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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS

- Revenue for the six months ended 30 June 2022 was approximately RMB859.2 million, representing an increase of approximately 0.8% as compared to the corresponding period last year.
- Gross profit for the six months ended 30 June 2022 was approximately RMB151.2 million, representing an increase of approximately 18.3% as compared to the corresponding period last year.
- Profit before tax for the six months ended 30 June 2022 was approximately RMB70.7 million, representing an increase of approximately 12.2% as compared to the corresponding period last year.
- Profit and total comprehensive income for the six months ended 30 June 2022 attributable to owners of the Company was approximately RMB60.8 million, representing an increase of approximately 12.1% as compared to the corresponding period last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB12.16 cents per share for the six months ended 30 June 2022.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of China PengFei Group Limited (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated financial information of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 with comparative figures for the corresponding period of last year.

In this announcement, “we”, “us” and “our” refer to the Company and where the context otherwise requires, the Group.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenue	4	859,204	852,480
Cost of sales and services		<u>(707,962)</u>	<u>(724,583)</u>
Gross profit		151,242	127,897
Other income		2,169	4,146
Other gains and losses		14,041	(142)
Selling and distribution expenses		(49,125)	(29,708)
Administrative expenses		(16,348)	(20,596)
Research expenditure		(13,552)	(13,291)
Impairment losses on trade and other receivables and contract assets, net of reversal		(17,722)	(5,267)
Finance costs		<u>(2)</u>	<u>(2)</u>
Profit before tax	5	70,703	63,037
Income tax expense	6	<u>(10,107)</u>	<u>(9,185)</u>
Profit and total comprehensive income for the period		<u>60,596</u>	<u>53,852</u>
Profit (loss) and total comprehensive income (expenses) for the period attributable to:			
– Owners of the Company		60,783	54,198
– Non-controlling interests		<u>(187)</u>	<u>(346)</u>
		<u>60,596</u>	<u>53,852</u>
Earnings per share	8		
– Basic (RMB cent)		<u>12.16</u>	<u>10.84</u>
– Diluted (RMB cent)		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2022*

	<i>Notes</i>	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
NON-CURRENT ASSETS			
Trade receivables	9	246,515	248,231
Property, plant and equipment		348,620	293,837
Investment properties		10,128	10,658
Intangible assets		29	9
Right-of-use assets		46,321	46,789
Deferred tax assets		20,316	18,917
Deposits paid for acquisition of property, plant and equipment		7,280	24,506
		679,209	642,947
CURRENT ASSETS			
Inventories		896,963	827,851
Trade, bills and other receivables	9	546,655	440,535
Contract assets		74,883	112,464
Contract costs		16,296	14,653
Value-added tax recoverable		–	9,485
Prepayments to suppliers		66,540	92,385
Financial assets at FVTPL		200,136	200,731
Restricted bank deposits		17,362	48,967
Bank balances and cash		376,157	393,732
		2,194,992	2,140,803
CURRENT LIABILITIES			
Trade, bills and other payables	10	783,218	778,482
Borrowings		100	–
Contract liabilities		1,227,447	1,221,261
Dividend payable		33,000	–
Tax payable		49,944	45,911
		2,093,709	2,045,654
NET CURRENT ASSETS		101,283	95,149
TOTAL ASSETS LESS CURRENT LIABILITIES		780,492	738,096

	<i>Notes</i>	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		4,504	4,504
Share premium		110,617	143,617
Reserves		<u>627,303</u>	<u>566,520</u>
Equity attributable to owners of the Company		742,424	714,641
Non-controlling interests		<u>868</u>	<u>1,055</u>
TOTAL EQUITY		<u>743,292</u>	<u>715,696</u>
NON-CURRENT LIABILITY			
Deferred income		<u>37,200</u>	<u>22,400</u>
		<u>37,200</u>	<u>22,400</u>
		<u>780,492</u>	<u>738,096</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 on 15 November 2019. The addresses of the Company's registered office and its principal place of business are located at 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 PRC, respectively. The principal activities of the Group are production and sale of complete sets of equipment (including rotary kilns system, grinding equipment system and their related parts and components) and construction of production line and provision of installation services.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for financial assets at fair values through profit or loss ("**FVTPL**").

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendment to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from the sale of equipment, construction of production line and rendering of installation service, net of sales related taxes during the current interim period.

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sale of equipment, recognised at a point in time	725,995	666,752
Revenue from construction of production line, recognised over time	126,509	181,890
Installation service, recognised over time	6,700	3,838
	<u>859,204</u>	<u>852,480</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 current interim period is as follows:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Mainland China	645,633	629,988
Outside Mainland China		
Including: Uzbekistan	98,752	128,413
Brazil	35,286	—
Republic of Korea	25,306	179
Republic of Kazakhstan	24,277	596
Other countries	29,950	93,304
	<u>859,204</u>	<u>852,480</u>

No segment assets and liabilities information is provided as no such information is regularly provided to the chief operating decision maker of the Group on making decision for resources allocation and performance assessment.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	12,229	13,803
Depreciation of investment properties	531	531
Amortisation of intangible assets	13	16
Depreciation of right-of-use assets	468	482
	<u>13,241</u>	<u>14,832</u>
Capitalised in inventories	(10,666)	(12,126)
	<u>2,575</u>	<u>2,706</u>
Total depreciation and amortisation charged to profit or loss	<u>2,575</u>	<u>2,706</u>
Impairment losses on trade receivables, net of reversal	21,788	4,864
Impairment losses on other receivables, net of reversal	(48)	19
Impairment losses on contract assets, net of reversal	(4,018)	384
	<u>17,722</u>	<u>5,267</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”)	11,506	7,306
Deferred tax (credit) charge	(1,399)	1,879
	<u>10,107</u>	<u>9,185</u>

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

PengFei Holdings Limited is not subject to income tax or capital gain tax under the law of BVI.

No provision of Hong Kong Profit Tax was made in the condensed consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profit Tax during the six months ended 30 June 2021 and 2022.

Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) obtained the renewal of “High Technology Enterprise” certification 2021, and therefore continued the entitlement of a preferential tax rate of 15% to 31 December 2023.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the six months ended 30 June 2021 and 2022.

* English name is for identification purpose only

7. DIVIDENDS

During the current interim period, a final dividend of RMB0.066 (2021: RMB0.08) per ordinary share in respect of the year ended 31 December 2021 was declared to the owners of the Company. The aggregate amount of the final dividend declared in the current interim period amounted to RMB33,000,000 (2021: RMB40,000,000).

The directors of the Company have determined that no interim dividend will be declared in respect of the six months ended 30 June 2022.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB'000)	<u>60,783</u>	<u>54,198</u>
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	<u>500,000</u>	<u>500,000</u>

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the six months ended 30 June 2021 and 2022.

9. TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	462,062	411,336
Less: Impairment loss allowance for trade receivables	(60,157)	(39,058)
	401,905	372,278
Analysed as:		
Current	155,390	124,047
Non-current (<i>note i</i>)	246,515	248,231
Bills receivables	379,016	307,092
Total trade receivables and bills receivables	780,921	679,370
Other receivables and prepayments		
Other receivables	6,050	5,306
Prepaid expenses	5,496	3,435
Loans to independent third parties	800	800
	12,346	9,541
Less: Impairment loss allowance for other receivables	(97)	(145)
	12,249	9,396
	793,170	688,766

Note (i): As at 30 June 2022, included in the Group's trade receivables was a balance of RMB246,515,000 (31 December 2021: RMB248,231,000) (net of impairment loss allowance of RMB8,048,000 (31 December 2021: RMB9,393,000)) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan, among which RMB26,843,000, RMB26,604,000 and RMB193,068,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively (31 December 2021: 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). 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 installments, 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 30 June 2020 and up to the date of the issuance of the condensed consolidated financial statements, while the Group and the customer were still in negotiation and had not yet entered into the Finalised Deferred Payment Agreement.

The Group does not grant any credit period to its customers except for one customer set out in abovementioned note (i).

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.

	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
0 to 1 year	152,054	95,432
1 to 2 years	44,444	66,936
Over 2 years	205,407	209,910
	<u>401,905</u>	<u>372,278</u>

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

	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
0 to 180 days	365,066	292,409
181 days to 1 year	13,950	14,683
	<u>379,016</u>	<u>307,092</u>

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.

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 180 days	367,429	303,137
181 days to 1 year	11,587	3,955
	<u>379,016</u>	<u>307,092</u>

As at 30 June 2022, RMB18,620,000 bills receivables of the Group (31 December 2021: nil) were pledged to banks for issuing bills payables.

10. TRADE, BILLS AND OTHER PAYABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade payables	685,808	700,879
Bills payables	26,065	4,659
Other taxes payables	17,280	9,404
Amounts due to independent third parties	941	899
Accrued expense	4,342	3,019
Accrued payroll and welfare	9,579	20,745
Unpaid incremental commission	39,059	36,221
Lease liabilities	36	44
Other payables	108	2,612
	<u>783,218</u>	<u>778,482</u>

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 1 year	569,099	581,751
1 year to 2 years	53,412	97,582
Over 2 years	63,297	21,546
	<u>685,808</u>	<u>700,879</u>

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

Age	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 180 days	<u>26,065</u>	<u>4,659</u>

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

Age	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 180 days	<u>26,065</u>	<u>4,659</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

Despite the slowdown of growth and demand in the building materials industry, the Group managed to secure new projects for transformation of the energy saving technology for its customers in response to the vigorous promotion of upgrading and transformation of the construction and building materials industry by the local government. For the six months ended 30 June 2022, revenue generated from customers in the building materials industry amounted to approximately RMB348.2 million (six months ended 30 June 2021: RMB414.0 million).

Apart from serving our customers in the building materials industry, the Group has also expanded its products and services to serve its 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 65.4% and 69.9%, respectively, of our total revenue in the manufacturing of equipment for the six months ended 30 June 2021 and 2022. With the Group's continuous effort to tap into the metallurgy, chemical and environmental protection industries with a primary focus on the treatment of various municipal solid waste, during the six months ended 30 June 2022, over 80% of our rotary kilns were used in emerging industries such as laterite nickel ore, new energy lithium batteries, environmental protection sludge, solid and hazardous waste disposal.

The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Uzbekistan, Republic of Korea and Kazakhstan. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 21.8% and 20.3%, respectively, of our total revenue for the six months ended 30 June 2021 and 2022. During the six months ended 30 June 2022, the Group has participated in the construction of 4 production line projects, 3 of which were located in "Belt and Road" countries and were all ongoing as at 30 June 2022.

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 six months ended 30 June 2022, the Group has continued to participate in the discussion on the setting of 3 national and industry standards, among which the drafting of a national standard named "Complete Sets of Equipment Technical Requirements for Lime Calcining" (石灰煨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" (水泥工業用回轉窯) for the Jiangsu Building Material Industry Association* (江蘇省建材行業協會). As at 30 June 2022, the Group had 89 authorised patents, comprising 49 invention patents and 40 utility model patents. There are also 50 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, we 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 the second half of 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 the first half of 2022. 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 the global economy is expected to improve in the second half of 2022, the Directors will continue to closely monitor the settlement payment and financial position of our customers in the second half 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 second half 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

	Six months ended 30 June				Period-over-
	2022		2021		Period Change
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	%
Manufacturing of equipment	725,995	84.5	666,752	78.2	8.9
Installation services	6,700	0.8	3,838	0.5	74.6
Construction of production line	126,509	14.7	181,890	21.3	-30.4
Total	859,204	100.0	852,480	100.0	0.8

Our revenue remained stable with a slight increase of approximately RMB6.7 million or 0.8% to approximately RMB859.2 million for the six months ended 30 June 2022 from approximately RMB852.5 million for the six months ended 30 June 2021 as a result of the increase in our revenue derived from manufacturing of equipment business offset by decrease in revenue from our construction of production line business.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by approximately RMB59.2 million or 8.9% to approximately RMB726.0 million for the six months ended 30 June 2022 from approximately RMB666.8 million for the six months ended 30 June 2021. The increase in revenue derived from manufacturing of equipment business was primarily due to the expansion of our business in non-building material industry with a revenue increase of approximately RMB71.2 million as compared with the corresponding period last year.

Installation services. Revenue derived from our installation services business increased by approximately RMB2.9 million or 74.6% to approximately RMB6.7 million for the six months ended 30 June 2022 from approximately RMB3.8 million for the six months ended 30 June 2021. This increase was mainly due to the increased demand of installation services from customers under our manufacturing of equipment business for the six months ended 30 June 2022.

Construction of production line. Revenue from our construction of production line business decreased by approximately RMB55.4 million or 30.4% to approximately RMB126.5 million for the six months ended 30 June 2022 from approximately RMB181.9 million for the six months ended 30 June 2021. This decrease was mainly due to the absence of revenue from our construction of production line project located in Ivory Coast which was completed in 2021.

Cost of sales and services

Our cost of sales and services decreased by approximately RMB16.6 million or 2.3% to approximately RMB708.0 million for the six months ended 30 June 2022 from approximately RMB724.6 million for the six months ended 30 June 2021 mainly due to the decrease in civil construction fees incurred during the six months ended 30 June 2022 as a result of the completion of our construction of production line project located in Ivory Coast during the year of 2021. Cost of raw materials, being the largest component of our cost of sales and services, increased by approximately RMB42.2 million during the six months ended 30 June 2022 as compared with the corresponding period last year.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately RMB23.3 million or 18.3% to approximately RMB151.2 million for the six months ended 30 June 2022 from approximately RMB127.9 million for the six months ended 30 June 2021. The Group's gross profit margin increased to 17.6% for the six months ended 30 June 2022 from 15.0% for the corresponding period last year.

Other income

Our other income decreased significantly by approximately RMB2.0 million or 47.7% to approximately RMB2.2 million for the six months ended 30 June 2022 from approximately RMB4.1 million for the six months ended 30 June 2021 primarily attributable to the decrease in bank interest income from term deposits and government subsidies received during the six months ended 30 June 2022.

Other gains and losses

We record other gains of approximately RMB14.0 million for the six months ended 30 June 2022 as compared with other losses of approximately RMB0.1 million for the six months ended 30 June 2021 mainly due to the combined effect of the increase in investment gain on financial assets at FVTPL of approximately RMB2.6 million and the foreign exchange gain of approximately RMB11.1 million recorded during the six month ended 30 June 2022.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB19.4 million or 65.4% to approximately RMB49.1 million for the six months ended 30 June 2022 from approximately RMB29.7 million for the six months ended 30 June 2021 mainly due to the increase of the transportation and port expenses incurred during the six months ended 30 June 2022 as compared to the corresponding period last year.

Administrative expenses

Our administrative expenses decreased by approximately RMB4.2 million or 20.6% to approximately RMB16.3 million for the six months ended 30 June 2022 from approximately RMB20.6 million for the six months ended 30 June 2021 mainly attributable to the lower professional services fee incurred during the six months ended 30 June 2022 as compared to the corresponding period last year.

Research expenditure

Our research expenditure remained stable with a slight increase by approximately RMB0.3 million or 2.0% to approximately RMB13.6 million for the six months ended 30 June 2022 from approximately RMB13.3 million for the six months ended 30 June 2021.

Impairment loss under expected credit loss model, net of reversal

Impairment loss on trade and other receivables and contract assets increased by approximately RMB12.5 million or 236.5% to approximately RMB17.7 million for the six months ended 30 June 2022 from approximately RMB5.3 million for the six months ended 30 June 2021 mainly due to the increased balance of trade receivables aged less than 1 year and the increase of credit-impaired balance of trade receivables as at 30 June 2022 as compared to the same as at 30 June 2021.

Income tax expenses

Our income tax expenses increased by approximately RMB0.9 million or 10.0% to approximately RMB10.1 million for the six months ended 30 June 2022 from approximately RMB9.2 million for the six months ended 30 June 2021. Our effective tax rate remained relatively stable at 14.6% and 14.3% for the six months ended 30 June 2021 and 2022, respectively.

Profit and total comprehensive income for the period

As a result of the foregoing, our profit and total comprehensive income for the period attributable to owners of the Company increased by approximately RMB6.6 million or 12.1% to approximately RMB60.8 million for the six months ended 30 June 2022 from approximately RMB54.2 million for the six months ended 30 June 2021.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 30 June 2022 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 RMB101.3 million (31 December 2021: RMB95.1 million) with a current ratio calculated by dividing our current assets over our current liabilities of 104.8% as at 30 June 2022 (31 December 2021: 104.7%).

Inventories increased by approximately RMB69.1 million or 8.3% to approximately RMB897.0 million as at 30 June 2022 from approximately RMB827.9 million as at 31 December 2021. Inventory turnover days was 219 days for the six months ended 30 June 2022, representing an increase of 38 days as compared to 181 days for the year ended 31 December 2021. The increase in inventories was mainly due to the increased domestic sales orders received during the six months ended 30 June 2022. The increase in inventory turnover days was mainly because of the increase in work-in-progress arising from our ongoing contract liabilities.

Trade, bills and other receivables increased by approximately RMB104.4 million or 15.2% to approximately RMB793.2 million as at 30 June 2022 from approximately RMB688.8 million as at 31 December 2021, among which trade receivables increased by approximately RMB50.7 million or 12.3% to approximately RMB462.1 million as compared with approximately RMB411.3 million as at 31 December 2021. 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 an 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 30 June 2022 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 30 June 2022, outstanding balance of approximately RMB246.5 million (net of impairment loss allowance of approximately RMB8.0 million) was included in the Group’s trade receivables. Our trade receivables turnover days was 81 days for the year ended 30 June 2022 (2021: 73 days) representing an increase of 8 days. The increase in trade receivable turnover days during the six months ended 30 June 2022 was primarily due to the increased average balance of trade receivables during the six months ended 30 June 2022.

Prepayments to suppliers decreased by approximately RMB25.8 million or 28.0% to approximately RMB66.5 million as at 30 June 2022 from approximately RMB92.4 million as at 31 December 2021 primarily due to decreased advance payment made to the suppliers in relation to our construction of production line projects.

Contract liabilities remained stable with a slight increase of approximately RMB6.2 million or 0.5% to approximately RMB1,227.4 million as at 30 June 2022 from approximately RMB1,221.3 million as at 31 December 2021.

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 30 June 2022, the Group had cash and cash equivalents of approximately RMB376.2 million (31 December 2021: approximately RMB393.7 million). A portion of the Group’s bank deposits totaling approximately RMB17.4 million (31 December 2021: approximately RMB49.0 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 30 June 2022, we had banking facilities of approximately RMB530.0 million, of which approximately RMB81.8 million were utilised. The utilised banking facilities as at 30 June 2022 represented bank guarantee of approximately RMB57.7 million, bank acceptance bill amounted to approximately RMB24.0 million and a working capital loan of approximately RMB0.1 million. As at 30 June 2022, our Group had unutilised banking facilities amounted to approximately RMB448.2 million. As at 30 June 2022, the Group had bank borrowings of approximately RMB0.1 million (31 December 2021: Nil).

As at 30 June 2022, 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 287.0% (31 December 2021: 289.4%).

During the six months ended 30 June 2022, the Group recorded net cash used in operating activities of approximately RMB11.0 million (six months ended 30 June 2021: net cash from operating activities of RMB21.3 million). Net cash used in investing activities for the six months ended 30 June 2022 amounted to approximately RMB14.3 million (six months ended 30 June 2021: RMB110.6 million). Net cash from financing activities for the six months ended 30 June 2022 amounted to approximately RMB91,000 (six months ended 30 June 2021: net cash used in financing activities of RMB9,000).

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, engaged 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 fixed-rate borrowings and amounts due to independent third parties, 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 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, restricted bank deposits and bank balances.

Given that 62% of the total trade receivables was due from a construction of production line customer of the Group as at 30 June 2022 (31 December 2021: 67%), 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 six months ended 30 June 2022, 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 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: Nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2022, the Group's capital expenditure amounted to approximately RMB49.9 million (six months ended 30 June 2021: acquisition of property, plant and equipment and upfront payments for right-of-use assets of approximately RMB59.2 million) which was mainly related to purchase of and deposit paid for property, plant and equipment and purchase of intangible assets.

PLEDGE OF ASSETS

As at 30 June 2022, the Group's bills receivables with a carrying amount of approximately RMB18.6 million (31 December 2021: restricted bank deposit with a carrying amount of approximately RMB49.0 million) were pledged to banks for issuing bills payables.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB13.0 million (31 December 2021: approximately RMB17.2 million).

OFF-BALANCE SHEET TRANSACTIONS

Save for the capital commitments and pledged assets disclosed above, the Group did not enter into any material off-balance sheet transactions or arrangements during the six months ended 30 June 2022 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION INFORMATION

As at 30 June 2022, the Group had a total of 1,078 employees (30 June 2021: 1,019) including staff from administrative, finance, sales, supply, technical, quality control, and production departments.

Remuneration packages of our employees usually comprise, among other things, salaries, bonus, 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 six months ended 30 June 2022, the Group incurred staff cost (including Directors' remuneration) of approximately RMB61.7 million (six months ended 30 June 2021: approximately RMB53.8 million).

The Group provides 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 expenses of the Company in connection with the Share Offer was approximately HK\$150.0 million. During the six months ended 30 June 2022, 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 30 June 2022. 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 30 June 2022 ^(Note 1) HK\$ million	Unutilised amount as at 30 June 2022 HK\$ million	Expected timeline for unutilised amount ^(Note 2)
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

	Percentage to total amount %	Net proceeds HK\$ million	Utilised amount as at 30 June 2022 ^(Note 1) HK\$ million	Unutilised amount as at 30 June 2022 HK\$ million	Expected timeline for unutilised amount ^(Note 2)
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	8.7 ^(Note 3)	1.5	To be fully utilised by the end of 2022
Marketing activities	3.5	5.2	5.2	–	Fully utilised in 2022
Working capital	4.0	6.1	6.1	–	Fully utilised in 2020
	100.0	150.0	148.5	1.5	

Notes:

- 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\$1.1693.*
- For further details of the expected timeline, please refer to the Prospectus.*
- 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 the end of 2022.*

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

During the six months ended 30 June 2022, 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 30 June 2022, the financial assets at FVTPL held by the Group were RMB200.1 million (31 December 2021: RMB200.7 million), representing 7.0% of total assets of the Group. Details of the financial assets at FVTPL held by the Group as at 30 June 2022 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 six months ended 30 June 2022 (RMB'000)	Carrying amount as of 30 June 2022 (RMB'000)	Percentage of total assets of the Group as of 30 June 2022
Public Structured Deposit 2022, Issue 21, 6 Months A* (對公結構性存款 2022 年第 21 期 6 個月 A) (Note 1)	2 June 2022	1.4%/3.4%	8 December 2022	100,000	64	100,064	3.5%
BOC Linked Structured Deposit CSDVY202216899 (Institutional Customer)* (中國銀行掛鉤型結構性存款 CSDVY202216899 (機構客戶)) (Note 2)	2 June 2022	1.5% – 4.5228%	9 December 2022	50,000	36	50,036	1.7%
BOC Linked Structured Deposit CSDVY202216900 (Institutional Customer)* (中國銀行掛鉤型結構性存款 CSDVY202216900 (機構客戶)) (Note 3)	2 June 2022	1.5% – 4.5128%	9 December 2022	50,000	36	50,036	1.7%

Notes:

- This wealth management product is principal-guaranteed with floating income and redeemable upon the maturity date. The Group expects to receive the principal amount and return of this product on 9 December 2022, being the first business day after the maturity date. If during the observation period, the relevant linked indicator is maintained within the target range, the expected rate of return will be 1.4% per annum, otherwise 3.4% per annum. For details of this wealth management product, please refer to the announcement of the Company dated 2 June 2022.*
- This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon the maturity date. The Group expects to receive the principal amount and return of this product on 12 December 2022, being the first business day after the maturity date. If the relevant linked indicator is lower than a set baseline at the observation time, the expected minimum rate of return will be 1.5% per annum, otherwise a maximum rate of return of 4.5228 % per annum. For details of this wealth management product, please refer to the announcement of the Company dated 2 June 2022.*
- This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon the maturity date. The Group expects to receive the principal amount and return of this product on 12 December 2022, being the first business day after the maturity date. If the relevant linked indicator is higher than a set baseline at the observation time, the expected minimum rate of return will be 1.5% per annum, otherwise a maximum rate of return of 4.5128 % per annum. For details of this wealth management product, please refer to the announcement of the Company dated 2 June 2022.*

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 six months ended 30 June 2022 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.

SUBSEQUENT EVENTS

No material events were undertaken by the Group subsequent to 30 June 2022.

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 six months ended 30 June 2022.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Listing Rules as its own code on corporate governance. During the six months ended 30 June 2022, the Company has complied with the code provisions in 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 six months ended 30 June 2022.

REVIEW OF UNAUDITED INTERIM RESULTS BY THE AUDIT COMMITTEE

Audit Committee

The Company established an audit committee (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 members, 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 the Group's unaudited interim condensed consolidated financial information for the six months ended 30 June 2022. The Audit Committee is of the view that the unaudited interim condensed financial information are in compliance with the applicable accounting standards, the Listing Rules and other legal requirement and that sufficient disclosure has been made.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 have not been audited or reviewed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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) and that of the Company (<http://pengfei.com.cn/>). The interim report of the Company for the six months ended 30 June 2022 will be dispatched to the shareholders of the Company 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 and executive Director

Hong Kong, 16 August 2022

As of the date of this announcement, the Board comprises Mr. WANG Jiaan (Chairman), 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.

* *For identification purpose only*