$1,938,000 | Level 3 | Discounted cash flow method was used to capture the present value based on expected yield rate | Yield rate at 7% (2021: 7%) 1% (2021: 1%) increase/decrease in yield rate would result in decrease/increase in fair value by HK\$111,000/HK\$118,000 (2021: HK\$115,000/HK\$123,000) |

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.

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

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 36, which comprise the condensed consolidated statement of financial position as of 30 June 2022 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

31 August 2022