

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 **2024** //



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

LEGAL ADVISER

Michael Li & Co.
Rooms 1901A, 1902 & 1902A, 19/F
New World Tower I
16-18 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
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Wan Chai, Hong Kong

WEBSITE

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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 2024.

OVERALL REVIEW

For the first half of 2024, the Group recorded a revenue of HK\$781,805,000 (2023: HK\$928,696,000) and a gross profit of HK\$200,851,000 (2023: HK\$296,325,000). The Group recorded a profit for the period of HK\$7,053,000 (2023: HK\$80,480,000), which was mainly because the general aviation aircraft piston engine business recorded a loss for the period of HK\$3,277,000 (2023: profit of HK\$78,978,000).

Basic and diluted earnings per share amounted to HK¢ 0.08 (2023: HK¢ 0.87). 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 0.2% (2023: 2.8%).

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 2024, the general aviation aircraft piston engine business recognised a revenue of HK\$781,805,000 (2023: HK\$928,696,000) and a gross profit of HK\$200,851,000 (2023: HK\$296,325,000), and recorded a loss for the period of HK\$3,277,000 (2023: profit of HK\$78,978,000). The change from profit to loss was mainly due to the subsidiary in the United States encountering optimization and run-in challenges in the process of implementing the new NetSuite enterprise resource planning ("ERP") system. These challenges have increased the difficulties of controlling business operations, management, and security management, which required more energy and cost than before. At the same time, like most companies in the industry, the Group dealt with a tight supply chain, resulting in a year-to-year decrease in revenue and gross profit in the first half of this year.



BUSINESS REVIEW *(cont'd)*

In May 2024, the General Aviation Manufacturers Association (“GAMA”), reported flat deliveries for piston airplanes and piston helicopters, with a decrease in deliveries for turboprops and turbine helicopters. “While the first three months of the year produced a mixed report, the health of the industry remains solid with robust order backlogs strong across all segments. Our industry continues to be challenged by significant supply chain issues across the board that range from raw materials, through forgings and castings, to basic parts availability. These challenges are most acute in our engine sector... Workforce availability is yet another area that is constraining production,” as reported by Pete Bunce, president and Chief Executive Officer of GAMA, said.

Along with other General Aviation (“GA”) companies, the Group is continually navigating through significant global supply chain challenges and rising operating costs from, including increasing costs of materials, shipment, labor, rental, and depreciation. Internally, the Group launched the final stage of transition to the new North America facility (known as the Blue Marlin Project) from 2023 end and implemented the new ERP system at the beginning of February 2024.

Like most companies transiting to a new facility and implementing a new ERP system, the Group went through multiple phases of implementation, facing significant challenges in planning, configuring, and resource allocation. These challenges have increased the difficulties of controlling business operations, management, and security management, which required more effort and cost than before.

With the optimization, run-in, and other situations faced during a new facility transition and a new ERP implementation coupled with global economic challenges, the Group’s performance in the first half of 2024 was lower than anticipated. The Group’s sales were around HK\$782 million in the first half year, which was 15.8% lower than the same period in 2023.

However, with great dedication and commitment, the Group achieved significant accomplishments and has observed clear indications of recovery.

BUSINESS REVIEW *(cont'd)*

- **Manufacturing Automation**

The Group is pleased to announce the successful completion of the Blue Marlin project. Additionally, two more new crankcase machining centers have been added and are in the Pre-Production Approval Process.

- **Research and Development (“R&D”)**

Following 2023’s exceptional R&D momentum and commitment, the Group submitted the CD-170R engine model certification to the European Union Aviation Safety Agency (“EASA”). Announced at Aero Friedrichshafen, Germany, this Jet-A piston engine is Full Authority Digital Engine Control (“FADEC”) -controlled with rotorcraft-specific software mapping that will dramatically transform the pilot’s experience. The CD-170R has the best power-weight ratio because it does not utilize a gearbox. This is a significant milestone in the Group’s innovation history and is expected to expand the Group’s product lines and assist the Group in tapping into new market segments.

- **Strategic Partnerships**

During the 2024 EAA AirVenture Show Oshkosh, the Group and its strategic partner, APUS Zero Emission GmbH (“APUS”), an award-winning pioneer in sustainable aviation solutions, announced a joint collaboration focused on exploring sustainable, cutting-edge piston engine technology that could significantly reduce GA’s climate impact. Together, the Group and APUS are committed to leading the way in sustainable aviation, shaping a future where engine technology and environmental responsibility coexist. APUS went on to announce a Supplemental Type Certificate (“STC”) for the CD-300 engine that will bring Jet-A power to the popular Cessna 206 aircraft.





BUSINESS REVIEW *(cont'd)*

- **Application Highlights**

Cirrus Aircraft: Announced the G7 series aircraft, including the SR22 and SR22T powered by the Group's robust 550 series engine. They also commemorated the 10,000th delivery of the SR series aircraft.

Tecnam Aircraft: The P2012 Short Takeoff and Landing aircraft, equipped with twin GTSIO-520 engines, has recently reached monumental milestones whereby it completed its first Atlantic crossing for delivery in the Caribbean Islands and received EASA certification for steep approaches of up to 10°, significantly expanding the aircraft's operability.

- **Training Landmark**

The Group announced new training programs as part of the newly launched Continental Aerospace Technologies Academy™ during the 2024 EAA AirVenture Show Oshkosh, offering multiple levels of training for aviation professionals on-site at the Group's facility and off-site at remote locations. One of the successful off-site trainings had just completed in South Africa. The on-site factory training courses are offered at both facilities in Mobile, Alabama, USA, and Sankt Egidien, Germany. The Group's training programs provide a comprehensive curriculum from piston engine theory to practical, hands-on instruction and isolation procedures. These training courses are designed for both Avgas and Jet-A engines with two levels of training available for each engine type.

FINANCIAL REVIEW

Goodwill

The Group's goodwill acquired through business combination has been allocated to USA CGU and Germany CGU. As at 30 June 2024, the entire amount of the goodwill related to the Germany CGU was HK\$13,439,000 (31 December 2023: HK\$13,841,000). 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 2024 and 2023, no impairment loss is recognised.

Other intangible assets

Other intangible assets consist of development programs in progress, trademarks, product technology, licence and completed programs and customer relationships. As at 30 June 2024, the Group's other intangible assets were HK\$1,316,526,000 (31 December 2023: HK\$1,340,863,000).

Investment in an associate

During the period, the Group recorded a share of loss of an associate in an aggregate of HK\$2,201,000 (2023: HK\$2,418,000), and gain on deemed disposal of an associate of HK\$10,011,000 (2023: Nil).

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\$154,023,000 (2023: HK\$152,938,000).





LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2024, the Group had current assets of HK\$1,682,058,000 (31 December 2023: HK\$1,741,669,000), including cash and cash equivalents and time deposits with original maturity over three months in an aggregate of HK\$650,784,000 (31 December 2023: HK\$875,280,000). The Group's current liabilities as at 30 June 2024 were HK\$474,786,000 (31 December 2023: HK\$506,859,000).

As at 30 June 2024, the Group's total equity amounted to HK\$2,941,575,000 (31 December 2023: HK\$2,995,461,000), comprising share capital of HK\$930,337,000 (31 December 2023: HK\$930,337,000) and reserves of HK\$2,011,238,000 (31 December 2023: HK\$2,065,124,000). The Group's interest-bearing debts included lease liabilities of HK\$287,249,000 (31 December 2023: HK\$289,348,000). 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 8.9% (31 December 2023: 8.8%).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2024 and 31 December 2023, 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 report, the Group had no material acquisitions or disposals during the period.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the six months ended 30 June 2024 and up to the date of this report.

CONTINGENT LIABILITIES

As at 30 June 2024, the Group did not have any significant contingent liabilities (31 December 2023: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2024, there were 600 (31 December 2023: 567) employees in the Group. The employees' wages and salaries, amounted to HK\$135,092,000 (2023: HK\$135,999,000) 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 to eligible staff based on their performance and contributions to the Group.

OUTLOOK

In the second half of 2024, the Group will focus on the following strategic areas to ensure sustained growth and market leadership:

- **Product and Service Growth**

The Group will tap into new GA product segments and markets by leveraging innovative technologies and products including reverse engineering products from its competitors and supply chain. For example, the Group has several STCs available to retrofit the well selling Cessna 172, Piper PA28, and DA40 from their conventional gasoline engines to the Group's FADEC-controlled Jet-A engines. Meanwhile, the Group will extend and expand its global service network to meet its customers' changing needs and preferences. Additionally, through the Continental Aerospace Technologies Academy programs, the Group will provide high-quality factory training for internal and external professionals to promote quality and safety practices.





OUTLOOK *(cont'd)*

- **Advances towards World Class Manufacturing**

As a leader in GA, the Group is making substantial strides towards a global World Class Manufacturing system. With committed resources in place, the Group is focused on strengthening its processes by aligning cross-functional teams to find ways to enhance its systems. The Group will continually optimize the new ERP system and internal processes integral to its growth. The Group will leverage best practices to enhance efficiency, reduce costs, and provide the most valuable and highest-quality products to its global customers.

- **Prime and Titan Engines and Parts Productions**

The Group continues to offer a variety of fuel-injected Prime IO-370 engine models ranging from 180 to 195hp. The Continental IO-370-DA3A2B offers a drop-in replacement option certified under Federal Aviation Administration STC for selected Cessna 172 R and S models. This engine is also offered for other STC applications for various Cessna 170 and 172 aircraft installations, increasing the aircraft horsepower and adding a constant-speed operation. The Group will continue to innovate in technologies that can further extend the life of its cylinders.

By focusing on these strategic areas, the Group is well-positioned to navigate the economic challenges and capitalize on growth opportunities in the second half of 2024 through. The Group's commitment to innovation, quality, and customer satisfaction will drive it forward and help achieve its goals.

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 2024





OTHER INFORMATION

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

As at 30 June 2024, the interests and short positions of the Directors and the chief executive in the shares, share options, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company

Name of Director	Capacity	Number of issued ordinary shares held			Total interests	Approximate percentage of shareholding in the Company
		Personal interests	Interests of spouse	Corporate interests		
Yu Xiaodong	Beneficial owner	1,258,000	-	-	1,258,000	0.01%

Save as disclosed above and 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 2024, none of the Directors nor chief executive had or was deemed to have any interests and short positions in the shares, share options, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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, 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.

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

As at 30 June 2024, the following interests of 5% or more of the issued share capital of the Company were 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 2024
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: According to notices of disclosure of interests filed with the Company, 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 wholly-owned subsidiary of AVIC. Accordingly, each of AVIC International (HK) Group, AVIC International and AVIC is deemed to be interested in the shares held by Tacko.

Save as disclosed above, as at 30 June 2024, 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 (including sale of treasury shares) during the period.

As at 30 June 2024, there is no treasury share held by the Company.

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 2024, 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 Part 2 of Appendix C1 of 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 of the Listing Rules 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 2024.

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 2024 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	
		2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Revenue	4	781,805	928,696
Cost of sales		(580,954)	(632,371)
Gross profit		200,851	296,325
Other income and gains, net		21,226	16,449
Selling and distribution expenses		(40,475)	(33,518)
Administrative expenses		(154,023)	(152,938)
Research and development costs		(22,294)	(27,522)
Other operating income/(expenses)		12,044	(54,810)
Finance costs		(6,561)	(6,623)
Share of loss of an associate		(2,201)	(2,418)
PROFIT BEFORE TAX	5	8,567	34,945
Income tax credit/(expense)	6	(1,514)	45,535
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		7,053	80,480
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	7	HK\$0.08 cent	HK\$0.87 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	7,053	80,480
OTHER COMPREHENSIVE INCOME/ (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(14,422)	3,601
OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD, NET OF TAX	(14,422)	3,601
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY	(7,369)	84,081



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	616,545	617,935
Right-of-use assets		247,032	252,384
Goodwill	10	13,439	13,841
Other intangible assets		1,316,526	1,340,863
Investment in an associate		17,732	10,029
Equity investments designated at fair value through other comprehensive income		2,346	2,343
Total non-current assets		2,213,620	2,237,395
CURRENT ASSETS			
Inventories		787,523	645,985
Loan to an associate		–	7,158
Trade receivables	11	149,771	129,444
Contract assets		7,462	24,187
Prepayments, deposits and other receivables		49,604	52,658
Amount due from a fellow subsidiary		36,914	6,957
Time deposits		545,956	628,863
Cash and cash equivalents		104,828	246,417
Total current assets		1,682,058	1,741,669

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

	Note	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
CURRENT LIABILITIES			
Trade payables	12	156,951	140,790
Other payables, accruals and provisions		224,602	272,767
Amount due to a fellow subsidiary		566	272
Amount due to an intermediate holding company		24,482	25,117
Lease liabilities		6,853	7,149
Contract liabilities		19,788	18,943
Tax payable		41,544	41,821
Total current liabilities		474,786	506,859
NET CURRENT ASSETS		1,207,272	1,234,810
TOTAL ASSETS LESS CURRENT LIABILITIES		3,420,892	3,472,205
NON-CURRENT LIABILITIES			
Lease liabilities		280,396	282,199
Defined benefit plan obligations		3,127	2,927
Contract liabilities		75,876	65,369
Provisions		37,686	37,743
Deferred tax liabilities		82,232	88,506
Total non-current liabilities		479,317	476,744
Net assets		2,941,575	2,995,461
EQUITY			
Share capital		930,337	930,337
Reserves		2,011,238	2,065,124
Total equity		2,941,575	2,995,461



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 2024 (audited)	930,337	1,857,729	130,615	(224,452)	183	(25,638)	326,667	2,995,461
Profit for the period	-	-	-	-	-	-	7,053	7,053
Other comprehensive loss for the period:								
Exchange differences on translations of foreign operations	-	-	-	-	-	(14,422)	-	(14,422)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(14,422)	7,053	(7,369)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	224,452	-	-	(224,452)	-
2023 final dividend	-	-	-	-	-	-	(46,517)	(46,517)
At 30 June 2024 (unaudited)	930,337	1,857,729	130,615	-	183	(40,060)	62,771	2,941,575

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 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 CASH FLOWS

	Notes	Six months ended 30 June	
		2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash flows from/(used in) operating activities	16	(141,253)	60,650
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from withdrawal of time deposits with original maturity over three months		306,260	172,342
Placements of new time deposits with original maturity over three months		(224,236)	(351,589)
Purchases of items of property, plants and equipment	9	(20,894)	(31,322)
Additions of other intangible assets		(29,489)	(13,149)
Interest received		12,234	14,306
Proceeds on disposal of items of property, plant and equipment		157	–
Receipt of repayment of a loan to an associate		7,086	–
Net cash flows from/(used in) investing activities		51,118	(209,412)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(3,626)	(3,628)
Dividends paid		(46,517)	–
Advance from a fellow subsidiary		294	–
Net cash flows used in financing activities		(49,849)	(3,628)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	Six months ended 30 June	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(139,984)	(152,390)
Cash and cash equivalents at beginning of period	246,417	578,903
Effect of foreign exchange rate changes, net	(1,605)	(1,635)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	104,828	424,878
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	650,784	849,974
Less: time deposits with original maturity of over three months when acquired	(545,956)	(425,096)
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	104,828	424,878





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2024 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 D2 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 2023.

The unaudited interim condensed consolidated financial information has been prepared under the historical cost convention, except for 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 2023, except for the adoption of the following 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)

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

The adoption of the above revised standards has had no significant financial effect on the Group's unaudited interim condensed consolidated financial information.

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 revenue is as follows:

	Six months ended 30 June	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Revenue from contracts with customers		
Sales of aircraft engines and spare parts	729,799	894,629
Rendering of services	52,006	34,067
	781,805	928,696
Disaggregated revenue information for revenue from contracts with customers		
Geographical markets		
USA	621,202	747,421
Europe	112,032	112,383
Others	48,571	68,892
	781,805	928,696
Timing of revenue recognition		
Goods transferred at a point in time	729,799	894,629
Services transferred over time	52,006	34,067
	781,805	928,696

5. Profit before tax

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

	Six months ended 30 June	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Cost of inventories sold*	549,392	602,272
Cost of services provided*	31,562	30,099
Write-down of inventories**	5,230	3,089
Depreciation of property, plant and equipment	20,580	17,427
Depreciation of right-of-use assets	7,109	7,092
Amortisation of other intangible assets	42,838	43,864
Gain on deemed disposal of an associate***	(10,011)	–
Provision for/(reversal of provision for) product service bulletin****	(12,044)	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, net" in the condensed consolidated statement of profit or loss.

**** In the prior period, total costs of HK\$54,810,000 were provided for the inspection and repair of certain models of aircraft piston engines in connection with a product service bulletin. During the current period, the Group has reassessed the provision and a reversal of HK\$12,044,000 was credited to "other operating income/(expenses)" in the condensed consolidated statement of profit or loss.





6. Income tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2024 as the Group did not generate any assessable profits arising in Hong Kong during the period (2023: 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	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Elsewhere:		
Charge for the period	5,296	7,879
Deferred tax (<i>note</i>)	(3,782)	(53,414)
	1,514	(45,535)

Note: In the prior period, Continental Aerospace Technologies Inc., the Company's subsidiary in the United States, began to generate taxable profits. It was also expected that Continental Aerospace Technologies Inc. would generate future taxable profits to utilise some of its tax losses. Therefore, the Group recognised deferred tax credit of HK\$49,920,000 in profit or loss to the extent that the tax losses would 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 weighted average 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	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the Company	7,053	80,480

	Six months ended 30 June	
	2024 (Unaudited)	2023 (Unaudited)
Shares:		
Weighted average 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 2024 (six months ended 30 June 2023: Nil).





8. Dividend

No dividends in respect of the period ended 30 June 2024 were paid, declared or proposed.

The 2023 final dividend of HK\$46,517,000 was approved by the Company's shareholders at the annual general meeting.

9. Property, plant and equipment

During the six months ended 30 June 2024, the Group had additions of items of property, plant and equipment of HK\$20,894,000 (six months ended 30 June 2023: HK\$31,322,000).

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 2024 and 31 December 2023, 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 2024 <i>HK\$'000</i> (Unaudited)	31 December 2023 <i>HK\$'000</i> (Audited)
Trade receivables	156,436	136,103
Impairment losses	(6,665)	(6,659)
Net carrying amount	149,771	129,444

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 2024, the Group had certain concentrations of credit risk as 45% (31 December 2023: 40%) 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 2024 <i>HK\$'000</i> (Unaudited)	31 December 2023 <i>HK\$'000</i> (Audited)
Within 1 month	102,368	99,239
1 to 2 months	32,004	21,786
2 to 3 months	9,327	3,415
Over 3 months	6,072	5,004
	149,771	129,444



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 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Within 1 month	98,488	86,981
1 to 2 months	40,065	44,596
2 to 3 months	10,977	7,001
Over 3 months	7,421	2,212
	156,951	140,790

The trade payables are non-interest-bearing and 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 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Contracted, but not provided for: Plant and machinery	4,743	6,567

14. Related party transactions

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

	Notes	Six months ended 30 June	
		2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Interest income on loan to an associate	(i)	8	190
Sales to a fellow subsidiary	(ii)	159,660	159,062
Purchases from a fellow subsidiary	(iii)	1,128	1,335
Management fee income from the immediate holding company	(iv)	855	866

Notes:

- (i) The interest income is charged on the loan 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 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	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Short-term employee benefits	618	630
Post-employment benefits	17	18
Total compensation paid to key management personnel	635	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 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Equity investments designated at fair value through other comprehensive income	2,346	2,343

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

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 2024	31 December 2023			
Unlisted equity investments	HK\$2,346,000	HK\$2,343,000	Level 3	Market approach using issued prices of transactions	Recent transaction prices 1% (2023: 1%) increase/decrease in issued prices of transactions would result in increase/decrease in fair value by HK\$23,000 (2023: HK\$23,000)

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 2023: Nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Unlisted equity investments		
At beginning of period/year	2,343	390
Converted from debt investment	–	1,953
Exchange realignment	3	–
At end of period/year	2,346	2,343

The Group did not have any financial liabilities measured at fair value as at 30 June 2024 and 31 December 2023.

16. Net cash flows from/(used in) operating activities

	<i>Notes</i>	Six months ended 30 June	
		2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Profit before tax		8,567	34,945
Adjustments for:			
Finance costs		6,561	6,623
Share of loss of an associate		2,201	2,418
Bank interest income		(12,226)	(14,306)
Interest income on loan to an associate		(8)	(190)
Write-down of inventories	5	5,230	3,089
Depreciation of property, plant and equipment	5	20,580	17,427
Depreciation of right-of-use assets	5	7,109	7,092
Amortisation of other intangible assets	5	42,838	43,864
Reversal of impairment of trade receivables, net		–	(1,348)
Gain on deemed disposal of an associate	5	(10,011)	–



16. Net cash flows from/(used in) operating activities (cont'd)

	Six months ended 30 June	
	2024 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)
Operating cash flows before movements in working capital	70,841	99,614
Increase in inventories	(150,565)	(61,089)
Increase in trade receivables	(21,043)	(33,735)
Decrease/(increase) in prepayments, deposits and other receivables	2,887	(1,064)
Increase in an amount due from a fellow subsidiary	(29,957)	(9,057)
Decrease in contract assets	16,756	–
Increase in trade payables	16,911	8,976
Increase/(decrease) in other payables, accruals and provisions	(46,928)	57,728
Increase in contract liabilities	11,779	17,569
Increase in defined benefit plan obligations	200	196
Cash generated from/(used in) operations	(129,119)	79,138
Interest paid	(6,561)	(6,623)
Overseas taxes paid	(5,573)	(11,865)
Net cash flows from/(used in) operating activities	(141,253)	60,650

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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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 16 to 38, which comprises the condensed consolidated statement of financial position of Continental Aerospace Technologies Holding Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2024 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and 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 (“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 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

28 August 2024