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## **China PengFei Group Limited**

**中国鹏飞集团有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3348)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **HIGHLIGHTS OF THE ANNUAL RESULTS**

- Revenue for the year ended 31 December 2021 was approximately RMB1,825.1 million, an increase of 15.9% as compared to last year.
- Gross profit for the year ended 31 December 2021 was approximately RMB303.0 million, a decrease of approximately 1.8% as compared to last year.
- Profit before tax for the year ended 31 December 2021 was approximately RMB129.9 million, a decrease of 16.8% as compared to last year.
- Profit and total comprehensive income for the year ended 31 December 2021 attributable to owners of the Company was approximately RMB109.2 million, a decrease of 17.2% as compared to last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB21.85 cents per share for the year ended 31 December 2021.
- The Board recommended to declare the final dividend of RMB0.066 per ordinary share, totalling RMB33 million for the year ended 31 December 2021.

#### **ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021**

The board of director (the “**Board**”) of China PengFei Group Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 with comparative figures for the year ended 31 December 2020. The annual results have been prepared in accordance with International Financial Reporting Standards (the “**IFRS(s)**”). In addition, the annual results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

In this announcement (hereinafter referred to as “**this announcement**” or the “**Preliminary Announcement**”), “we”, “us” and “our” refer to the Company and where the context otherwise requires, the Group.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	1,825,124	1,574,429
Cost of sales and services		<u>(1,522,080)</u>	<u>(1,265,833)</u>
Gross profit		303,044	308,596
Other income		10,488	35,953
Other gains and losses		(4,875)	635
Selling and distribution expenses		(87,590)	(80,131)
Administrative expenses		(52,789)	(50,764)
Research expenditure	4	(30,519)	(34,471)
Impairment losses under expected credit loss model, net of reversal	4	(7,831)	(23,688)
Finance costs		<u>(4)</u>	<u>(4)</u>
Profit before tax	4	129,924	156,126
Income tax expense	5	<u>(19,619)</u>	<u>(24,112)</u>
Profit and total comprehensive income for the year		<u><b>110,305</b></u>	<u>132,014</u>
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		109,233	131,937
– Non-controlling interests		<u>1,072</u>	<u>77</u>
		<u><b>110,305</b></u>	<u>132,014</u>
Earnings per share	7		
– Basic (RMB cents)		<u>21.85</u>	<u>26.39</u>
– Diluted (RMB cents)		<u>N/A</u>	<u>N/A</u>

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION***At 31 December 2021*

		<b>As at 31 December</b>	
		<b>2021</b>	<b>2020</b>
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Trade receivables	8	<b>248,231</b>	278,568
Property, plant and equipment		<b>293,837</b>	213,456
Investment properties		<b>10,658</b>	11,720
Intangible assets		<b>9</b>	27
Right-of-use assets		<b>46,789</b>	47,773
Deferred tax assets		<b>18,917</b>	–
Deposits paid for acquisition of property, plant and equipment		<b>24,506</b>	11,538
		<b>642,947</b>	563,082
<b>CURRENT ASSETS</b>			
Inventories		<b>827,851</b>	678,673
Trade, bills and other receivables	8	<b>440,535</b>	441,495
Contract assets		<b>112,464</b>	119,301
Contract costs		<b>14,653</b>	15,102
Value-added tax recoverable		<b>9,485</b>	14,492
Prepayments to suppliers		<b>92,385</b>	205,696
Financial assets at fair value through profit or loss ("FVTPL")		<b>200,731</b>	–
Term deposits		–	150,000
Restricted bank deposits		<b>48,967</b>	17,121
Bank balances and cash		<b>393,732</b>	434,795
		<b>2,140,803</b>	2,076,675
<b>CURRENT LIABILITIES</b>			
Trade, bills and other payables	9	<b>778,482</b>	637,966
Contract liabilities		<b>1,221,261</b>	1,335,502
Tax payable		<b>45,911</b>	3,164
		<b>2,045,654</b>	1,976,632
<b>NET CURRENT ASSETS</b>		<b>95,149</b>	100,043
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>738,096</b>	663,125

	<b>As at 31 December</b>	
	<b>2021</b>	2020
<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>4,504</b>	4,504
Share premium	<b>143,617</b>	183,617
Reserves	<b>566,520</b>	457,287
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>714,641</b>	645,408
Non-controlling interests	<b>1,055</b>	(17)
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>715,696</b>	645,391
	<hr/>	<hr/>
<b>NON-CURRENT LIABILITY</b>		
Deferred income	<b>22,400</b>	–
Deferred tax liabilities	<b>–</b>	17,734
	<hr/>	<hr/>
	<b>22,400</b>	17,734
	<hr/>	<hr/>
	<b>738,096</b>	663,125
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# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 31 July 2017. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 November 2019 (the "**Listing**"). The addresses of the Company's registered office and the principal place of business are Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman KY1-1209, Cayman Islands and Benjiaji, Northern Suburb, Haian City, Jiangsu Province, the People's Republic of China (the "**PRC**" or "**China**"), respectively. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are production and sale of complete sets of equipment (including rotary kilns system, grinding equipment system and their related parts and components), construction of production line and provision of installation services.

The immediate and ultimate holding company of the Company is Ambon Holding Limited ("**Ambon**"), an investment holding company incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 27 July 2017. Ambon was wholly-owned by Mr. Wang Jiaan, the chairman and executive director of the Company ("**Mr. Wang**", or the "**Controlling Shareholder**").

These consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the same as the functional currency of the Company.

## 2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("**IFRSs**")

### Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform-Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "**Committee**") of the IASB issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

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

### New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments <sup>3</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 <sup>1</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>3</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>3</sup>

Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>3</sup>
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use <sup>2</sup>
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 April 2021.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all these new and amendments to IFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

### 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from the sale of goods, construction of production line and rendering of installation services, net of sales related taxes during the year.

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of equipment, recognised at a point in time	1,484,664	1,179,486
Revenue from construction of production line, recognised over time	320,541	371,650
Installation service, recognised over time	19,919	23,293
	<u>1,825,124</u>	<u>1,574,429</u>

#### Entity-wide disclosures

##### *Geographical information*

The Group's non-current assets are all situated in the PRC. The geographical information of the Group's revenue, determined based on geographical location of the registered office of the immediate customers, during the year is as follows:

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,420,571	1,168,427
Outside Mainland China		
Including: Uzbekistan	191,882	125,412
Tajikistan	57,103	–
Cote d'Ivoire	52,872	196,889
Kazakhstan	37,222	49,265
Other countries	65,474	34,437
	<u>1,825,124</u>	<u>1,574,429</u>

### ***Information about major customers***

Revenue from customers contributing over 10% of the total revenue of the Group during the year are as follows:

	<b>Year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Customer A	<b>191,882</b>	(Note)
Customer B	<b>(Note)</b>	<b>196,889</b>

*Note:* The Group carried out transactions with this customer but the amount of the transaction was less than 10% of revenue for the respective year.

#### **4. PROFIT BEFORE TAX**

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

	<b>Year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Depreciation of property, plant and equipment	<b>27,356</b>	28,575
Depreciation of investment properties	<b>1,062</b>	1,126
Amortisation of intangible assets	<b>18</b>	43
Depreciation of right-of-use assets	<b>984</b>	931
	<b>29,420</b>	30,675
Capitalised in inventories	<b>(23,556)</b>	(24,743)
	<b>5,864</b>	5,932
Total depreciation and amortisation charged to profit or loss	<b>5,864</b>	5,932
Analysed as:		
Charged in administrative expenses	<b>4,420</b>	4,736
Charged in selling and distribution expenses	<b>185</b>	185
Charged in research expenditure	<b>1,259</b>	1,011
	<b>5,864</b>	5,932
Auditors' remuneration	<b>1,956</b>	2,471
Cost of inventories recognised as cost of sales	<b>1,231,321</b>	1,065,485
Directors' remuneration	<b>2,056</b>	1,929
Other staff costs		
– Salaries and other benefits	<b>103,094</b>	89,009
– Retirement benefit scheme contributions	<b>14,984</b>	13,273
– Discretionary performance related bonus	<b>3,099</b>	3,903
	<b>121,177</b>	106,185

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Total staff costs	123,233	108,114
Capitalised in contract costs	(8,131)	(6,024)
Capitalised in inventories	(70,668)	(64,095)
	<u>                    </u>	<u>                    </u>
Total staff costs charged to profit or loss	<b>44,434</b>	37,995
	<u>                    </u>	<u>                    </u>
Analysed as:		
Charged in administrative expenses	20,710	19,492
Charged in selling and distribution expenses	9,577	6,646
Charged in research expenditure	14,147	11,857
	<u>                    </u>	<u>                    </u>
	<b>44,434</b>	37,995
	<u>                    </u>	<u>                    </u>
Research expenditure		
Staff costs	14,147	11,857
Depreciation and amortisation	1,259	1,011
Technical consultancy fee	10,006	14,663
Materials consumed	4,182	5,660
Others	925	1,280
	<u>                    </u>	<u>                    </u>
	<b>30,519</b>	34,471
	<u>                    </u>	<u>                    </u>
Gross rental income from investment properties	1,331	1,456
Less:		
Direct operating expenses incurred for investment properties that generate rental income during the year	(1,062)	(1,126)
	<u>                    </u>	<u>                    </u>
	<b>269</b>	330
	<u>                    </u>	<u>                    </u>
Impairment losses under ECL model, net of reversal		
Trade receivables	6,990	16,472
Other receivables	47	(8)
Contract assets	794	7,224
	<u>                    </u>	<u>                    </u>
	<b>7,831</b>	23,688
	<u>                    </u>	<u>                    </u>

## 5. INCOME TAX EXPENSE

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
PRC Enterprise Income Tax (“EIT”)	21,059	15,776
Deferred tax (credit) charge	(1,440)	8,336
	<u>19,619</u>	<u>24,112</u>

The Company is not subject to income tax or capital gain tax under the law of Cayman Islands.

Pengfei BVI is not subject to income tax or capital gain tax under the law of BVI.

No provision of Hong Kong Profits Tax was made in these consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax during the years ended 31 December 2020 and 2021.

Jiangsu Pengfei obtained the renewal of “High Technology Enterprise” certification in 2019 and 2021, respectively, and was therefore entitled to a preferential tax rate of 15% for a period of 3 years from 2021 to 2023.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the years ended 31 December 2020 and 2021.

Income tax expense for the year can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Profit before tax	<u>129,924</u>	<u>156,126</u>
Tax at PRC EIT rate of 15% (2020: 15%) (note)	19,489	23,419
Tax effect of expense not deductible for tax purpose	410	497
Tax effect of deductible temporary differences not recognised	60	357
Utilisation of deductible temporary differences previously not recognised	(54)	(25)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(721)	(466)
Effect of different tax rates of other subsidiaries	<u>435</u>	<u>330</u>
Income tax expense	<u>19,619</u>	<u>24,112</u>

Note: As majority of the profit before tax of the Group was contributed by Jiangsu Pengfei for both years, the PRC EIT rate of Jiangsu Pengfei is used in the income tax reconciliation.

## 6. DIVIDEND

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend for ordinary shareholders of the Company	<b>40,000</b>	25,000

During the current year, a final dividend in respect of the year ended 31 December 2020 of HKD0.09474 (equivalent to RMB0.08) per ordinary share (2020: HKD0.0547 (equivalent to RMB0.05)), in an aggregate amount of approximately HKD47,370,000 (equivalent to RMB40,000,000), has been declared and paid to shareholders of the Company.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of RMB0.066 per ordinary share, in an aggregate amount of RMB33 million and the aggregate amount of which will be paid out of the Company's share premium account, has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting of the Company and compliance with the Companies Act of the Cayman Islands.

## 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2021	2020
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB'000)	<b>109,233</b>	131,937
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	<b>500,000,000</b>	500,000,000

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the year ended 31 December 2021.

## 8. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade receivables	411,336	390,608
Less: Impairment loss allowance for trade receivables	<u>(39,058)</u>	<u>(34,190)</u>
	372,278	356,418
Analysed as:		
Current	124,047	77,850
Non-current ( <i>note i</i> )	<u>248,231</u>	<u>278,568</u>
	372,278	356,418
Bills receivables	<u>307,092</u>	<u>354,126</u>
Total trade receivables and bills receivables	679,370	710,544
Other receivables and prepayments		
Other receivables ( <i>note ii</i> )	5,306	6,114
Prepaid expenses	3,435	2,703
Loan to an independent third party ( <i>note iii</i> )	<u>800</u>	<u>800</u>
	9,541	9,617
Less: Impairment loss allowance for other receivables	<u>(145)</u>	<u>(98)</u>
	9,396	9,519
	<u>688,766</u>	<u>720,063</u>

As at 1 January 2020, the Group's trade receivables amounted to RMB370,346,000 (net of impairment loss allowance of RMB18,881,000) and bills receivables amounted to RMB369,642,000.

*Note i:* As at 31 December 2021, included in the Group's trade receivables was a balance of RMB248,231,000 (net of impairment loss allowance of RMB9,393,000) (2020: RMB278,568,000 (net of impairment loss allowance of RMB5,656,000)) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan, among which RMB10,121,000, RMB47,469,000 and RMB190,641,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively (2020: RMB48,284,000, 230,284,000 and nil aged 0 to 1 year, 1 to 2 years and over 2 years, respectively). In May 2019, due to the expected delay in settlement from this customer as a result of the prolonged approval procedures from the customer's financing bank, the Group entered into a supplemental agreement with the customer, pursuant to which the Group agreed to defer an estimated amount of RMB280,000,000 (the "Deferred Payment") upon completion of the test run of the production line on or before 31 December 2019. The amount of the Deferred Payment, time period for accrual of interest and repayment schedule are subjected to finalisation between both parties according to the actual outstanding principal and interest upon completion of the production line. Both parties agreed to enter into another finalised Deferred Payment agreement with such details and terms to be fixed (the "Finalised Deferred Payment Agreement").

The Group had taken into consideration, when entered into the supplemental agreement, among others: (i) the creditability of the customer, (ii) the Group's business relationship with the customer, and (iii) the additional securities and guarantee obtained by the Group, including (a) corporate guarantee from the controlling shareholder and a fellow subsidiary of the customer, (b) charges over the equity interests of the immediate holding company and another fellow subsidiary of the customer and (c) pledge of the cement plant under construction held by the customer which was located in the Republic of Kazakhstan and all of its related machinery, tools, furniture, fixtures, equipment and vehicles. The Deferred Payment will be carried at a fixed interest rate of 8.41% per annum and be settled in every three months by twelve instalments, which was intended to start from 30 September 2020, but subject to a specific date upon finalisation of the Finalised Deferred Payment Agreement.

The test run of the production line was completed during the year ended 31 December 2019. However, due to the COVID-19 Pandemic outbreak, the production line was still yet to be completed as at 31 December 2021 and up to the date of the issuance of these consolidated financial statements, while the Group and the customer were still in negotiation and had not yet entered into the Finalised Deferred Payment Agreement.

*Note ii:* As at 31 December 2021, other receivables mainly included staff advance of RMB2,838,000 (2020: RMB3,749,000) and refundable tender deposits paid to potential customers of RMB1,540,000 (2020: RMB1,559,000). Staff advance was made to staff solely for business development purpose, which will be charged to profit or loss upon completion of the business development activities. The staff is required to pay back the excess, if any, to the Group immediately after such activities. Refundable tender deposits will be refunded upon completion of the tendering procedure.

*Note iii:* As at 31 December 2021, the Group's loan to an independent third party are unsecured, repayable on demand and carry at fixed interests of 4.40% (2020: 4.40%) per annum, and the management of the Group expects the settlement of such loan would be made within twelve months after the end of the reporting period.

The Group does not grant any credit period to its customers except for one customer set out in abovementioned note (i). The trade receivable balances at the end of each reporting period included the outstanding retention monies from its customers amounting to RMB41,103,000 (2020: RMB28,727,000) as at 31 December 2021, of which the conditions to entitlement of consideration had been reached and became unconditional.

The following is an aged analysis of trade receivables, net of impairment loss allowance, presented based on the date when the Group obtains the unconditional rights for payment at the end of each reporting period:

	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
0 to 1 year	<b>95,432</b>	89,438
1 to 2 years	<b>66,936</b>	250,941
Over 2 years	<b>209,910</b>	16,039
	<b>372,278</b>	356,418

As at 31 December 2021, the Group's trade receivables of RMB372,278,000 (2020: RMB356,418,000) which are past due is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high. The management of the Group considered that the trade receivables became defaulted when these trade receivables had been past due over 2 years with no settlement within 1 year.

The following is an aged analysis of bills receivables presented based on the issue dates of bills receivables:

	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
0 to 180 days	<b>292,409</b>	324,449
181 days to 1 year	<b>14,683</b>	29,677
	<b>307,092</b>	354,126

The following is a maturity analysis of bills receivables presented based on the remaining dates to maturity of bills receivables at the end of each reporting period:

	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	<i>RMB'000</i>
0 to 180 days	<b>303,137</b>	346,574
181 days to 1 year	<b>3,955</b>	7,552
	<u><b>307,092</b></u>	<u>354,126</u>

As at 31 December 2021, no bills receivables (2020: RMB35,000,000) were pledged to banks for issuing bills payables.

### **Movements of impairment loss allowance on trade and other receivables**

Movement of impairment loss allowance at lifetime ECL on trade receivables for the year:

	<b>Lifetime ECL</b>
	<b>RMB'000</b>
At 1 January 2020	18,881
Impairment loss allowance recognised	19,876
Impairment loss allowance reversed	(3,404)
Write-off as uncollectible	(1,163)
	<u>34,190</u>
At 31 December 2020	34,190
Impairment loss allowance recognised	15,402
Impairment loss allowance reversed	(8,412)
Write-off as uncollectible	(2,122)
	<u>39,058</u>
At 31 December 2021	<u><u>39,058</u></u>

Movement of impairment loss allowance on other receivables for the year:

	<b>12m ECL</b>
	<b>RMB'000</b>
At 1 January 2020	106
Impairment loss allowance recognised	45
Impairment loss allowance reversed	(53)
	<u>98</u>
At 31 December 2020	98
Impairment loss allowance recognised	84
Impairment loss allowance reversed	(37)
	<u>145</u>
At 31 December 2021	<u><u>145</u></u>

Included in the balance of impairment loss allowance are individually impaired trade receivables in full with an aggregate balance of RMB15,893,000 (2020: RMB18,453,000) as at 31 December 2021, with reference to the historical experience of these receivables, these receivables may not be recoverable. The Group does not hold any collateral over these balances.

The Group's trade and other receivables that are denominated in currency other than the functional currency of the Group are set out below:

	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	<b>RMB'000</b>
Analysis of trade and other receivables by currency:		
Denominated in United States dollar ("USD")	<b>6,420</b>	9,636
Denominated in European dollar ("EUR")	<b>73</b>	81
	<b><u>6,493</u></b>	<b><u>9,717</u></b>

## 9. TRADE, BILLS AND OTHER PAYABLES

	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	<b>700,879</b>	533,147
Bills payables	<b>4,659</b>	38,983
Other taxes payables	<b>9,404</b>	8,837
Amount due to an independent third party ( <i>note i</i> )	<b>899</b>	926
Accrued expense	<b>3,019</b>	3,254
Accrued payroll and welfare	<b>20,745</b>	19,535
Unpaid incremental commission	<b>36,221</b>	33,042
Lease liabilities ( <i>note ii</i> )	<b>44</b>	59
Other payables	<b>2,612</b>	183
	<b><u>778,482</u></b>	<b><u>637,966</u></b>

The credit period on purchases of goods ranges from 0 to 365 days during the years ended 31 December 2020 and 2021 and certain suppliers allow longer credit period on a case-by-case basis.

### Notes:

- (i) As at 31 December 2021, the amount represented a loan of HKD1,100,000 (equivalent to RMB899,000) raised from an independent third party, which was unsecured, unguaranteed and carried interests at a fixed rate of 3.00% per annum (2020: 3.00%). Such loan was repayable on demand.
- (ii) The Group's lease liabilities at the end of each reporting period was arising from the lease of a piece of land for administrative purpose which was located in Haiian City, Jiangsu Province, the PRC. The lease term will be expired in October 2024, with a fixed annual lease payment of RMB19,000. These lease liabilities were unsecured and unguaranteed.

Lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate of 4.90% per annum. The Group does not face a significant liquidity risk with regard to its lease liabilities, of which is monitored within the Group's treasury function.

The following is an aged analysis of trade payables, presented based on the invoice dates, at the end of each reporting period:

	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 to 1 year	<b>581,751</b>	498,524
1 year to 2 years	<b>97,582</b>	16,958
Over 2 years	<b>21,546</b>	17,665
	<u><b>700,879</b></u>	<u>533,147</u>

The following is an aged analysis of bills payables presented based on issue dates at the end of each reporting period:

<b>Age</b>	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 to 180 days	<u><b>4,659</b></u>	<u>38,983</u>

The following is an aged analysis of bills payable presented based on maturity date at the end of each reporting period:

<b>Age</b>	<b>As at 31 December</b>	
	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 to 180 days	<u><b>4,659</b></u>	<u>38,983</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

As a leading manufacturer of rotary kilns, grinding equipment and their related equipment in the PRC and the global market, business activities of the Group are divided into three business lines, namely (i) manufacturing of equipment, in which we engage in the design, manufacturing and sales of equipment including related parts and components for various industries including building materials, metallurgy, chemical and environmental protection industries; (ii) installation services, in which we mainly provide installation services to our customers under our manufacturing of equipment business as this is part and parcel of our manufacturing of equipment business; and (iii) construction of production line, in which we act as an EPC service provider providing bespoke one-stop solutions in respect of design, procurement, construction and/or trial operations of production lines.

#### Expansion of customer base

The Group continued to expand its customer base by reinforcing the Group's market presence in the building materials industry. During the year ended 31 December 2021, revenue generated from customers in the building material industries amounted to approximately RMB905.3 million (2020: RMB767.5 million).

Apart from serving our customers in the building materials industry, the Group has also expanded its products and services to serve our customers in other industries, mainly metallurgy, chemical and environmental protection industries as a result of our research and development efforts. Revenue generated from our customers of equipment manufacturing in non-building materials industries accounted for approximately 67.0% and 61.4%, respectively, of our total revenue in the manufacturing of equipment for the year 2020 and 2021. In order to tap into the metallurgy, chemical and environmental protection industries with a primary focus on the treatment of various municipal solid waste, during the year of 2021, approximately HK\$44.9 million of the net proceeds from the share offer (the "**Share Offer**") as described in the prospectus of the Company dated 31 October 2019 (the "**Prospectus**") were used in the purchase of new machinery and the construction of a new production plant for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology. The construction of such new production plant was completed during the year ended 31 December 2021.

The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Uzbekistan, Tajikistan, Ivory Coast (Côte d'Ivoire) and Kazakhstan. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 24.4% and 19.9%, respectively, of our total revenue for the years 2020 and 2021. During the year, the Group has participated in the construction of five production line projects, four of which were located in "Belt and Road" countries and as at 31 December 2021, we had four on-going production line projects, three of which are located in "Belt and Road" countries.

## Research and Development

To maintain the Group's market position in the rotary kiln and grinding equipment industries and expand the Group's product portfolio and improve the functionality and efficiency of its products, the Group has invested in its research and development capabilities focusing on the energy saving and environmentally-friendliness technologies and continued to cooperate with research institutions in the PRC. Currently, the Group is conducting research and development with Tsinghua University on "Key Technology for Efficient Pyrolysis and Clean Utilisation of Low-rank Coal" (《低階煤高效熱解清潔利用關鍵技術》). During the year ended 31 December 2021, the Group has continued to participate in the discussion on the setting of 6 national and industry standards, among which the drafting of a national standard named "Complete Sets of Equipment Technical Requirements for Lime Calcining" (石灰煅燒成套裝備技術要求) has been completed and published in March 2022. The Group has also been taking the lead in drafting an industry standard named "Rotary Kiln for Cement Industry" (水泥工業用迴轉窯) for the Jiangsu Building Material Industry Association\* (江蘇省建材行業協會). As at 31 December 2021, the Group had 79 authorised patents, of which 47 are invention patents and 32 are utility model patents. There are also 64 patent applications pending approval which primarily relate to manufacture of products in our rotary kiln and grinding equipment system.

## Outlook

We believe the PRC government will continue adopting policies to stimulate the economy as well as encouraging investment in overseas infrastructure along the "Belt and Road" countries. Looking ahead, in light of the growing demand of rotary kilns, grinding equipment and their related equipment in the overseas market, the Group will continue to make good use of the "Belt and Road" initiatives and actively explore opportunities in relation to construction of production lines located in "Belt and Road" countries and emerging markets where there is a significant demand for building materials as well as production equipment relating to building materials.

Going forward, in view of more awareness of environmental protection and the PRC government's strong desire to eliminate backward production capacity and excessive capacities in the building materials industry and reducing pollution from cement industry, the Group will continue to expand the Group's products and services to customers in other industries such as metallurgy, chemical and environmental protection industries.

The outbreak of COVID-19 Pandemic in January 2020 had a certain impact on the development of our overseas business, such as tighter control of overseas projects during the pandemic, disruption of international travel of personnel, and temporary traffic restrictions on cross border logistics and transportation which are largely still on-going in 2022. As a result, we had still been experiencing a slower progress in our exploration of overseas markets and the COVID-19 Pandemic had still brought uncertainties to our ability to obtain new contracts from overseas customers during 2021. Despite the hindrance, we will continue to keep an eye on "Belt and Road" countries to explore potential markets. In view of the COVID-19 Pandemic, we have formulated a comprehensive and stringent prevention and control plan in a timely manner in accordance with the relevant national and local regulations on epidemic prevention and control to protect the health of our employees as well as to ensure stable production process. In addition, our customers, especially those from our construction of production line business, have also been negatively affected by the COVID-19 Pandemic causing an increase of overall credit risks of such customers. While the vaccine rollout marks a crucial step forward in defeating COVID-19 Pandemic and it is expected that the global economy will be likely to improve in the year of 2022, the Directors will continue

to closely monitor the settlement payment and financial position of our customers in the year of 2022 to ensure prompt action against any recoverability issue for our trade receivables. Due to the uncertainty of the development of the COVID-19 Pandemic, it is difficult to predict the duration of these conditions and the extent of the impact on our business in the year of 2022. We will continue to monitor the situation of the COVID-19 Pandemic, assess and react proactively to its impact on the financial position and operating results of the Group.

## FINANCIAL REVIEW

### Revenue

	Year ended 31 December				Year-over-Year Change %
	2021 RMB'000	%	2020 RMB'000	%	
Manufacturing of equipment	1,484,664	81.3	1,179,486	74.9	25.9
Installation services	19,919	1.1	23,293	1.5	-14.5
Construction of production line	320,541	17.6	371,650	23.6	-13.8
<b>Total</b>	<b>1,825,124</b>	<b>100.0</b>	<b>1,574,429</b>	<b>100.0</b>	<b>15.9</b>

Our revenue increased by approximately RMB250.7 million or 15.9% to approximately RMB1,825.1 million for the year ended 31 December 2021 from approximately RMB1,574.4 million for the year ended 31 December 2020 as a result of the growth of our revenue generated from manufacturing of equipment business during the year ended 31 December 2021.

*Manufacturing of equipment.* Revenue derived from manufacturing of equipment business increased by RMB305.2 million or 25.9% to RMB1,484.7 million for the year ended 31 December 2021 from RMB1,179.5 million for the year ended 31 December 2020. The increase in revenue derived from manufacturing of equipment business was primarily due to growth in our sales made to a few major customers in mainland China with considerably large revenue contribution during the year ended 31 December 2021 as compared with last year.

*Installation services.* Revenue derived from our installation services business decreased by RMB3.4 million or 14.5% to approximately RMB19.9 million for the year ended 31 December 2021 from approximately RMB23.3 million for the year ended 31 December 2020. This decrease was mainly due to the decreased demand of installation services from customers under our manufacturing of equipment business for the year ended 31 December 2021.

*Construction of production line.* Revenue from our construction of production line business decreased by RMB51.2 million or 13.8% to approximately RMB320.5 million for the year ended 31 December 2021 from approximately RMB371.7 million for the year ended 31 December 2020. This decrease was mainly attributable to a decrease in our revenue of approximately RMB144.0 million from our construction of production line project located in Ivory Coast which was in full swing during the year ended 31 December 2020 and completed in 2021.

## **Cost of sales and services**

Our cost of sales and services increased by approximately RMB256.3 million or 20.2% to approximately RMB1,522.1 million for the year ended 31 December 2021 from approximately RMB1,265.8 million for the year ended 31 December 2020 mainly due to increase of sales during the same period. Cost of raw materials, being the largest component of our cost of sales and services increased by approximately RMB129.1 million which was in line with our revenue growth during the year ended 31 December 2021.

## **Gross profit and gross profit margin**

As a result of the foregoing, the Group's gross profit decreased slightly by RMB5.6 million or 1.8% to approximately RMB303.0 million for the year ended 31 December 2021 from approximately RMB308.6 million for the year ended 31 December 2020. The Group's gross profit margin decreased to 16.6% for the year ended 31 December 2021 from 19.6% for the year ended 31 December 2020.

## **Other income**

Our other income decreased by RMB25.5 million or 70.8% to approximately RMB10.5 million for the year ended 31 December 2021 from approximately RMB36.0 million for the year ended 31 December 2020 as a result of the lower amount of Chinese government grants recognised in profit or loss during the year ended 31 December 2021.

## **Other gains and losses**

We record other losses of approximately RMB4.9 million for the year ended 31 December 2021 and other gains of approximately RMB0.6 million for the year ended 31 December 2020. This was mainly due to the increase in net foreign exchange loss during the year ended 31 December 2021.

## **Selling and distribution expenses**

Our distribution and selling expenses increased by RMB7.5 million or 9.3% to approximately RMB87.6 million for the year ended 31 December 2021 from approximately RMB80.1 million for the year ended 31 December 2020 mainly due to the increase of staff cost as the increase of revenue recognised and increase of domestic travel expenses.

## **Administrative expenses**

Our administrative expenses increased by approximately RMB2.0 million or 4.0% to approximately RMB52.8 million for the year ended 31 December 2021 from approximately RMB50.8 million for the year ended 31 December 2020. The comparatively higher administrative expenses for the year ended 31 December 2021 was mainly attributable to the higher consultancy fee incurred for the year ended 31 December 2021 as compared to the year ended 31 December 2020.

## **Research expenditure**

Our research expenditure decreased by RMB4.0 million or 11.5% to approximately RMB30.5 million for the year ended 31 December 2021 from approximately RMB34.5 million for the year ended 31 December 2020 mainly due to the decrease in technical consultancy fee and materials consumed being partly offset by the increase in staff costs during the year ended 31 December 2021 as compared with last year.

## **Impairment losses under expected credit loss model, net of reversal**

Impairment loss on trade and other receivables and contract assets decreased by approximately RMB15.9 million or 66.9% to approximately RMB7.8 million for the year ended 31 December 2021 from approximately RMB23.7 million for the year ended 31 December 2020 mainly due to a decrease in impairment loss on trade receivables provided for the year ended 31 December 2021. The decrease in impairment loss on trade receivables provided for the year ended 31 December 2021 was mainly due to the lower increment of trade receivables during the year ended 31 December 2021 as compared last year.

## **Income tax expenses**

Our income tax expenses decreased by RMB4.5 million or 18.6% to approximately RMB19.6 million for the year ended 31 December 2021 from approximately RMB24.1 million for the year ended 31 December 2020. Our effective tax rate remained relatively stable at 15.4% and 15.1% for the year ended 31 December 2020 and 2021, respectively.

## **Profit and total comprehensive income attributable to owners of the Company for the year**

As a result of the foregoing, our profit and total comprehensive income attributable to owners of the Company decreased by approximately RMB22.7 million or 17.2% to approximately RMB109.2 million for the year ended 31 December 2021 from approximately RMB131.9 million for the year ended 31 December 2020.

## **WORKING CAPITAL MANAGEMENT**

The Group maintained sufficient working capital as at 31 December 2021 and continued to adopt a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities of its business.

Net current assets of the Group amounted to approximately RMB95.1 million (31 December 2020: RMB100.0 million) with a current ratio calculated by dividing our current assets over our current liabilities of 104.7% (31 December 2020: 105.1%) as at 31 December 2021.

Inventories increased by approximately RMB149.2 million or 22.0% to approximately RMB827.9 million as at 31 December 2021 from approximately RMB678.7 million as at 31 December 2020. Inventory turnover days was 181 days for the year ended 31 December 2021, representing a decrease of 16 days as compared to 197 days for the year ended 31 December 2020. The decrease in inventory turnover days was mainly due to increase in our sales during the year ended 31 December 2021.

Trade, bills and other receivables decreased by approximately RMB31.3 million or 4.3% to approximately RMB688.8 million as at 31 December 2021 from approximately RMB720.1 million as at 31 December 2020, among which trade receivables increased by approximately RMB20.7 million or 5.3% to approximately RMB411.3 million as compared with approximately RMB390.6 million as at 31 December 2020. In May 2019, the Group, due to the expected delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank, entered into a supplemental agreement with such customer pursuant to which our Group agreed to defer the outstanding payment upon completion of such production line project up to a maximum amount of RMB280 million (the “**Deferred Payment**”) bearing a fixed interest rate of 8.41% per annum secured and guaranteed by such customer. As agreed in the supplemental agreement, the Deferred Payment up to a maximum amount of RMB280 million was agreed to be settled in every three months by 12 installments which was intended to start from 30 September 2020, but subject to a specific date upon finalisation of negotiation by both parties. As at 31 December 2021 and up to the date of this announcement, the Group is still in negotiation and had not yet agreed on a commencement date of the repayment. As at 31 December 2021, outstanding balance of approximately RMB248.2 million (net of impairment loss allowance of approximately RMB9.4 million) was included in the Group’s trade receivables. Subsequent to 31 December 2021, repayment of approximately RMB16.0 million was made by such customer. Our trade receivables turnover days was 73 days (2020: 84 days) for the year ended 31 December 2021 representing a decrease of 11 days. The decrease in trade receivable turnover days during the year was primarily due to customer settlement as a result of the Group’s efforts in payment collection.

Prepayments to suppliers decreased by approximately RMB113.3 million or 55.1% to approximately RMB92.4 million as at 31 December 2021 from approximately RMB205.7 million as at 31 December 2020 primarily due to decreased prepayments made to the suppliers for the purchase of raw materials.

Contract liabilities decreased by approximately RMB114.2 million or 8.6% to approximately RMB1,221.3 million as at 31 December 2021 from approximately RMB1,335.5 million as at 31 December 2020. The decrease in contract liabilities was mainly due to the accelerated completion progress of our contracts on hand as a result of our increased production capacity.

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

The Group funds its business operations both through cash flows generated from its business operations and through external financing, primarily including banking facilities. The Group’s primary uses of cash are for the payment for: (a) raw materials; (b) sub-contracting fees; (c) staff costs; and (d) overhead.

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB393.7 million (31 December 2020: approximately RMB434.8 million). A portion of the Group’s bank deposits totaling approximately RMB49.0 million (31 December 2020: approximately RMB17.1 million) were restricted for the issue of bills payables and letter of credit by the Group. The Group’s cash and cash equivalents and restricted bank deposits were mostly denominated in Renminbi, United States dollars, Hong Kong dollars and Euro.

As at 31 December 2021, we had banking facilities of approximately RMB430.0 million, of which approximately RMB113.2 million were utilised. The utilised banking facilities as at 31 December 2021 represented bank guarantee of approximately RMB11.2 million and bank acceptance bill amounted to RMB102.0 million. As at 31 December 2021, our Group had unutilised banking facilities amounted to approximately RMB316.8 million. As at 31 December 2021, the Group did not have any bank borrowings (31 December 2020: Nil).

As at 31 December 2021, the Company's gearing ratio, which is calculated by dividing our total liabilities over our equity attributable to owners of the Company multiplied by 100%, was 289.4% (31 December 2020: 309.0%). The decrease in our gearing ratio was mainly due to the increased balance of our equity as at 31 December 2021.

During the year ended 31 December 2021, the Group recorded net cash from operating activities of approximately RMB204.9 million (2020: RMB192.6 million). Net cash used in investing activities for the year ended 31 December 2021 amounted to approximately 198.0 million (2020: RMB211.8 million). Net cash used in financing activities for the year ended 31 December 2021 amounted to approximately RMB40.0 million (2020: RMB26.8 million).

The Board and the management of the Company had been closely monitoring the Group's liquidity position, performing ongoing credit evaluations, and monitoring the financial conditions of its customers, in order to ensure the Group's healthy cash position.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **Financial Risks**

The Group is exposed to market risks from changes in market rates and prices, such as exchange rates, interest rates, credit and liquidity.

#### **Currency risk**

The Group's exposure to currency risk relates primarily to the Group's sales to customers outside mainland China which is usually denominated in USD. The Group has not adopted any foreign exchange hedging policy, engage in any currency hedging or have any positions in any derivative financial instruments to hedge our currency risk as management of the Group considers that the foreign exchange risk exposure of the Group is minimal.

#### **Interest rate risk**

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's loan to an independent third party, amount due to an independent third party and lease liabilities and the floating-rate restricted bank balance and bank balances. The Group currently does not have any interest rate hedging policy. The Group monitors its exposures on an on-going basis and will consider hedging interest rate risk should the need arise.

## **Credit risk**

Credit risk is the risk of that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk is primarily attributable to its trade, bills and other receivables, contract assets, term deposits, restricted bank deposits and bank balances.

Given that 67% of the total trade receivables was due from a construction of production line customer of the Group as at 31 December 2021 (31 December 2020: 78%), the Group has concentration of credit risk.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

## **Liquidity risk**

During the year ended 31 December 2021, the Group did not experience any liquidity shortage. We managed our liquidity risks by maintaining adequate level of cash and cash equivalents to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

## **CONTINGENT LIABILITIES**

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

## **CAPITAL EXPENDITURES**

As at 31 December 2021, the Group's capital expenditures amounted to approximately RMB120.8 million (31 December 2020: acquisition of property, plant and equipment, purchase of intangible assets and right-of-use assets of approximately RMB61.6 million) which has mainly related to the purchase of and deposits paid for property, plant and equipment.

## **PLEDGE OF ASSETS**

As at 31 December 2021, the Group's restricted bank deposits with an carrying amount of approximately RMB49.0 million (31 December 2020: restricted bank deposit and bills receivables in an aggregate amount of approximately RMB52.1 million) were pledged to banks for obtaining line of credit, securing the Group's banking facilities or issuing bills payables.

## **CAPITAL COMMITMENTS**

As at 31 December 2021, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the Group's consolidated financial statements amounted to approximately RMB17.2 million (31 December 2020: approximately RMB4.0 million).

## **OFF-BALANCE SHEET TRANSACTIONS**

Save for the capital commitment and pledged assets disclosed above, the Group did not enter into any material off-balance sheet transactions or arrangements during the year ended 31 December 2021 and up to the date of this announcement.

## **EMPLOYEES AND REMUNERATION INFORMATION**

As at 31 December 2021, the Group had a total of 1,036 employees (31 December 2020: 1,018) including staff from administrative, finance, sales, supply, technical, quality control, and production departments.

Remuneration packages of our employees usually comprise, among other things, salaries, contribution to pension schemes and allowances. We regularly review and determine the remuneration and compensation package of our employees by reference to, among other things, their performance, qualifications, respective responsibilities and market levels of salaries paid by comparable companies. For the year ended 31 December 2021, the Group's incurred staff cost (including Directors' remuneration) of approximately RMB123.2 million (2020: approximately RMB108.1 million).

The Group provide to our employees on a regular basis and when deemed necessary training covering various aspects of our business operation, including work safety, sales and marketing, compliance with applicable laws and regulations, technical skills, management and production quality.

The Group did not experience any major labour disputes, work stoppages or labour strikes that led to disruptions in our Group's operations. The Directors consider that the Group has maintained a good working relationship with its staff.

## USE OF PROCEEDS FROM THE SHARE OFFER

Net proceeds from the Share Offer and the listing of the Company on the Main Board of The Stock Exchange on 15 November 2019 (the “**Listing Date**”), after deduction of the underwriting fees and commissions and estimated expenses of the Company in connection with the Share Offer was approximately HK\$150.0 million. During the year ended 31 December 2021, there was no change in the intended use of net proceeds of the Company as previously disclosed in the Prospectus.

The table below sets forth the utilisation of the net proceeds from the Share Offer and the unused amount as at 31 December 2021. All the unused proceeds have been deposited into a bank account maintained by the Group.

	Percentage to total amount %	Net proceeds HK\$ million	Utilised amount as at 31 December 2021 <sup>(Note 1)</sup> HK\$ million	Unutilised amount as at 31 December 2021 HK\$ million	Expected timeline for unutilised amount <sup>(Note 2)</sup>
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	78.7	118.0	118.0	–	Fully utilised in 2021
Increasing the productivity and efficiency in manufacturing our products for our rotary kiln and grinding equipment system	7.0	10.5	10.5	–	Fully utilised in 2021
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	2.6 <sup>(Note 3)</sup>	7.6	To be fully utilised by second quarter of 2022
Marketing activities	3.5	5.2	4.4 <sup>(Note 4)</sup>	0.8	To be fully utilised by the end of 2022
Working capital	4.0	6.1	6.1	–	Fully utilised in 2020
	<b>100.0</b>	<b>150.0</b>	<b>141.6</b>	<b>8.4</b>	

Notes:

1. The net proceeds were used by our PRC subsidiaries in RMB. The translation of RMB into Hong Kong dollars have been made at the rate of RMB1.00 to HK\$0.8176.
2. For further details of the expected timeline, please refer to the Prospectus.
3. The utilisation of proceeds for participating in the national and the international drafting committees for setting the technical requirements for lime calcination rotary kiln of the Group has fallen behind the schedule as disclosed in the Prospectus due to the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by second quarter of 2022.
4. The utilisation of proceeds for marketing activities has fallen behind the schedule as disclosed in the Prospectus as we were unable to participate in international exhibitions and conferences as a result of the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by the end of 2022.

## SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

During the year ended 31 December 2021, the Group has invested its available cash-in-hand in wealth management products issued by banks in the PRC as part of the Group's treasury measure for better short-term cash flows management purposes. As at 31 December 2021, the financial assets at FVTPL held by the Group were RMB200.7 million (31 December 2020: Nil), representing 7.2% of total assets of the Group. Details of the financial assets at FVTPL held by the Group as at 31 December 2021 are set out as follows:

Financial assets at FVTPL	Subscription date	Interest rate (per annum)	Maturity date	Principal amount of subscription (RMB'000)	Changes in fair value for the year ended 31 December 2021 (RMB'000)	Carrying amount as of 31 December 2021 (RMB'000)
BOC Linked Structured Deposit (Institutional Customer)* (中國銀行掛鈎型結構性存款 (機構客戶)) (Note 1)	9 November 2021	1.8% – 3.3639%	16 May 2022	100,000	418	100,418
Public Structured Deposit 2021, Issue 58, 6 Months B* (對公結構性存款2021年 第58期6個月B) (Note 2)	1 December 2021	1.40% – 3.76%	1 June 2022	100,000	313	100,313

Notes:

1. This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon the maturity date. For details of this wealth management product, please refer to the announcement of the Company dated 9 November 2021.
2. This wealth management product is principal-guaranteed with floating income and redeemable upon the maturity date. For details of this wealth management product, please refer to the announcement of the Company dated 1 December 2021.

Save as disclosed above, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures during the year ended 31 December 2021 and up to the date of this announcement.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

Save as disclosed in the Prospectus, the Group does not have other plans for material investments and capital assets during the year ended 31 December 2021 and up to the date of this announcement.

## **SUBSEQUENT EVENTS**

Save as disclosed in this announcement, no material events were undertaken by the Group subsequent to 31 December 2021.

## **OTHER INFORMATION**

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2021.

## **FINAL DIVIDEND**

For the year ended 31 December 2021, the Board recommended a final dividend (the “**Final Dividend**”) of RMB0.066 (not subject to withholding tax) per ordinary share (2020: RMB0.08 per ordinary share) to shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company on Tuesday, 28 June 2022, totaling RMB33 million (not subject to withholding tax), subject to approval by the Shareholders at the forthcoming annual general meeting of the Company (the “**AGM**”) to be held on Thursday, 16 June 2022 and compliance with the Companies Act of the Cayman Islands. The Final Dividend will be declared in RMB and paid in Hong Kong dollars (“**HKD**”) by applying the middle rate of HKD to RMB announced by the Bank of China on 30 March 2022, which was HKD1.00 to RMB0.8122, as the applicable exchange rate for calculation of the Final Dividend. Subject to Shareholders’ approval at the AGM, the Final Dividend payable for each ordinary share shall be HKD0.08 and the aggregate amount and compliance with the Companies Act of the Cayman Islands of which will be paid out of the Company’s share premium account. Total dividend payout ratio is 30.2% of the profit for the year attributable to the owners of the Company. The proposed Final Dividend is expected to be distributed to Shareholders on or around Wednesday, 20 July 2022.

## **CLOSURE OF THE REGISTER OF MEMBERS**

For determining eligibility to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, 13 June 2022 to Thursday, 16 June 2022, both days inclusive, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 10 June 2022.

For determining entitlement to the Final Dividend, the transfer books and register of members of the Company will be closed from Friday, 24 June 2022 to Tuesday, 28 June 2022, both days inclusive, during which period no transfers of shares of the Company will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at the abovementioned address not later than 4:30 p.m. on Thursday, 23 June 2022.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company has adopted the corporate governance code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code on corporate governance. During the year ended 31 December 2021, the Company has complied with the Corporate Governance Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2021.

## **REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE**

The Company established the Audit Committee with written terms of reference in compliance with the Corporate Governance Code. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. Mak Hing Keung, Thomas, Mr. Ding Zaiguo and Ms. Zhang Lanrong. Mr. Mak Hing Keung, Thomas is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed the audited consolidated financial statements and Annual Results of the Group and the accounting principles and policies adopted by the Group for the year ended 31 December 2021 and agreed with the accounting treatment adopted and the particulars mentioned in this announcement.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board of Directors on 30 March 2022. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This announcement is published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and that of the Company (<http://pengfei.com.cn/>). The annual report of the Company for the year ended 31 December 2021 will be dispatched to the Shareholders and will be available on the website of the Stock Exchange and that of the Company in due course.

By order of the Board  
**China PengFei Group Limited**  
**WANG Jiaan**  
*Chairman*

Hong Kong, 30 March 2022

*As of the date of this announcement, the board of directors of the Company comprises Mr. WANG Jiaan, Mr. ZHOU Yinbiao, Mr. DAI Xianru, and Mr. BEN Daolin as executive Directors, and Ms. ZHANG Lanrong, Mr. DING Zaiguo, and Mr. MAK Hing Keung, Thomas as independent non-executive Directors.*