

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
2023

CONTENTS

Corporate Information	2
Chairman's Statement and Management Discussion and Analysis	3
Other Information	10
Interim Financial Information	14
Report on Review of Interim financial information	37



CORPORATE INFORMATION

DIRECTORS

Huang Yongfeng (*Chairman*)
Yu Xiaodong (*Chief Executive Officer*)
Jiao Yan
Zhang Zhibiao
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

Ernst & Young
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 2023.

OVERALL REVIEW

For the first half of 2023, the Group recorded a revenue of HK\$928,696,000 (2022: HK\$853,449,000) and a gross profit of HK\$296,325,000 (2022: HK\$239,132,000). The Group recorded a profit for the period of HK\$80,480,000 (2022: HK\$58,350,000), which was mainly because of the general aviation aircraft piston engine business recorded a profit for the period of HK\$78,978,000 (2022: HK\$56,640,000).

Basic and diluted earnings per share amounted to HK ¢ 0.87 (2022: HK ¢ 0.63). 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 2.8% (2022: 2.1%).

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 2023, the general aviation aircraft piston engine business recognised a revenue of HK\$928,696,000 (2022: HK\$853,449,000) and a gross profit of HK\$296,325,000 (2022: HK\$239,132,000), and recorded a profit for the period of HK\$78,978,000 (2022: HK\$56,640,000). The increase in profit was mainly due to the subsidiary in the United States began to generate taxable profits in the period, and therefore the subsidiary has recognised deferred tax credit in relation to some of its tax losses of previous years.



BUSINESS REVIEW *(cont'd)*

Despite the aggressive monetary policy tightening, global economic activity in developed economies has shown to be more resilient than expected in many sectors. Central banks around the world are proving to be more hawkish than assumed. Global real gross domestic product (“GDP”) is forecasted to grow by 2.7% in 2023, down from 3.3% in 2022.

In the United States, the economy has continued to weather the headwinds of tighter monetary policy, supply chain and labour force shortages. The latest nonfarm payrolls and personal spending indicate that the job market is cooling, and consumers are running out of steam. The customer price data for June 2023 even showed that inflation is beginning to slow down. The core inflation will ease further in the rest of 2023.

In the general aviation world, the General Aviation Manufacturers Association (“GAMA”) reported the number of planes delivered was up year to year with slightly lower prices across all segments other than helicopters. General aviation aircraft deliveries continue to show strong progress. The deliveries of piston airplane continue a positive trajectory and exceeded the first half of 2022 by 10.1% with 294 units. “The continued health of the general aviation manufacturing industry is encouraging,” said Pete Bunce, GAMA President and CEO, “our manufacturers are focused on meeting this thriving product demand with new aircraft which incorporate advanced technologies that further enhance safety and fuel performance.” Along with the general aviation industry’s strong performance, our shipments were also robust when compared to the first half of 2022 and its annual operation plan.

FINANCIAL REVIEW

Goodwill

The Group's goodwill acquired through business combination has been allocated to a cash-generating unit in the United States ("USA CGU") and a cash-generating unit in Germany ("Germany CGU"). As at 30 June 2023, the entire amount of the goodwill related to the Germany CGU was HK\$13,479,000 (31 December 2022: HK\$13,439,000). The impairment assessment of the USA CGU and the Germany CGU was performed with the support of Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professionally qualified valuer.

During the six months ended 30 June 2023 and 2022, 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 2023, the Group's other intangible assets were HK\$1,357,868,000 (31 December 2022: HK\$1,387,327,000).

Investment in an associate

During the period, the Group recorded a share of loss of an associate in an aggregate of HK\$2,418,000 (2022: HK\$1,777,000).

Administrative expenses

Administrative expenses consist of salaries and wages, product liability expenses, legal and professional expenses and other general expenses. During the period, the Group recorded administrative expenses of HK\$152,938,000 (2022: HK\$145,567,000).



LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2023, the Group had current assets of HK\$1,651,136,000 (31 December 2022: HK\$1,509,210,000), including cash and bank balances and time deposits with original maturity over three months in an aggregate of HK\$849,974,000 (31 December 2022: HK\$824,752,000). The Group's current liabilities as at 30 June 2023 were HK\$502,002,000 (31 December 2022: HK\$422,783,000).

As at 30 June 2023, the Group's total equity amounted to HK\$2,902,972,000 (31 December 2022: HK\$2,818,891,000), comprising share capital of HK\$930,337,000 (31 December 2022: HK\$930,337,000) and reserves of HK\$1,972,635,000 (31 December 2022: HK\$1,888,554,000). The Group's interest-bearing debts included lease liabilities of HK\$290,471,000 (31 December 2022: HK\$294,099,000). 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 9.1% (31 December 2022: 9.4%).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2023 and 31 December 2022, 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 2023, the Group did not have any significant contingent liabilities (31 December 2022: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, there were 564 (31 December 2022: 534) employees in the Group. The employees' wages and salaries, amounted to HK\$135,999,000 (2022: HK\$98,688,000) 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

While global economic growth is moderating under the weight of still high inflation and monetary policy tightening, we currently estimate that the growth of the global GDP will slow down further to 2.4% in 2024, in which the growth may be stronger in emerging economies, and slower in Europe and the United States. Regarding the second half of 2023 and 2024 economic outlooks, the financial market stability and inflation risks are contributing to economic uncertainty. Central banks tightened monetary policy rapidly and this exposed weaknesses in the banking sector and financial markets in general. Additionally, core inflations cause price pressures in the global goods and industrial sectors that will adjust the demand, price balance and the labour market dynamics. It will eventually pass through price changes.

We continue to maintain a healthy backlog that will be fulfilled till 2024, we are unwavering to commit to the pursuit of excellence across all business areas, which include quality management, internal efficiency and lead time improvements while delivering exceptional customer service and value to our customers.



OUTLOOK *(cont'd)*

World-Class Manufacturing Facility

As we are finishing our Blue Marlin project, and near the end of our transition into our state-of-the-art manufacturing facility in Mobile, Alabama, the United States, we are excited about our future production capabilities. Besides, all advantages of the new production facility brings to manufacturing our avgas piston engines, including reduced lead times, our production team is focusing on taking full advantage of our ability to manufacture Parts Manufacturer Approval parts, which are approved by Federal Aviation Administration (“FAA”), like cylinders for non-Original Equipment Manufacturer (“OEM”) piston engines.

Our avgas piston engines are seeing renewed interest from our OEM partners. Tecnam Aircraft, an aircraft manufacturer, has recently announced that our GTSIO-520-S engine will power their short takeoff and landing aircraft and be offered as a powerplant option on the Traveller, and Sentinel.

We are also thrilled about the future of the Jet-A piston engine series. Announced at EAA AirVenture Oshkosh 2023, we have received the CD300 engine validate type certificate from FAA. The CD300 engine as validated by the FAA makes it available for pilots based in the United States. This is the engine that Diamond Aircraft, an aircraft manufacturer, has selected to power the DA50 RG.

Furthermore, our line of CD engines has reached 10 million flight hours as a sign that owners and operators are enjoying the cost-saving benefits and flight performance of the engine.

Research and Development

Confirming our effort to sustaining aviation fuel, we are finalizing the testing of Hydrotreated Vegetable Oil (“HVO”) as a sustainable fuel option in its CD100 series of engines. HVO is a renewable and carbon-neutral fuel alternative. HVO biofuel is produced from vegetable oils. The Group’s research and development investment signifies our commitment to fostering a more sustainable general aviation industry aimed at reducing carbon emissions and promoting environmental stewardship.

Research and Development *(cont'd)*

In a nutshell, we are delivering a very strong performance in the first half of 2023, and building sustainable products and excellent services to our valuable customers. Meanwhile, we anticipate using the world-class manufacturing facility and production capabilities to set new standards of quality, lead time, and innovative technologies 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, 28 August 2023



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 2023, 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 2023.

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

As at 30 June 2023, 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 2023
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 2023). 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 2023, 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 2023, 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 2023.

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 2023 has been reviewed by the Audit Committee, and has also been reviewed by Ernst & Young 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	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) (Restated) HK\$'000
Revenue	4	928,696	853,449
Cost of sales		(632,371)	(614,317)
Gross profit		296,325	239,132
Other income and gains		16,449	13,661
Selling and distribution expenses		(33,518)	(27,610)
Administrative expenses		(152,938)	(145,567)
Research and development costs		(27,522)	(20,133)
Other operating expenses		(54,810)	–
Finance costs		(6,623)	(7,081)
Share of loss of an associate		(2,418)	(1,777)
PROFIT BEFORE TAX	5	34,945	50,625
Income tax credit	6	45,535	7,725
PROFIT FOR THE PERIOD, ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		80,480	58,350
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	7	HK\$0.87 cent	HK0.63 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	80,480	58,350
OTHER COMPREHENSIVE INCOME/ (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	3,601	(21,401)
Reclassification of cumulative translation reserve upon disposal of a joint venture	-	7,596
OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD	3,601	(13,805)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	84,081	44,545



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	616,517	602,498
Right-of-use assets		256,933	264,010
Goodwill	10	13,479	13,439
Other intangible assets		1,357,868	1,387,327
Investment in an associate		11,900	14,409
Financial assets at fair value through profit or loss		1,950	1,950
Equity investments designated at fair value through other comprehensive income		390	390
Deferred tax assets		–	6,615
Total non-current assets		2,259,037	2,290,638
CURRENT ASSETS			
Inventories		590,629	522,183
Loans to an associate		7,051	6,937
Trade receivables	11	134,186	96,739
Prepayments, deposits and other receivables		32,641	31,001
Amount due from a fellow subsidiary		36,655	27,598
Time deposits		425,096	245,849
Cash and cash equivalents		424,878	578,903
Total current assets		1,651,136	1,509,210

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

	Note	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
CURRENT LIABILITIES			
Trade payables	12	149,622	138,233
Other payables and accruals		162,793	131,851
Amount due to a fellow subsidiary		5,616	5,580
Amount due to an intermediate holding company		25,807	25,739
Lease liabilities		7,197	7,398
Contract liabilities		24,678	16,941
Provisions		84,075	50,841
Tax payable		42,214	46,200
Total current liabilities		502,002	422,783
NET CURRENT ASSETS		1,149,134	1,086,427
TOTAL ASSETS LESS CURRENT LIABILITIES		3,408,171	3,377,065
NON-CURRENT LIABILITIES			
Lease liabilities		283,274	286,701
Defined benefit plan obligations		3,826	3,630
Contract liabilities		46,982	36,127
Provisions		55,046	55,825
Deferred tax liabilities		116,071	175,891
Total non-current liabilities		505,199	558,174
Net assets		2,902,972	2,818,891
EQUITY			
Share capital		930,337	930,337
Reserves		1,972,635	1,888,554
Total equity		2,902,972	2,818,891

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 2023 (audited)	930,337	1,857,729	130,615	(224,452)	183	(39,409)	163,888	2,818,891
Profit for the period	-	-	-	-	-	-	80,480	80,480
Other comprehensive income for the period:								
Exchange differences on translations of foreign operations	-	-	-	-	-	3,601	-	3,601
Total comprehensive income for the period	-	-	-	-	-	3,601	80,480	84,081
At 30 June 2023 (unaudited)	930,337	1,857,729	130,615	(224,452)	183	(35,808)	244,368	2,902,972

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 profit 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 income/(loss) 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 income/(loss) 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 CASH FLOWS

	<i>Notes</i>	Six months ended 30 June	
		2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash flows from operating activities	16	60,650	149,204
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with original maturity of over three months when acquired		(179,247)	(290,238)
Purchases of items of property, plants and equipment	9	(31,322)	(17,623)
Additions of other intangible assets		(13,149)	(8,941)
Bank interest received		14,306	1,774
Net cash flows used in investing activities		(209,412)	(315,028)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(3,628)	(2,949)
Interest paid		-	(75)
Advance from an intermediate holding company		-	736
Net cash flows used in financing activities		(3,628)	(2,288)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(152,390)	(168,112)
Cash and cash equivalents at beginning of period	578,903	623,119
Effect of foreign exchange rate changes, net	(1,635)	(4,486)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	424,878	450,521
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	849,974	740,759
Less: time deposits with original maturity of over three months when acquired	(425,096)	(290,238)
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	424,878	450,521



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 is unaudited and has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). This unaudited interim financial information does not include all the information and disclosures required for a full set of annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

The unaudited interim condensed consolidated financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income which are measured at fair values, and is presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

2. Changes in accounting policies and disclosures (cont'd)

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

Other than as explained below regarding the impact of Amendments to HKAS 12, the adoption of the above new and revised standards has had no significant financial effect on the Group's unaudited interim condensed consolidated financial information.

Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. The Group is currently assessing its exposure to Pillar Two income taxes.



3. Operating segment

For management purposes, the Group has only one reportable operating segment, of which the Group 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. Accordingly, no segment information is presented.

4. Revenue

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

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sales of aircraft engines and spare parts	894,629	810,151
Rendering of services	34,067	43,298
	928,696	853,449
Disaggregated revenue information for revenue from contracts with customers		
Geographical markets		
USA	747,421	690,834
Europe	112,383	106,583
Others	68,892	56,032
	928,696	853,449
Timing of revenue recognition		
Goods transferred at a point in time	894,629	810,151
Services transferred over time	34,067	43,298
	928,696	853,449

5. Profit before tax

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited) (Restated)
Cost of inventories sold*	602,272	584,015
Cost of services provided*	30,099	30,302
Write-down of inventories**	3,089	2,547
Depreciation of property, plant and equipment	17,427	16,604
Depreciation of right-of-use assets	7,092	7,032
Amortisation of other intangible assets	43,864	42,170
Gain on disposal of a joint venture***	–	(6,515)
Provision for product recall****	54,810	–

* Included in "cost of sales" in the condensed consolidated statement of profit or loss.

** Included in "cost of inventories sold" above.

*** Included in "other income and gains" in the condensed consolidated statement of profit or loss.

**** During the period, total costs of HK\$54,810,000 (2022: Nil) were provided for the inspection and repair of certain models of aircraft piston engines in connection with a product recall, which were included in "other operating expenses" in the condensed consolidated statement of profit or loss.



6. Income tax credit

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2023 as the Group did not generate any assessable profits arising in Hong Kong during the period (2022: Nil). 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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Elsewhere:		
Charge for the period	7,879	5,684
Deferred tax (<i>note</i>)	(53,414)	(13,409)
	(45,535)	(7,725)

Note: During the six months ended 30 June 2023, Continental Aerospace Technologies Inc., a subsidiary in the United States, began to generate taxable profits. It is also expected that Continental Aerospace Technologies Inc. will generate future taxable profits to utilise some of its tax losses. Therefore, the Group has recognised deferred tax credit of HK\$49,920,000 to the extent that the tax losses will be utilised.

7. Earnings per share attributable to ordinary equity holders of the Company

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

The calculation of basic and diluted earnings per share is based on:

	Six months ended 30 June	
	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
Earnings:		
Profit attributable to owners of the Company	80,480	58,350

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Shares:		
Number of ordinary shares in issue during the period	9,303,374,783	9,303,374,783

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 2022.



8. Dividend

No dividends were paid, declared or proposed during the six months ended 30 June 2023 (2022: Nil).

9. Property, plant and equipment

During the six months ended 30 June 2023, the Group had additions of items of property, plant and equipment of HK\$31,322,000 (six months ended 30 June 2022: HK\$18,389,000).

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 2023 and 31 December 2022, the entire amount of goodwill was related to the Germany CGU. The goodwill related to the USA CGU was fully impaired in prior years.

11. Trade receivables

	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
Trade receivables	142,956	103,114
Impairment losses	(8,770)	(6,375)
	134,186	96,739

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 2023, the Group had certain concentrations of credit risk as 40% (31 December 2022: 35%) 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:

	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
Within 1 month	105,067	66,918
1 to 2 months	16,587	15,469
2 to 3 months	706	4,041
Over 3 months	11,826	10,311
	134,186	96,739

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:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Within 1 month	109,494	114,706
1 to 2 months	17,159	12,861
2 to 3 months	4,108	4,479
Over 3 months	18,861	6,187
	149,622	138,233

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:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Contracted, but not provided for: Plant and machinery	34,727	46,048

14. Related party transactions

- (a) The Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest income on loans to an associate	(i)	190	199
Sales to a fellow subsidiary	(ii)	159,062	117,349
Purchases from a fellow subsidiary	(iii)	1,335	554
Short-term lease payment to the immediate holding company	(iv)	–	400
Management fee income from the immediate holding company	(v)	866	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 a fellow subsidiary are determined according to the terms agreed between the Group and the fellow subsidiary.
- (iii) The purchases from a fellow subsidiary are determined according to terms agreed between the Group and the fellow subsidiary.
- (iv) The short-term lease payment to the immediate holding company was determined according to terms agreed between the Group and the immediate holding company.
- (v) The management fee income from the immediate holding company is determined according to terms agreed between the Group and the immediate holding company.

14. Related party transactions (cont'd)

- (b) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	630	889
Post-employment benefits	18	41
Total compensation paid to key management personnel	648	930

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 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Equity investments designated at fair value through other comprehensive income	390	390
Financial assets at fair value through profit or loss	1,950	1,950

Management has assessed that the carrying amounts of its financial assets and financial liabilities measured at amortised cost approximates to their fair values.

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.

Certain of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as different levels of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.



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

Financial instruments	Fair value as at		Fair value hierarchy	Valuation technique	Key unobservable inputs sensitivity analysis
	30 June 2023	31 December 2022			
Unlisted equity investment	HK\$390,000	HK\$390,000	Level 3	Market approach using issued prices of transactions	Recent transaction prices 1% (2022: 1%) increase/decrease in issued prices of transactions would result in increase/decrease in fair value by HK\$4,000 (2022: HK\$4,000)
Unlisted debt investment	HK\$1,950,000	HK\$1,950,000	Level 3	Discounted cash flow method was used to capture the present value based on expected yield rate	Yield rate at 7% (2022: 7%) 1% (2022: 1%) increase/decrease in yield rate would result in decrease/increase in fair value by HK\$104,000/ HK\$110,000 (2022: HK\$104,000/ HK\$110,000)

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 (six months ended 30 June 2022: Nil).

There were no movements in fair value measurements within Level 3 during the period (six months ended 30 June 2022: Nil).

16. Net cash from operating activities

	Note	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Profit before tax		34,945	50,625
Adjustments for:			
Finance costs		6,623	7,081
Share of loss of an associate		2,418	1,777
Bank interest income		(14,306)	(2,499)
Interest income on loan to an associate		(190)	(199)
Write-down of inventories	5	3,089	2,547
Depreciation of property, plant and equipment	5	17,427	16,604
Depreciation of right-of-use assets	5	7,092	7,032
Amotisation of other intangible assets	5	43,864	42,170
(Reversal of impairment of)/ impairment of trade receivables, net		(1,348)	21
Fair value gain on an investment property		-	(700)
Gain on disposal of a joint venture	5	-	(6,515)



16. Net cash from operating activities (cont'd)

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Operating cash flows before		
movements in working capital	99,614	117,944
(Increase)/decrease in inventories	(61,089)	21,800
Increase in trade receivables	(33,735)	(41,795)
(Increase)/decrease in prepayments, deposits and other receivables	(1,064)	124
(Increase)/decrease in amount due from a fellow subsidiary	(9,057)	8,772
Increase in trade payables	8,976	5,922
Increase in other payables and accruals	26,110	32,994
Increase in contract liabilities	17,569	22,045
Increase/(decrease) in provisions	31,618	(5,473)
Increase in defined benefit plan obligations	196	185
Cash generated from operations	79,138	162,518
Interest paid	(6,623)	(7,006)
Overseas taxes paid	(11,865)	(6,308)
Net cash flows from operating activities	60,650	149,204

17. Comparative information

Certain comparative financial information has been reclassified in order to conform with the current period's presentation.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓
Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
www.ey.com

To the Board of Directors of Continental Aerospace Technologies Holding Limited

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 14 to 36 which comprises the condensed consolidated statement of financial position of Continental Aerospace Technologies Holding Limited (the “Company”) and its subsidiaries as at 30 June 2023 and the related condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and 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 “HKICPA”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 HKICPA. A review of interim financial information 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 interim financial information as at 30 June 2023 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

28 August 2023