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

Annual Report 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Jiaan (王家安)
Mr. Zhou Yinbiao (周銀標)
Mr. Dai Xianru (戴賢如)
Mr. Ben Daolin (賁道林)

Independent Non-executive Directors

Ms. Zhang Lanrong (張嵐嶸)
Mr. Ding Zaiguo (丁再國)
Mr. Mak Hing Keung, Thomas (麥興強)

AUDIT COMMITTEE

Mr. Mak Hing Keung, Thomas (麥興強) (Chairman)
Mr. Ding Zaiguo (丁再國)
Ms. Zhang Lanrong (張嵐嶸)

NOMINATION COMMITTEE

Mr. Wang Jiaan (王家安) (Chairman)
Mr. Ding Zaiguo (丁再國)
Mr. Mak Hing Keung, Thomas (麥興強)
Ms. Zhang Lanrong (張嵐嶸)

REMUNERATION COMMITTEE

Mr. Ding Zaiguo (丁再國) (Chairman)
Mr. Dai Xianru (戴賢如)
Ms. Zhang Lanrong (張嵐嶸)

COMPANY SECRETARY

Ms. Chau Hing Ling (周慶齡) (LLM, FCIS, FCS)
19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Ben Daolin (賁道林)
Ms. Chau Hing Ling (周慶齡)

REGISTERED OFFICE

Suite #4-210, Governors Square
23 Lime Tree Bay Avenue
PO Box 32311
Grand Cayman KY1-1209
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Benjiaji, Northern Suburb
Haian City
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISER

Reynolds Porter Chamberlain
3802-06, 38/F One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

COMPLIANCE ADVISER

Essence Corporate Finance (Hong Kong) Limited
39th Floor
One Exchange Square
Central
Hong Kong

PRINCIPAL BANKERS

Jiangsu Bank, Haian Branch
No. 1, Changjiang Zhonglu
Haian City, Jiangsu Province
PRC

Bank of China, Haian Branch
No. 18, Changjiang Zhonglu
Haian City, Jiangsu Province
PRC

COMPANY'S WEBSITE

http://pengfei.com.cn/

STOCK CODE

3348

FINANCIAL HIGHLIGHTS

HIGHLIGHTS OF THE ANNUAL RESULTS

- Revenue for the year ended 31 December 2019 was approximately RMB1,465.5 million, an increase of 44.2% as compared to last year.
- Gross profit for the year ended 31 December 2019 was approximately RMB315.8 million, an increase of approximately 46.0% as compared to last year.
- Profit before tax for the year ended 31 December 2019 was approximately RMB97.2 million, an increase of 10.7% as compared to last year.
- Profit and total comprehensive income for the year ended 31 December 2019 attributable to owners of the Company was approximately RMB78.9 million, an increase of 8.9% as compared to last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB20.18 cents per share for the year ended 31 December 2019.
- The Board recommended to declare the final dividend of RMB0.05 per ordinary share, totalling RMB25.0 million for the year ended 31 December 2019.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Director(s)**") of China PengFei Group Limited (the "**Company**"), I hereby present to you the annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**Pengfei Group**") as of 31 December 2019.

In 2019, China and the United States have reached an agreement on the first phase trade deal to lower tariffs multilaterally and to proceed with further negotiation in 2020, which was beneficial to the economic and trade development of the world's two major economies and other countries. The national economy of the Peoples' Republic of China (the "**PRC**" or "**China**") remained stable in general and was moving in a positive direction, with a year-on-year GDP growth of 6.1% in 2019. The overall market demand of building materials industry was insufficient, and the requirements for energy conservation and environmental protection have increased. The building materials industry has further deepened the supply-side structural reforms, and the growth of major product output has slowed down. Innovation and the overall operating quality of building materials industry has further improved.

In 2019, under the leadership of the Board, all employees of the Group worked hard and dedicated to implement the "Go Global" strategy to achieve the sustained and rapid growth of projects in the "Belt and Road" countries, and achieved the best operating performance ever. In 2019, the Group recorded revenue of approximately RMB1,465.5 million, representing a year-on-year increase of 44.2%, and recorded profit and total comprehensive income for the year attributable to owners of the Company of approximately RMB78.9 million, representing a year-on-year increase of 8.9%; the Group has sufficient numbers of contracts on hand, with an aggregate value of projects in the backlogs of approximately RMB2,704.8 million as of 31 December 2019; and maintained a strong liquidity position, with net current assets of approximately RMB294.1 million as of 31 December 2019.

In 2019, in adherence to the theme of "innovative transformation, qualitative benefits", the Group actively responded to profound changes in the external environment, and achieved remarkable results in various aspects of work. The Group was honored with the National Intellectual Property Model Enterprise* (國家知識產權示範企業) and Deep Integration Pilot Enterprise in Advanced Manufacturing and Modern Service Industry of Jiangsu Province* (江蘇省先進製造業和現代服務業深度融合試點企業) and participated in the discussion on the setting of national standard for "Technical Requirements for Complete Set of Lime Calcination Equipment"* (石灰煅燒成套裝備技術要求). The completion of a 600 TPD active lime production line EP project in the PRC and the timely delivery of rotary kilns to our major customers located in the PRC consolidated our leading position in the rotary kiln and grinding equipment industry in China and the global markets. Our construction of production line business along the "Belt and Road" countries has further expanded. During the year of 2019, the Group has successfully completed the test run of a 1,200,000 TPA cement production line in Kazakhstan and the construction of a cement grinding station with production capacity of 3,200 TPD is making good progress. Revenue generated from our customers along the "Belt and Road" countries contributed to the rapid growth of the Group's performance in 2019.

The year of 2020 is the last year of China's comprehensive construction of a moderately prosperous society and the "Thirteenth Five-Year Plan". Notwithstanding a more complex and severe environment for economic development lies ahead and the challenges brought by the novel coronavirus pneumonia epidemic (the "**Epidemic**") to China and the global economy, it is believed that the long-term positive trend of the Chinese economy will remain unchanged. The principle of making progress while maintaining stable economic performance provides a favorable external environment for the development of the industry and the Group. From the industry perspective, the energy-saving and environmental-friendly supply-side structural reform in the building materials industry has been further deepened. From the perspective of the Group, the listing (the "**Listing**") of shares of the Company (the "**Share(s)**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has enhanced the Group's brand name in the international market and capital strength, and the Group will continue to innovate for development.

In 2020, insisting on high-quality development, the Group will vigorously implement the strategy of "technology, internationalization, capitalization, and branding" to strengthen the Group's market position in the building materials industry, further diversify its business into metallurgy, chemicals, and environmental protection and other industries, and explore more markets along the "Belt and Road" countries to deepen international cooperation in relation to the production capacity, making further contribution to the infrastructure construction of countries along the "Belt and Road". In 2020, the Group is fully committed to become an international leading equipment manufacturer, and provide customers, shareholders and the society with better products, services and performance.

* For identification purpose only

In 2020, we will carry out our business activities focusing on the following five aspects:

First, we will promote the healthy development of the Group with a view to strengthening the Group's leading position in the rotary kiln and grinding equipment industry in China and the global markets.

Second, with confidence and goals for development, facing the Epidemic, we will continue to overcome difficulties, explore the new market, promote enterprise transformation and upgrade, capture first-mover advantage and seek opportunities amidst crisis.

Third, we are committed to develop through opening up with the focus on "Belt and Road", consolidate the existing market while constantly exploring the international market, with special emphasis on the full domestic market layout.

Fourth, we will conscientiously plan and accelerate the implementation of our investment in the project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology, continue to improve our production capacity and levels of manufacturing.

Fifth, we will further lay a solid foundation for the healthy development of the Group and take the opportunity of the Listing and make efforts in reshaping our corporate structure, improving management system, talents recruitment, in order to build up a talent pool with individuals who possess skills and expertise in development strategy, innovative research and development, capital operation, legal and finance, etc.

In accordance with the requirements of the high-quality development of the manufacturing industry, we will implement the strategies of "technology, internationalization, capitalization and refinement" around the goal of becoming bigger and stronger, to promote the high-quality development of Pengfei Group to a new stage.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the management team and employees for their hard work during the past year and their outstanding contributions to the development of the Group. I also thank all shareholders, investors, customers and partners who have always supported the development of the Group! With the joint efforts of them, the Group will definitely create new performance and new glory.

China PengFei Group Limited
Wang Jiaan
Chairman

Jiangsu, China
27 April 2020

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.

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 15 November 2019 raising total net proceeds of approximately HK$150.0 million from the share offer (the "**Share Offer**") as described in the prospectus of the Company dated 31 October 2019 (the "**Prospectus**"), after deduction of underwriting fees and commissions and expenses of the Company in connection with the Share Offer. The successful Listing enabled the Company to enter into the international capital market to ensure sufficient capital for future development.

Expansion of customer base

We believe that diversifying our business and relying on a wide spread of customers for revenue generation will be critical for our future sustainability and growth. 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 2019, revenue generated from customers in the building materials industry amounted to approximately RMB791.0 million (2018: RMB510.2 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 62.4% and 68.2%, respectively, of our total revenue in the manufacturing of equipment business for the year 2018 and 2019. 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 2019, approximately HK$13.0 million of the net proceeds from the Share Offer 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 Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Kazakhstan, Uzbekistan, Ivory Coast (Côte d'Ivoire) and Turkey. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 26.2% and 31.4%, respectively, of our total revenue for the years 2018 and 2019. Furthermore, most of our customers under our construction of production line business are located in "Belt and Road" countries. During the year ended 31 December 2019, the Group has participated in the construction of five production line projects, four of which were located in" Belt and Road" countries which were on-going production line projects as at 31 December 2019, one of which, being the construction of an active lime production line project in Anhui Province, the PRC was completed.

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. In collaboration with the Institute of Process Engineering of the Chinese Academy of Sciences (中國科學院過程工程研究所), "Research and development of efficient rotary kiln technology for the treatment of co-processing solid waste" (適用於協同處理廢棄物的高效回轉窰技術研究與開發) is being carried out. During the year, the Group has also participated in the discussion on the setting of national standard for "Technical Requirements for Complete Set of Lime Calcination Equipment" (石灰煅燒成套裝備技術要求). As at 31 December 2019, the Group had 55 authorised patents, of which 31 were invention patents, and 42 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 higher level of 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.

Despite the uncertainties caused by the Epidemic outbreak in the first quarter of 2020, the Group remains cautiously optimistic in the rotary kiln, grinding equipment and their related equipment market as we believe the impact of the Epidemic outbreak on China's economy and the Group's operation will be temporary. The Group will use its best endeavours to minimise any potential impact on the operation and financial performance of the Group from the Epidemic and stick to its business strategies.

FINANCIAL REVIEW

Revenue

	Year ended 31 December				Year-over-Year Change
	2019		2018		
	RMB'000	**%**	RMB'000	%	%
Manufacturing of equipment	**961,592**	**65.6**	780,410	76.8	23.2
Installation services	**21,422**	**1.5**	21,985	2.2	-2.6
Construction of production line	**482,450**	**32.9**	213,806	21.0	125.6
Total	**1,465,464**	**100.0**	1,016,201	100.0	44.2

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue increased by approximately RMB449.3 million or 44.2% from approximately RMB1,016.2 million for the year ended 31 December 2018 to approximately RMB1,465.5 million for the year ended 31 December 2019 as a result of growth of our revenue generated from the construction of production line business and manufacturing of equipment business during the year ended 31 December 2019.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by RMB181.2 million or 23.2% from RMB780.4 million for the year ended 31 December 2018 to RMB961.6 million for the year ended 31 December 2019. The increase in revenue derived from manufacturing of equipment business was primarily due to sales of our products in the rotary kiln system made to a few major customers in mainland China with considerably large revenue contribution during the year ended 31 December 2019 as compared with customers in the same period of 2018.

Installation services. Revenue derived from our installation services business decreased by approximately RMB0.6 million or 2.6% to approximately RMB21.4 million for the year ended 31 December 2019 from approximately RMB22.0 million for the year ended 31 December 2018. 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 2019.

Construction of production line. Revenue from our construction of production line business increased by approximately RMB268.6 million or 125.6% to approximately RMB482.5 million for the year ended 31 December 2019 from approximately RMB213.8 million for the year ended 31 December 2018. This increase was mainly attributable to our production line projects located in Kazakhstan and Ivory Coast (Côte d'Ivoire) which contributed in aggregate a revenue of approximately RMB415.4 million during the year ended 31 December 2019.

Cost of sales and services

Our cost of sales and services increased by approximately RMB349.8 million or 43.7% to approximately RMB1,149.7 million for the year ended 31 December 2019 from approximately RMB799.8 million for the year ended 31 December 2018 mainly due to the increase of our total revenue. Cost of raw materials, being the largest component of our cost of sales and services, increased due to the carrying out of the construction of production lines and enhanced sales of the manufacturing of equipment business which resulted in an increase of approximately RMB290.0 million in cost of sales and services during the year ended 31 December 2019.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately RMB99.4 million or 46.0% to approximately RMB315.8 million for the year ended 31 December 2019 from approximately RMB216.4 million for the year ended 31 December 2018. The Group's gross profit margin remained relatively stable at 21.5% for the year ended 31 December 2019 as compared to 21.3% for the year ended 31 December 2018.

Other income

Our other income decreased by approximately RMB24.3 million or 89.0% to approximately RMB3.0 million for the year ended 31 December 2019 from approximately RMB27.3 million for the year ended 31 December 2018 mainly due to decrease in government subsidies of approximately RMB22.7 million received during the year ended 31 December 2019 as compared with the year ended 31 December 2018.

Other gains and losses

We recorded other gains of approximately RMB6.4 million for the year ended 31 December 2019, representing a decrease of 23.1% as compared with approximately RMB8.3 million for the year ended 31 December 2018. This was mainly due to the change from a net foreign exchange gain of approximately RMB4.7 million recorded in the year of 2018 to a net foreign exchange loss of approximately RMB0.7 million recorded during the year ended 31 December 2019, which was partially offset by the increase in the investment gain on financial assets at FVTPL of approximately RMB3.1 million.

Selling and distribution expenses

Our distribution and selling expenses increased by approximately RMB34.2 million or 45.7% to approximately RMB108.9 million for the year ended 31 December 2019 from approximately RMB74.7 million for the year ended 31 December 2018 mainly due to increased transportation and port expenses incurred by our Group in relation to the product delivery of oversea production lines and sales of equipment to one of our major customers in mainland China during the year ended 31 December 2019.

Administrative expenses

Our administrative expenses increased by approximately RMB5.6 million or 13.5% to approximately RMB47.2 million for the year ended 31 December 2019 from approximately RMB41.6 million for the year ended 31 December 2018 mainly attributable to the increase in annual bonus and professional fees incurred in relation to the Listing in 2019.

Research expenditure

Our research expenditure increased by approximately RMB14.2 million or 43.9% to approximately RMB46.6 million for the year ended 31 December 2019 from approximately RMB32.4 million for the year ended 31 December 2018 mainly due to the increased technical consultancy fee incurred for technical support consultation for the manufacturing of equipment and construction of production line projects during the year ended 31 December 2019.

Impairment losses on trade and other receivables and contract assets, net of reversal

Impairment losses on trade and other receivables and contract assets increased by approximately RMB6.5 million or 257.6% to approximately RMB9.0 million for the year ended 31 December 2019 from approximately RMB2.5 million for the year ended 31 December 2018 mainly due to an increase in impairment loss on trade receivables recognised for the year ended 31 December 2019 and as a result of the increased balance of trade receivables as at 31 December 2019.

Income tax expenses

Our income tax expenses increased by approximately RMB2.8 million or 19.1% to approximately RMB17.3 million for the year ended 31 December 2019 from approximately RMB14.5 million for the year ended 31 December 2018. Our effective tax rate was 16.5% and 17.8% for the year ended 31 December 2018 and 2019, respectively. The comparatively higher effective tax rate for the year ended 31 December 2019 was mainly due to the tax effect of non-deductible expenses incurred by the Group in relation to the Listing during the year.

Profit and total comprehensive income for the year

As a result of the foregoing, the profit and total comprehensive income for the year attributable to owners of the Company increased by approximately RMB6.4 million or 8.9% to approximately RMB78.9 million for the year ended 31 December 2019 from approximately RMB72.5 million for the year ended 31 December 2018.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 31 December 2019 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 RMB294.1 million (31 December 2018: RMB37.2 million) with a current ratio calculated by dividing our current assets over our current liabilities of 115.6% (31 December 2018: 102.7%) as at 31 December 2019.

Inventories increased by approximately RMB270.9 million or 64.6% to approximately RMB690.0 million as at 31 December 2019 from approximately RMB419.1 million as at 31 December 2018. Inventory turnover days was 176 days for the year ended 31 December 2019, representing an increase of 24 days as compared to 152 days for the year ended 31 December 2018. The increase in inventories was mainly due to the increased balance of work-in-progress maintained as at 31 December 2019. 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 RMB167.7 million or 29.0% to approximately RMB746.1 million as at 31 December 2019 from approximately RMB578.4 million as at 31 December 2018, among which trade receivables increased by approximately RMB201.3 million or 107.1% to approximately RMB389.2 million as compared with approximately RMB187.9 million as at 31 December 2018. Such change was mainly due to the delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank. In May 2019, our Group, due to the expected delay in settlement from this customer, entered into a supplemental agreement with such customer pursuant to which our Group agreed to defer an amount of RMB280 million (the "**Deferred Payment**"), being the outstanding payment upon completion of the construction of such production line, carried out a fixed interest rate of 8.41% per annum. The Deferred Payment to the extent of RMB280 million would be settled in every three months by 12 installments starting from 30 June 2020. Any receivable balance, apart from the Deferred Payment, from this customer should be settled as originally scheduled. Our trade receivables turnover days was 68 days (2018: 58 days) for the year ended 31 December 2019 representing an increase of 10 days. The increase in trade receivable turnover days during the year was primarily due to the increased balance of trade receivables as at 31 December 2019 for the reason mentioned above.

Prepayments to suppliers increased by approximately RMB63.2 million or 68.4% to approximately RMB155.5 million as at 31 December 2019 from approximately RMB92.4 million as at 31 December 2018 primarily due to the increased prepayments made to the suppliers for the purchase of raw materials.

Contract liabilities increased by approximately RMB548.6 million or 79.2% to approximately RMB1,241.0 million as at 31 December 2019 from approximately RMB692.4 million as at 31 December 2018. The significant increase in contract liabilities was mainly due to the advance payments received from our customers during the year for new contracts obtained.

LIQUIDITY AND FINANCIAL 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 2019, the Group had cash and cash equivalents of approximately RMB486.4 million (31 December 2018: approximately RMB233.9 million). A portion of the Group's bank deposits totalling approximately RMB12.2 million (31 December 2018: approximately RMB13.6 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 2019, we had banking facilities of approximately RMB560.0 million, of which approximately RMB185.5 million were utilised. The utilised banking facilities as at 31 December 2019 represented bank guarantee of approximately RMB161.5 million and bank acceptance bill amounted to approximately RMB24.0 million. As at 31 December 2019, our Group had unutilised banking facilities amounted to approximately RMB374.5 million. As at 31 December 2019, the Group did not have any bank borrowings (31 December 2018: Nil).

As at 31 December 2019, 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 350.9% (31 December 2018: 469.3%). The decrease in our gearing ratio was mainly due to the increased balance of our equity as at 31 December 2019 arising from the net proceeds from the Share Offer.

During the year ended 31 December 2019, the Group recorded approximately RMB119.8 million (2018: net cash used in operating activities RMB7.9 million) net cash from operating activities. Net cash used in investing activities for the year ended 31 December 2019 amounted to approximately RMB4.1 million (2018: net cash from investing activities RMB320.0 million). Net cash from financing activities for the year ended 31 December 2019 amounted to approximately RMB136.2 million (2018: net cash used in financing activities RMB176.0 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. During the year ended 31 December 2019, approximately 15% (2018: 15%) of the Group's sales is denominated in currencies other than the functional currency of the relevant Group entities making the sale. The Group has not adopted any foreign exchange hedging policy, engaged in any currency hedging or had 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. The Group will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's loans to and amounts due to independent third parties 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 75% (31 December 2018: 28%) and 75% (31 December 2018: 42%) of the total trade receivables was due from the Group's largest customer and the five largest customers as at 31 December 2019, 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 2019, 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 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

CAPITAL EXPENDITURE

As at 31 December 2019, the Group's capital expenditure amounted to approximately RMB25.0 million (31 December 2018: approximately RMB19.9 million) which was mainly related to the acquisition of property, plant and equipment, purchase of intangible assets and payments for right-of-use assets.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's restricted bank deposits and bills receivable with an aggregate carrying amount of approximately RMB14.0 million were pledged to banks for issuing bills payables. As at 31 December 2018, the Group's restricted bank deposits, right-of-use assets, buildings and bills receivable with an aggregate carrying amount of approximately RMB93.7 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 2019, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB19.0 million (31 December 2018: approximately RMB0.4 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 year ended 31 December 2019 and up to the date of this annual report.

EMPLOYEES AND REMUNERATION INFORMATION

As at 31 December 2019, the Group had a total of 949 employees (31 December 2018: 872) 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 year ended 31 December 2019, the Group incurred staff cost (including Directors' remuneration) of approximately RMB105.1 million (2018: approximately RMB94.9 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. The Group would apply such proceeds in a manner consistent with the intended use of proceeds as 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 2019. All the unused proceeds have been deposited into a bank account maintained by the Group.

	Percentage to total amount	**Net proceeds**	**Utilised amount as at 31 December 2019**(Note 1)	**Unutilised amount as at 31 December 2019**	**Expected timeline for unutilised amount**(Note 2)
	%	HK$ million	HK$ million	HK$ million	
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	78.7	118.0	13.0	105.0	To be fully utilised during the period from third quarter of 2020 to the end of 2021
Increasing the productivity and efficiency in manufacturing our products for our rotary kiln and grinding equipment system	7.0	10.5	2.8	7.7	To be fully utilised by third quarter of 2020
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	0	10.2	To be fully utilised during the period from third quarter of 2020 to the end of 2021
Marketing activities	3.5	5.2	0.5	4.7	To be fully utilised by third quarter of 2021
Working capital	4.0	6.1	0	6.1	To be utilised based on actual need
Total	**100.0**	**150.0**	**16.3**	**133.7**	

Note:

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$1.1163.

2. For further details of the expected timeline, please refer to the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

During the year ended 31 December 2019 and up to the date of this annual report, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures.

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The Company's Shares were listed on the Stock Exchange on 15 November 2019. The Company and its subsidiaries now comprising the Group underwent the reorganisation which was completed on 8 September 2018 as set out in the Prospectus. During the year ended 31 December 2019, the subsidiaries now comprising the Group were involved in rotary kilns, grinding equipment and their related equipment manufacturing and installation, and construction of production line business.

Details of the principal activities of the principal subsidiaries of the Company are set out in note 39 to the consolidated financial statements. A review and analysis of the Group's performance for the year ended 31 December 2019 is set out in the "Chairman's Statement" and "Management Discussion and Analysis" sections in this annual report. For future business development, the Group will continue to focus on its existing businesses and expand its customer base by reinforcing the Group's market presence in the building material industry and further diversifying into metallurgy, chemical and environmental protection industries. Save as disclosed in the section headed "Directors' Report – Subsequent Events" in this annual report, there were no significant events of the Group after the year ended 31 December 2019 and up to the date of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report. A financial summary of the Group for the four years ended 31 December 2016, 2017, 2018 and 2019 have been set out on page 128 in this annual report.

For the year ended 31 December 2019, the Board recommended a final dividend (the "**Final Dividend**") of RMB0.05 (not subject to withholding tax) per ordinary share to shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on Tuesday, 23 June 2020, totalling RMB25.0 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 Monday, 15 June 2020. 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 31 March 2020, which was HKD1.00 to RMB0.9137, 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 HKD0.05472 and the aggregate amount of which will be paid out of the Company's share premium account. Total dividend payout ratio is 31.7% 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, 15 July 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces, among others, the following principal risks and uncertainties:

(i) Reliance on the macroeconomic conditions in the PRC

The Group generates a substantial portion of revenue from sales in China. Our business and future growth prospects depend on general economic conditions and levels of construction and infrastructure development in the PRC and overseas countries where our customers are based. For example, in the PRC, the increasing urbanization rate, the rapid development of construction industry and widening application of rotary kiln and grinding equipment in broader fields such as metallurgy, chemical and environmental protection industries have enormously prompted the demand for building materials production and processing equipment, especially rotary kilns, grinding equipment and their related equipment over the past few years. It cannot be assured that China's economy will continue to grow or that its growth will be steady or occur in the geographical regions or economic sectors that related to the Group.

(ii) Reliance on customers from the building materials industry

Any changes to downstream industries in overseas and China markets that our Group's products in the rotary kiln and grinding equipment systems cater to, in particular, the building materials industry which accounted for approximately 54.0% (2018: 50.2%) of our total revenue for the year ended 31 December 2019, will have a direct impact on our sales volume and eventually our results of operations. The development of infrastructure and building construction in China and overseas markets will continuously generate a growing consumption demand for a variety of building materials, especially cement. Our sales volume will be directly impacted by the urbanization rate and the development of construction industry.

(iii) Uncertainty as to expanding the Group's business into the "Belt and Road" countries as well as risks associated with international sales

One of our business strategies is to extend our international footprint to more "Belt and Road" countries in Central and East Europe and Central Asia regions. Expansion into "Belt and Road" countries may give rise to various associated risks, including legal and political risks. Foreign companies venturing into "Belt and Road" countries may not have access to adequate legal protection, especially where legal regimes are underdeveloped and have low credibility, and where social and judicial corruption is rife. In addition, certain "Belt and Road" countries suffer from political instability, civil unrest or even armed conflict, which will require foreign companies entering into such "Belt and Road" countries to maintain a robust business continuity plan and good security intelligence, all of which will necessitate a certain amount of expenditure. During the year ended 31 December 2019, we undertook several projects under our construction of production line business in "Belt and Road" countries that were subject to terrorist attacks, economic and/or political instability, including Turkey. During the year ended 31 December 2019, our revenue generated from "Belt and Road" countries amounted to approximately RMB459.6 million (2018: RMB266.3 million), representing approximately 31.4% (2018: 26.2%) of our total revenue. As a result of such high risk jurisdictions and given the fact that our employees are required to provide technical support and/or training in such places from time to time, we may be required to put in place certain security measures to ensure the safety of our employees and/or other assets, if any. There is no guarantee that such security measures will be entirely foolproof and the purchase and maintenance of such additional security measures may also result in substantial expenses for our Group, depending on the seriousness of the situation in the relevant jurisdiction, which may in turn affect our financial condition and outweigh the benefits of undertaking projects in such "Belt and Road" countries. Expansion may therefore place undue pressure on our financial, personnel and management resources that would be otherwise available for our current business operations.

In addition, a substantial portion of our total revenue is generated from the sale of our products and/or provisions of our services to customers outside the PRC. During the year ended 31 December 2019, revenue generated from our customers outside mainland China amount to approximately RMB542.2 million (2018: RMB302.8 million), representing approximately 37.0% (2018: 29.8%) of our total revenue. Our plan to expand our customer base by venturing into newly emerged markets including the "Belt and Road" countries, may be subject to a variety of risks and uncertainties associated with such expansion, including: (a) political and economic instabilities; (b) foreign exchange rate exposure and the risk of foreign exchange control; (c) exposure to increased litigation risks in overseas markets; (d) unfamiliarity with local laws, regulatory requirements, operating and market conditions; (e) cultural and language difficulties; (f) competition from local companies; (g) foreign taxes; and (h) potential disputes and difficulty in managing relationships with foreign customers.

Given the above, we cannot assure you that our future expansion plans and international sales into these markets will be smooth or successful. If our future expansion plans into such "Belt and Road" countries encounter difficulties or do not reap the anticipated benefits, the additional costs incurred may adversely affect our business, financial condition and results of operation.

(iv) Fluctuation in costs of raw materials

Our principal raw materials are steel materials including steel plates, castings and forgings, and our principal parts and components include motors, reducers and bearings. During the year ended 31 December 2019, the cost of raw materials was a major component of our cost of sales and services, representing approximately 72.5% (2018: 68.0%) of our total cost of sales and services. Any material fluctuation in the cost of raw materials may affect the results of our operations. Costs of raw materials may fluctuate subject to factors beyond our control including availability and supply of the raw materials, inflation of labour costs, economic and market conditions and changes in suppliers' business plans and marketing strategies. We cannot assure the Shareholders and potential investors that our costs of raw materials will not fluctuate in the future. If such costs increase, it will directly affect our revenue and profit margin which will in turn materially and adversely affect our business, financial condition and results of operations.

For details of the other risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" in the Prospectus, and for details of the financial risks and the related risk management policies and practices used by the Group, please refer to note 35 headed "Financial risk management objectives and policies" to the consolidated financial statements in this annual report.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITION OR DISPOSAL

During the year ended 31 December 2019 and up to the date of this annual report, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures.

SUBSEQUENT EVENTS

Assessment of the impact of the Epidemic

In early 2020, in response to the public health risks associated with the outbreak of the Epidemic, the government of the PRC has implemented various emergency public health measures and various actions including but not limited to imposing restrictions on the work resumption date after the Chinese New Year holiday and travel restrictions in certain areas of the PRC prohibiting the movement of goods and people between provinces and/or within provinces and cities.

Following the PRC government's guidance and to ensure the health and safety of our employees, the Group's PRC operating subsidiaries and the production plants located in Jiangsu Province, the PRC, only resumed production and work on 10 February 2020 after the Chinese New Year holiday. Due to the suspension or limited transportation services in certain areas within the PRC, certain workers in the affected provinces and municipalities were unable to return to the Group's production plants as planned and the Group also expects delay in the supply of raw materials from its suppliers and the delivery of products to its customers as a result thereof.

With respect to the Group's construction of production line business which consists mainly overseas projects, it is necessary for the Group to send staff, including project managers and engineers, to monitor the progress of the overseas projects as well as provide assistance and training to customers on how to use the Group's products. It is expected that the Group may face difficulty in obtaining relevant visas, such as work visa for our staff should those countries in which our production line projects are located impose travel restrictions against mainland Chinese citizens in order to prevent the spread of the Epidemic.

The aforesaid has led to a temporary drop of the Group's production capacity which has in turn resulted in late delivery of products in the first quarter of 2020. The Group will continue to monitor the situation of the Epidemic, assess and react proactively to its impact on the financial position and operating results of the Group. Up to the date of this annual report, the assessment is still in progress.

Other than the event as mentioned above, the Board is not aware of any material events undertaken by the Group subsequent to 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 15 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 28 to the consolidated financial statements in this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the amended and restated articles of association of the Company (the "**Articles**") or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

TAX RELIEF

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the shares, they are advised to consult their professional advisers.

DONATION

Charitable and other donations made by the Group during the year ended 31 December 2019 amounted to RMB936,000 (2018: RMB50,000).

RESERVES

Details of the amounts and movements in the reserves of the Company and the Group are set out in note 38 to the consolidated financial statements in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB179.5 million (2018: no distributable reserve available to the Shareholders).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the revenue derived from the Group's largest customer and the five largest customers accounted for approximately 20.1% and 52.2% (2018: approximately 13.6% and 38.2%) of the Group's total revenue for the year, respectively.

During the year ended 31 December 2019, purchases from the Group's largest supplier and five largest suppliers accounted for approximately 16.8% and 37.0% (2018: approximately 16.2% and 38.5%) of the Group's total purchases for the year, respectively.

So far is known to the Directors, at no time during the year ended 31 December 2019 that any of the Directors, their close associates or any Shareholders who owned more than 5% of the Company's issued share capital, had any interests in any of the above five largest customers and suppliers of the Group for the year.

RELATIONSHIP WITH EMPLOYEES

The Group understands the importance of maintaining a good relationship with its employees, suppliers, customers and other stakeholders to meet its immediate and long-term goals. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders. During the year ended 31 December 2019, there were no material and significant dispute between the Group and its employees, suppliers, customers and/or other stakeholders.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 35 to 50 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate in compliance with the applicable environmental laws as well as protecting the environment by minimising the negative impact of the Group's existing business activities on the environment and complying with the applicable environmental laws and regulations.

Our business is subject to provisions under PRC environmental laws and regulations on noise, waste water, air emission and other industrial waste. The major governing environmental laws and regulations consist of the Environmental Protection Law of the PRC* 《中華人民共和國環境保護法》, the Law of the PRC on the Prevention and Control of Water Pollution* 《中華人民共和國水污染防治法》, the Law of the PRC on the Prevention and Control of Air Pollution* 《中華人民共和國大氣污染防治法》, the Law of PRC on the Prevention and Control of Solid Waste Pollution* 《中華人民共和國固體廢物污染環境防治法》, and the Law of the PRC on the Prevention and Control of Noise Pollution* 《中華人民共和國環境噪聲污染防治法》.

In order to avoid any potential environmental issue, we have also implemented certain measures, including:

(i) emitting pollutants generated in the course of production, such as sulfur dioxide, smoke and industrial solid waste, according to standards; and

(ii) conducting environmental impact assessment and completing environmental approval procedures as required before production.

The Company's Environmental, Social and Governance Report will be prepared separately from this annual report and will be published within three months after the publication of this annual report.

* For identification purpose only

DIRECTORS' REPORT

COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to keep itself updated over the requirement of the relevant laws and regulations applicable to it to ensure compliance. Save as disclosed in the Prospectus, during the year ended 31 December 2019 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2019.

Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") are provided in the section headed "Corporate Governance Report" of this annual report.

DIRECTORS

The Directors who held office during the year ended 31 December 2019 and up to the date of this annual report were:

Executive Directors

Mr. Wang Jiaan (王家安)
Mr. Zhou Yinbiao (周銀標)
Mr. Dai Xianru (戴賢如)
Mr. Ben Daolin (賁道林)

Independent Non-executive Directors

Ms. Zhang Lanrong (張嵐嶸)
Mr. Ding Zaiguo (丁再國)
Mr. Mak Hing Keung, Thomas (麥興強)

In accordance with the Articles, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. For details about the retirement and rotation of Directors, please refer to the paragraph headed "Corporate Governance Report – The Board" on page 35 of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of all the Directors and senior management of the Company are set out on pages 27 to 34 of this annual report.

Save as disclosed in the section headed "Biographical Details of Directors and Senior Management" of this annual report, there has been no change in information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, a written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors as independent.

RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension contributions of the Company are set out in note 10 to the consolidated financial statements in this annual report.

DIRECTORS' SERVICE CONTRACT

Each of our executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, which may be terminated in accordance with the provisions of the service agreement or by not less than three months' notice in writing served by either our Directors or the Company on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with the Company for a fixed term of three years commencing from the Listing Date, which may be terminated at any time by either party at anytime by giving notice to the other and subject to rotation, removal, vacation or termination of such office in accordance with the Articles.

Pursuant to the individual service agreement, each of our executive Directors is entitled to a fixed amount of emolument and discretionary management bonus to be determined by our Board. For our independent non-executive Directors, pursuant to the then individual appointment letters, each of them is entitled to a fixed director's fee. Details of the remuneration of the Directors are set out in note 12 to the consolidated financial statements in this annual report.

All of the executive Directors' service agreements and independent non-executive Directors' letters of appointment entered between the Company and the respective Director has been reviewed and ratified by the Nomination Committee.

Save as disclosed above, none of the Directors being proposed for re-election at the AGM has a Director's service agreement with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

DEED OF NON-COMPETITION

Mr. Wang Jiaan and Ambon Holding Limited (together, the "**Controlling Shareholders**"), have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the "**Deed of Non-Competition**") entered into between the Controlling Shareholders and the Company dated 28 October 2019 during the period from the Listing Date to the date of this annual report. Details of the Deed of Non-Competition are set out in the section headed "Relationship with Controlling Shareholders" in the Prospectus.

The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Controlling Shareholders during the period from the Listing Date to the date of this annual report.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTION

Details of the related party transactions of the Group for the year ended 31 December 2019 are set out in note 37 to the consolidated financial statements contained herein this annual report.

None of the related party transactions constitute a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

During the year ended 31 December 2019, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE FOR PROVISION OF SERVICES

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Controlling Shareholder had a material interest in, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2019.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest in, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which are (a) recorded in the register required to be kept under section 352 of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), were as follows:

Long Positions in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding interest
Mr. Wang Jiaan (王家安)	Interest in controlled corporation (Note 1)	207,444,000	41.49%

Note:

(1) Ambon Holding Limited is wholly-owned by Mr. Wang Jiaan (王家安) who is deemed to be interested in the Shares held by Ambon Holding Limited under the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any Shares or underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to the Model Code.

Directors' Rights to Acquire Shares and Debentures

At any time during the year ended 31 December 2019 and up to the date of this annual report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2019, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) had interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding interest
Ambon Holding Limited	Beneficial owner (Note 1)	207,444,000	41.49%
PF International Group Limited ("**PF International**")	Beneficial owner (Note 2)	121,946,000	24.39%
PF Global Limited ("**PF Global**")	Beneficial owner (Note 3)	45,610,000	9.12%

Notes:

(1) Ambon Holding Limited is wholly-owned by Mr. Wang Jiaan (王家安) who is deemed to be interested in the Shares held by Ambon Holding Limited under the SFO.

(2) These Shares are held by PF International, which is owned as to approximately 26.51% by Mr. Zhou Yinbiao (周銀標), 18.55% by Mr. Yu Yangui (于延桂), 16.76% by Mr. Dai Xianru (戴賢如), 13.7% by Mr. Wang Yun (王雲), 9.76% by Mr. Ben Daolin (賁道林), 8.26% by Mr. Chen Lidong (陳黎東) and 6.46% by Mr. Ben Daochun (賁道春).

(3) These Shares are held by PF Global, which is owned as to approximately 19.2% by Ben Xudong (賁旭東), 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Zhang Doufa (張鬥發), 1.28% by Ding Jialin (丁佳林), 0.64% by Wang Shiqin (王世芹), 0.64% by Ding Qinghai (丁慶海), 0.64% by Cui Hengfu (崔恒富), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Wang Xiaobo (王小波), 0.64% by Yu Zhongwen (于中文), 0.64% by Lin Xianyue (林先月), 0.64% by Yuan Xiaofei (袁小飛), 1.12% by Zhou Bugao (周步高), 1.12% by Shen Jixiang (沈吉祥), 0.64% by Zhou Yue (周悦), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Jin (周錦), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Ben Zhonglin (賁忠林), 0.64% by Wang Jin (王進), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Wu Yijun (吳義軍), 0.48% by Pei Haiqing (裴海青), 0.48% by Cui Xinxin (崔欣欣) (which was inherited from Cui Yegui (崔業貴) on 1 July 2018), 0.48% by Zhou Jianyi (周建益) and 5.6% by Pei Qirong (裴其榮).

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the existing Directors is currently in force since the Listing Date. The Company has taken out directors' liability insurance that provides appropriate cover for the Directors.

COMPETING INTEREST

Save as disclosed in this annual report, during the year ended 31 December 2019, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, none of the Directors or the Controlling Shareholders of the Company or their close associates (as defined in the Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group of interests with the Group for the year ended 31 December 2019.

BORROWINGS

As at 31 December 2019, the Group did not have any bank borrowings (31 December 2018: Nil).

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended 31 December 2019.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

At no time during the year ended 31 December 2019 was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate. No equity-linked agreements were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year.

PURCHASE, SALES OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Save for the Share Offer as described in the Prospectus, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company from the Listing Date and up to the date of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient prescribed public float of not less than 25% of the issued Shares as required under the Listing Rules from the Listing Date up to the date of this annual report.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Essence Corporate Finance (Hong Kong) Limited ("**Essence**"), the Company's compliance adviser, save for the compliance adviser agreement entered into between the Company and Essence dated 29 October 2019 in connection with the Listing, none of Essence or its directors, employees or close associates (as defined in the Listing Rules) had any interest in the Group as at 31 December 2019 and up to the date of this annual report, which is required to be notified to the Company pursuant to Rule 3A.19 of the Listing Rules.

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and Investment Committee for overseeing particular aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at http://pengfei.com.cn/.

All the Committees should report to the Board on their decisions or recommendations made. All committees members are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

ISSUE OF SHARES AND USE OF PROCEEDS FROM THE SHARE OFFER

In connection with the Listing, on 15 November 2019, 125,000,000 new Shares were issued at a price of HK$1.58 per Share and 323,614,100 new Shares were issued pursuant to the Capitalisation Issue (as defined in the Prospectus).

The net proceeds raised by the Company from the abovementioned Share Offer (as defined in the Prospectus), after deducting the underwriting fees and commission and expenses of the Company, amounted to approximately HK$150.0 million. The details of use of proceeds by the Group are set out in "Management Discussion and Analysis – Use of Proceeds from the Share Offer" of this annual report.

AUDITOR

The Shares were listed on the Stock Exchange on 15 November 2019, and the Company has no change in auditors since the Listing Date. The consolidated financial statements for the year ended 31 December 2019 have been prepared by Deloitte Touche Tohmatsu, Certified Public Accountants of Hong Kong, the auditor of the Company, who will retire at the conclusion of the AGM and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of by Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the AGM.

AGM

The AGM of the Company will be held on Monday, 15 June 2020. A notice of convening the AGM will be published and dispatched to the Shareholders in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

To be eligible to attend and vote at the AGM

For the purpose of determination of eligibility to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Wednesday, 10 June 2020 to Monday, 15 June 2020 (both days inclusive), during which period no transfer of Shares of the Company will be effected. In order to be entitled to attend and vote at the AGM to be held on Monday, 15 June 2020, all transfer of Shares documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Tuesday, 9 June 2020.

To qualify for the proposed final dividends

For the purpose of ascertaining Shareholders' entitlement to the final dividend, the transfer books and register of members of the Company will be closed from Friday, 19 June 2020 to Tuesday, 23 June 2020 (both days inclusive), during which period no transfer of Shares of the Company will be effected. To be qualified for receiving the proposed final dividends, all transfer of Shares documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Thursday, 18 June 2020.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE HONG KONG LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

All references above to other sections, reports or notes in this report form part of this annual report.

By order of the Board
China PengFei Group Limited
Wang Jiaan
Chairman

Jiangsu, China
27 April 2020

Executive Directors

Mr. Wang Jiaan

Mr. Wang Jiaan (王家安) ("**Mr. Wang**"), aged 62, is an executive Director and the chairman of the Board. Mr. Wang was appointed as our Director on 31 July 2017 and re-designated as our executive Director on 13 March 2019. Mr. Wang is primarily responsible for overall management, corporate policy making and strategic planning of our Group's business operations. Mr. Wang is the father-in-law of Mr. Shi Pengyu (施鵬宇), a senior management of our Group.

Mr. Wang has more than 40 years of experience in special equipment manufacturing business. Prior to joining our Group, Mr. Wang worked in Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) as a mechanical workshop technician and workshop manager from October 1977 to July 1984 and was promoted as the deputy plant manager and technical manager from July 1984 to May 1994. Since then, Mr. Wang joined Jiangsu Pengfei and served as the deputy general manager from May 1994 to October 2001 and was promoted as the general manager from October 2001 to October 2003. Since October 2003, Mr. Wang has served as the chairman and general manager of Jiangsu Pengfei.

Mr. Wang has completed the provincial level mechanical industry professional technical staff high-level transformation innovative upgrading senior training course at the Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) and Jiangsu Province Mechanical Industry Association* (江蘇省機械行業協會) in August 2012. Mr. Wang has completed the Nantong City modern entrepreneur senior training course at Shanghai Jiaotong University in the PRC in April 2012. Mr. Wang was awarded with a certificate after completion of the 7th Jiangsu province technological entrepreneur (investment & financing strategy and capital operations) training course at Renmin University of China in the PRC in March 2011. Mr. Wang has completed the senior business administration executive training course at Tsinghua University in the PRC in July 2008. Mr. Wang was awarded with a certificate after completion of the building materials mechanical professional certificate at Yancheng Industrial Institute (鹽城工業專科學校) in February 1996.

Mr. Wang is a researcher-level senior engineer, recognised by the Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) in November 2012, and is a first level/senior technician, recognised by the Ministry of Human Resources and Social Security, the PRC (中華人民共和國人力資源和社會保障部) in November 2012.

Mr. Wang participated in public services including, among others, acting as the Vice-chairman of the 5th Committee of the China Building Materials Machinery Industry Association* (中國建材機械工業協會) from December 2008 to December 2013, the Vice-chairman of the 5th Committee of the China Building Materials Federation (中國建築材料聯合會) from October 2016 to September 2021, the Chairman of Haian County Building Materials Machinery Business Association* (海安縣建材機械業商會) from October 2016 to September 2021, a member of the 16th Committee of the Chinese National People's Congress of Haian County* (中國海安縣第十六屆人民代表大會) from January 2017 to December 2021, the Chairman of the 4th Machinery Committee of Jiangsu Province Building Materials Industry Association* (江蘇省建材行業協會) from March 2017 to February 2022 and a member of the 14th Committee of the Chinese National People's Congress of Nantong City* (中國南通市第十四屆人民代表大會) from January 2012 to December 2016. Since August 2017, Mr. Wang has also held the position as the secretary of Jiangsu Pengfei branch of the Chinese Communist Party* (中國共產黨江蘇鵬飛集團股份有限公司黨委書記). Since December 2019, Mr. Wang has been acting as the Vice-chairman of the 7th Committee of the China Building Materials Machinery Industry Association* (中國建材機械工業協會).

Mr. Wang has received awards from various organisations as follows:

Name of organisations	Award	Year of award
China Building Materials Federation (中國建築材料聯合會)	National Building Materials Industry Reform and Opening-up Thirty Years Representative* (全國建材行業改革開放三十年代表人物)	March 2009
Jiangsu Provincial People's Government (江蘇省人民政府)	Provincial Model Worker* (省勞動模範)	April 2011
China Building Materials Machinery Industry Association* (中國建材機械工業協會)	"Eleven-Five" Building Materials Machinery Enterprise Leader* (「十一五」建材機械企業領軍人物)	July 2011
Nantong City People's Government (南通市人民政府)	2013 Nantong Private Economy "Distinguished Enterprise, Brand and Leader"* Leader of the Year (2013年南通民營經濟「名企、名品、名人」年度人物)	March 2014
Haian County Chinese Communist Party Committee (中國共產黨海安縣委員會); and Haian County People's Government (海安縣人民政府)	2016 Five-Star Entrepreneur* (二零一六年度五星級企業家)	January 2017
All China Federation of Trade Unions (中華全國總工會)	National Labor Medal* (全國五一勞動獎章)	April 2017
China Building Materials Machinery Industry Association* (中國建材機械工業協會)	Outstanding Entrepreneur in Building Materials and Machinery Industry for 40 Years since China's Reform and Opening-up* (中國改革開放40年建材機械行業優秀企業家)	November 2018

Mr. Wang was a director and the legal representative of the following companies which were incorporated in the PRC and were dissolved by way of deregistration, and the relevant details are as follows:

Company name	Date of deregistration
Zhongpeng Energy	18 May 2016
Strength Machinery	20 May 2016
Pengfei Machinery Equipment Research Institute	20 May 2016

As confirmed by Mr. Wang, the aforementioned companies were solvent at the time when they were deregistered and he is not aware of any actual or potential claim that has been or will be made against him or these companies as a result of their respective deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in the Prospectus.

* For identification purpose only

As at the date of this annual report, Mr. Wang was interested in a total of 207,444,000 Shares, representing approximately 41.49% of the total number of Shares in issue.

Mr. Zhou Yinbiao

Mr. Zhou Yinbiao (周銀標) ("**Mr. Zhou**"), aged 60, is an executive Director and vice-chairman of the Board. Mr. Zhou was appointed as our Director on 7 November 2018 and re-designated as our executive Director on 13 March 2019. Mr. Zhou is primarily responsible for overall management, production operation, internal management of the Group.

Mr. Zhou has more than 40 years experience in special equipment manufacturing industry. Prior to joining our Group, Mr. Zhou worked in Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) as a workshop deputy manager from July 1978 to March 1982 and subsequently the workshop manager from April 1982 to May 1994. Mr. Zhou then jointed our Group and served as the deputy plant manger from May 1994 to October 2001 and was later promoted as the deputy general manager from October 2001 to July 2002. Since August 2002, Mr. Zhou served as a director and the deputy general manager of our Group.

Mr. Zhou was awarded with the qualifications of senior economist and Mechanical Engineer by Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) in November 2017 and Nantong City Department of Human Resources and Social Security* (南通市人力資源和社會保障局) in November 2016 respectively. Mr. Zhou has also completed the advanced master of business administration training course at East China University of Science and Technology (華東理工大學) in March 2013, the international project management course at Sing-China Management Centre, Republic of Singapore in December 2009 and the building materials mechanical professional certificate training course organised by Yancheng Industrial Specialist School* (鹽城工業專科學校) and Jiangsu Province Building Materials Industry Bureau* (江蘇省建築材料工業局) in February 1996.

Mr. Zhou participated in the creation of "Rapidly Improve General Contracting Capacity Realize a New Leap in Internationalization Strategy"* 《(快速提升總承包能力實現國際化戰略新跨越》 and was awarded with The 16th Provincial First-Class Enterprise Management Modernization Innovation Achievement* (第十六屆省級一等企業管理現代化創新成果) as accredited by Jiangsu Province Enterprise Management Modernization Innovation Achievements Review Committee* (江蘇省企業管理現代化創新成果審定委員會) in January 2010. In addition, Mr. Zhou was regarded as "Eleven-Five" Building Materials Machinery Enterprise Leader* (「十一五」建材機械企業領軍人物) by China Building Materials Machinery Industry Association* (中國建材機械工業協會) in July 2011.

Mr. Zhou was also a member of The 19th Committee of Chinese National People's Congress of Dagong Town* (中國大公鎮第十九屆人民代表大會).

Mr. Zhou was a director and the legal representative of the following companies which were incorporated in the PRC and were dissolved by way of deregistration, and the relevant details are as follows:

Company name	Date of deregistration
Jiangsu Pengfei Grinding Equipment	29 November 2013
Pengfei Logistics	18 May 2016

As confirmed by Mr. Zhou, the aforementioned companies were solvent at the time when they were deregistered and he is not aware of any actual or potential claim that has been or will be made against him or these companies as a result of their respective deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in the Prospectus.

* For identification purpose only

Mr. Dai Xianru

Mr. Dai Xianru (戴賢如) ("**Mr. Dai**"), aged 61, was appointed as our Director on 7 November 2018 and re-designated as our executive Director on 13 March 2019. Mr. Dai is also the finance director of our Group. Mr. Dai is primarily responsible for overseeing the overall management, financial operations and internal administration of the Group.

Mr. Dai has more than 30 years experience in finance and accounting. Prior to joining our Group, Mr. Dai worked as the head of accounting of the then Jiangsu Yinong Fertilizer Group Company Limited* (江蘇益農肥料集團有限公司) (formerly known as Haian County Dagong Phosphate Fertilizer Plant* (海安縣大公磷肥工廠)) from January 1985 to February 1997. He then worked in the then Haian City Dagong Township Enterprises Service Centre* (海安市大公鎮企業服務中心) (formerly known as Haian County Dagong Town Enterprises Service Station* (海安縣大公鎮企業服務站) as a township industrial enterprises statistician from March 1997 to August 2001. Mr. Dai joined our Group and has served as the head of finance department since September 2001. Starting from August 2002, Mr. Dai has also served as a director of Jiangsu Pengfei. From December 2009 to January 2018, Mr. Dai was appointed as the manager of the auditor committee of the trade union of Jiangsu Pengfei.

Mr. Dai is a certified accountant in China as accredited by the PRC Ministry of Finance in October 1994. He also received the qualification as a senior economist from Jiangsu Province Department of Human Resources (江蘇省人事廳) in November 2006.

Mr. Dai was the supervisor of Jiangsu Pengfei Grinding Equipment, which was incorporated in the PRC and dissolved by way of deregistration on 29 November 2013. As confirmed by Mr. Dai, Jiangsu Pengfei Grinding Equipment was solvent at the time when it was deregistered and he is not aware of any actual or potential claim that has been or will be made against him or Jiangsu Pengfei Grinding Equipment as a result of such deregistration. For further information, please refer to the paragraph headed"Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in the Prospectus.

Mr. Ben Daolin

Mr. Ben Daolin (賁道林) ("**Mr. Ben**"), with former name Ben Daonian (賁道年), aged 54, joined our Group in February 1994, was appointed as our Director on 7 November 2018 and re-designated as our executive Director on 13 March 2019. Mr. Ben is responsible for overseeing the human resources and administrative management of the Group.

Mr. Ben has more than 30 years of experience in special equipment manufacturing industry. Prior to joining our Group, Mr. Ben worked in Haian County Building Equipment Manufacturing Plant* (海安縣建材設備製造總廠) as a technician and quality inspector from July 1984 to July 1988 and then was promoted as the quality office manager from July 1988 to May 1994. Thereafter, Mr. Ben joined our Group and served as the office manger from May 1994 to March 2002 and has been promoted as the supervisor and secretary to the board since March 2002.

Mr. Ben has obtained a number of professional qualifications, including a first level/senior technician as accredited by The Ministry of Human Resources and Social Security, the PRC (中華人民共和國人力資源和社會保障部) in November 2012; a senior economist as accredited by Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人事廳) in December 2008, the deputy secretary of the 2nd Committee of Haian County Building Materials Machinery Business Association* (海安縣建材機械業商會) as appointed in June 2013, a mechanical engineer as accredited by Nantong City Department of Human Resources and Social Security* (南通市人力資源和社會保障局) in August 2015; the secretary of Haian County Building Materials Machinery Business Association* (海安縣建材機械業商會) as appointed in October 2016; and a council member of the 5th Committee of Jiangsu Province Building Materials Industry Association* (江蘇省建材行業協會) as appointed in March 2018.

* For identification purpose only

Mr. Ben participating in editing several National Standards, including GB/T 329790-2016"Building Materials Mechanical Product Classification and Model Compilation Method"* 《建材機械產品分類及型號編制方法》, GB/T 35150.1-2017 "Technical Requirements for Complete Dry Process Cement Production Equipment – Part 1: Raw material preparation systems"* 《新型乾法水泥生產成套裝備技術要求第1部份：生料制備系統》, JC/T 405-2006 Conditioning tower for cement industry 《水泥工業用增濕塔》 and JC/T 406-2006 "Packing technical Conditions for cement machinery"* 《水泥機械包裝技術條件》.

Mr. Ben also received awards from various organisations, including the following:

Name of organisations	Award	Year of award
Jiangsu Province Enterprise Management Modernization Innovation Achievements Review Committee* (江蘇省企業管理現代化創新成果審定委員會)	Mr. Ben participated in the creation of "Rapidly Improve General Contracting Capacity Realize a New Leap in Internationalization Strategy"* (快速提升總承包能力實現國際化戰略新跨越) and was awarded with The 16th Provincial First-Class Enterprise Management Modernization Innovation Achievement* (第十六屆省級一等企業管理現代化創新成果)	January 2010
China Building Materials Machinery Industry Association* (中國建材機械工業協會)	"Eleven-Five" Building Materials Machinery Enterprise Leader* (「十一五」建材機械企業領軍人物)	July 2011
Jiangsu Province Enterprise Management Modernization Innovation Achievements Review Committee* (江蘇省企業管理現代化創新成果審定委員會)	Mr. Ben participated in the creation of "Private Building Materials Enterprises Adopting "One Belt, One Road" as the Orientation of International Strategic Management"* (民營建材企業以「一帶一路」為導向的國際化戰略管理) and was awarded with The 23rd Jiangsu Province First-Class Enterprise Management Modernization Innovation Achievement* (第二十三屆省企業管理現代化創新成果一等獎)	April 2017

Mr. Ben completed Building Materials Mechanical Professional Certificate from Yancheng Industrial Institute* (鹽城工業專科學校) in the PRC in February 1996.

Mr. Ben was a director of the following companies which were incorporated in the PRC and were dissolved by way of deregistration, and the relevant details are as follows:

Company name	Date of deregistration
Zhongpeng Energy	18 May 2016
Strength Machinery	20 May 2016

* For identification purpose only

As confirmed by Mr. Ben, the aforementioned companies were solvent at the time when they were deregistered and he is not aware of any actual or potential claim that has been or will be made against him or these companies as a result of their respective deregistration. For further information, please refer to the paragraph headed "Disposal of or deregistration of subsidiaries and associated companies by our Group during the Track Record Period" in the section headed "History, development and Reorganisation" in the Prospectus.

Independent non-executive Directors

Ms. Zhang Lanrong

Ms. Zhang Lanrong (張嵐嶸) ("**Ms. Zhang**"), with former name Zhang Lanrong (張蘭榮), aged 63, was appointed as an independent non-executive Director of the Company on 25 October 2019. She is responsible for providing independent judgment on the Group's strategy, performance and financial operation.

Ms. Zhang has more than 12 years of experience in building materials industry. Prior to joining our Group, Ms. Zhang has worked as the chief editor of "Jiangsu Building Materials"* 《江蘇建材》 magazine since January 2006. She was appointed as the secretary of the board of directors of China Jiangsu International Economic and Technical Cooperation Group Ltd. (中國江蘇國際經濟技術合作集團有限公司) from December 2015 to June 2017.

Ms. Zhang was previously elected as the secretary general of the 3rd committee, the vice-president of the 4th committee and the executive vice-president of the 5th Committee of the Jiangsu Province Building Materials Industry Association* (江蘇省建材行業協會) in June 2006, April 2012 and March 2018, respectively. Ms. Zhang was regarded as National Building Materials Association Advanced Worker by China Building Materials Industry Association* (中國建築材料工業協會) in June 2007.

Ms. Zhang was accredited by Jiangsu Provincial Department of Human Resources and Social Security* (江蘇省人力資源和社會保障廳) as a senior economist, senior international business executive and a senior political economist in November 2010, November 2011 and September 2013, respectively.

Ms. Zhang obtained a Bachelor's degree in Economics Management from Nanjing University of Science and Technology (南京理工大學) in the PRC in July 1995 and a certificate of the master's degree training course in Economics Management from Nanjing Agricultural University (南京農業大學) in the PRC in November 1998. She also completed a chief editor training course from Jiangsu Province Journal Association* (江蘇省期刊協會) in October 2011.

Mr. Ding Zaiguo

Mr. Ding Zaiguo (丁再國) ("**Mr. Ding**"), aged 56, was appointed as an independent non-executive Director of the Company on 25 October 2019. He is responsible for providing independent judgment on the Group's strategy, performance, financial operation and legal related matters.

Mr. Ding has more than 20 years of legal experience. He is currently a qualified lawyer in the PRC as accredited by the People's Republic of China Ministry of Justice Lawyer Qualification Review Committee* (中華人民共和國司法部律師資格審查委員會) in August 1996. He is also accredited by Nantong City Professional Lawyers Review Committee* (南通市律師專業評委) as a level four lawyer in July 1999 and obtained professional lawyer license from Jiangsu Province Judicial Department* (江蘇省司法廳) in October 1997. Prior to joining the Group, Mr. Ding worked as a lawyer and a deputy manager in Jiangsu Victory Law Firm* (江蘇維多利律師事務所) from March 1996 to May 2002. Since then, Mr. Ding has worked as the deputy manager in Jiangsu Bright Eyes Law Firm* (formerly known as Nantong Nanhai Law Firm* (南通南海律師事務所)) (江蘇慧眼律師事務所) and subsequently promoted as the manager in July 2017.

Mr. Ding obtained a Bachelor of Laws from Southeast University (東南大學) in the PRC in March 2005 through long distance learning course.

*   For identification purpose only

Mr. Mak Hing Keung, Thomas (麥興強)

Mr. Mak Hing Keung, Thomas (麥興強) ("**Mr. Mak**"), aged 57, was appointed as an independent non-executive Director of the Company on 25 October 2019. He is responsible for providing independent judgement on the Group's strategy, performance, resources and financial operations.

Mr. Mak has over 15 years experience in accounting and financial management. Mr. Mak is currently a member of the Canadian institute of Chattered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Prior to joining our Group, Mr. Mak worked in Ernst & Young for about 7 years. From October 1997 to May 2000, Mr. Mak worked as a manager in the listing division of Stock Exchange. From June 2000 to June 2001, Mr. Mak worked as a senior manager in the corporate finance department in Vickers Ballas. From June 2001 to January 2006, Mr. Mak worked as the chief financial officer of Bison Finance Group Limited (formerly known as RoadShow Holdings Limited) (Hong Kong stock code: 888). From February 2006 to October 2007, Mr. Mak worked as the chief financial officer of MMG Limited (formerly known as Minmetals Resources Limited) (Hong Kong stock code: 1208). From October 2007 to April 2010, Mr. Mak worked as the chief financial officer of Redgate Media (Hong Kong) Limited, a wholly owned subsidiary of Redgate Media Group. From May 2010 to April 2014, Mr. Mak worked as the chief financial officer of South China Media Group. Mr. Mak was the chief financial officer and the company secretary of China Shandong Hi-Speed Financial Group Limited (former known as Heritage International Holdings Limited, (Hong Kong stock code: 412) from October 2014 to May 2015. Mr. Mak then worked as the chief operations officer of HF Financial Group Limited from May 2015 to January 2017. Mr. Mak worked as an executive director of Millennium Pacific Group Holdings Limited (Hong Kong Stock Code: 8147) from May 2015 to July 2017. Also, Mr. Mak worked as a non-executive director of Cocoon Holdings Limited (formerly known as Huge China Holdings Limited) (Hong Kong stock code: 428) from July 2015 to November 2018. Mr. Mak has worked as chief financial officer of Fortunet E-Commerce Group Limited (Hong Kong stock code: 1039) from January 2017 to January 2020. Since then, Mr. Mak has worked as chief financial officer of M800 Limited. Mr. Mak has also been an independent non-executive director of Tao Heung Holdings Limited (Hong Kong stock code: 573) since June 2007 and was an independent non-executive director of China Greenfresh Group Co., Ltd. (Hong Kong stock code: 6183) from May 2015 to July 2018.

Mr. Mak obtained a bachelor degree of commerce from Queen's University, Canada in May 1989.

Senior Management

Mr. Shi Pengyu

Mr. Shi Pengyu (施鵬宇) ("**Mr. Shi**"), aged 35, joined our Group on 3 March 2018, and has been the general manager assistant of Jiangsu Pengfei since then. Mr. Shi is responsible for project management. Mr. Shi is the son-in-law of Mr. Wang.

Mr. Shi has more than 3 years of experience in materials procurement and production. Prior to joining our Group, Mr. Shi worked as a project manager in the production management department of Shanghai Zhenhua Heavy Industry Nantong Gearbox Plant* (上海振華重工南通齒輪箱廠) from June 2006 to July 2012. He subsequently joined the materials department of Nantong Acetate Fiber Co, Ltd.* (南通醋酸纖維有限公司) and worked in the maintenance department and materials department from August 2010 to March 2018.

He obtained a bachelor degree in electrical engineering and automation from Nanjing Normal University (南京師範大學) in the PRC in July 2008.

* For identification purpose only

Company Secretary

Ms. Chau Hing Ling (周慶齡)

Ms. Chau Hing Ling (周慶齡) ("**Ms. Chau**"), aged 45, was appointed our company secretary on 7 November 2018.

Ms. Chau joined Vistra Corporate Services (HK) Limited since June 2013 and now serves as a director of corporate services, where she leads a team of professional staff to provide a full range of corporate services and listed company secretary services. Prior to joining Vistra Corporate Services (HK) Limited, she was an associate director of corporate services of an international corporate services provider.

Ms. Chau has over 18 years of experience in the corporate services industry. She is currently the company secretary or joint company secretary of several companies listed on the Stock Exchange.

Ms. Chau received a master of laws degree majoring in corporate and financial law from The University of Hong Kong in November 2007. She has been a fellow member of The Charted Governance Institute (formerly known as the Institute of Chartered Secretaries) and Administrators and the Hong Kong Institute of Chartered Secretaries since May 2013.

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2019 (the "**Reporting Period**").

CORPORATE GOVERNANCE PRACTICES

The Shares have been listed on the Stock Exchange since 15 November 2019. The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the corporate governance code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. As the Company became listed on 15 November 2019, each of the Board committees, including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee did not convene any meeting during the Reporting Period. During the period from the Listing Date and up to 31 December 2019, the Board believes that the Company has fully complied with the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

(1) Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. All Board committees are provided with sufficient resources to perform their duties.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

(2) Directors' Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

(3) Board Composition

As at the date of this annual report, the Board comprises four executive Directors and three independent non-executive Directors.

Executive Directors
Mr. Wang Jiaan *(Chairman)*
Mr. Zhou Yinbiao
Mr. Dai Xianru
Mr. Ben Daolin

Independent non-executive Directors
Ms. Zhang Lanrong
Mr. Ding Zaiguo
Mr. Mak Hing Keung, Thomas

Mr. Wang Jiaan is the father-in-law of Mr. Shi Pengyu, a senior management of the Group.

Except as disclosed, there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Board members.

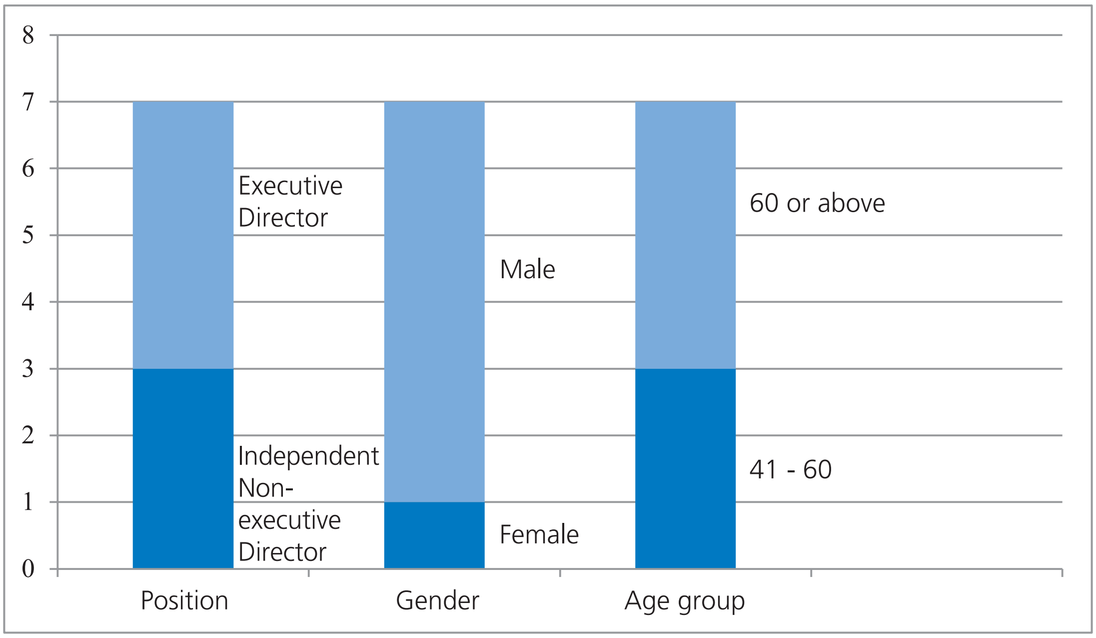
For the period from the Listing Date and up to the date of this annual report, the Board at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise and the appointment of independent non-executive Directors representing at least one-third of the Board. Among the three independent non-executive Directors, Mr. Mak Hing Keung, Thomas has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

(4) Board Diversity Policy

Pursuant to Rule 13.92 of the Listing Rules, the nomination committee (or the board) shall have a policy concerning diversity of board members, and shall disclose the policy on diversity or a summary of the policy in the corporate governance report. The policy specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to professional skills, regional and industry experience, knowledge, gender, age, cultural and educational background, ethnicity and length of service. The appointment of Directors will be based on meritocracy and potential contribution to the Board, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board.

The composition of the Board will be disclosed in the Corporate Governance Report every year and the Nomination Committee will supervise the implementation of this policy. The Nomination Committee will review the effectiveness of this policy, as appropriate, discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 27 to page 34 of this annual report.



The Nomination Committee has reviewed the structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain high standard of operation.

(5) Measurable Objectives

The Company aims to maintain an appropriate balance of diverse perspectives that are relevant to the Company's business growth. The Company is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. In particular, the Nomination Committee will identify and make recommendations to the Board to implement programmes that will assist in the development of a broader and more diverse pool of skilled and experienced employees that, in time, will prepare them for Board positions.

Set out below are the measurable objectives adopted by the Board for achieving diversity:

- at least one-third of the members of the Board shall be independent non-executive Directors;
- at least two members of the Board shall have obtained accounting, legal or other professional qualifications;
- at least 70% of the members of the Board shall have more than twenty years of experience in the industry he/she is specialised in; and
- at least four members of the Board shall have work experience in equipment manufacturing or building materials industry.

For the year ended 31 December 2019, the Board has fulfilled the measurable objectives of the Board diversity policy.

(6) Confirmation of Independence by the Independent Non-executive Directors

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

Except that Mr. Wang Jiaan (an executive Director) is the father-in-law of Mr. Shi Pengyu, a senior management of the Group, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship), with any other Director.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their respective identity of the public companies or organisations and the time involved to the issuer, the Directors have agreed to disclose, and already disclosed their commitments to the Company in a timely manner.

(7) Induction and Continuous Professional Development

Pursuant to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Pursuant to the code provision A.6.1 of the CG Code, each newly appointed Director should be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. During the period from the Listing Date and up to the date of this annual report, the Directors were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations.

All Directors, namely Mr. Wang Jiaan, Mr. Zhou Yinbiao, Mr. Dai Xianru, Mr. Ben Daolin, Ms. Zhang Lanrong, Mr. Ding Zaiguo and Mr. Mak Hing Keung, Thomas, have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

In compliance with the code provision A.6.5 of the Corporate Governance Code and to ensure compliance and enhance their awareness of good corporate governance practices, the Directors received the following training during the Reporting Period:

	Continuing obligations and post-listing compliance matters under Listing Rules	
	Reviewed materials	**Attended Seminars/Briefings**
Executive Directors:		
Mr. Wang Jiaan (王家安)	√	√
Mr. Zhou Yinbiao (周銀標)	√	√
Mr. Dai Xianru (戴賢如)	√	√
Mr. Ben Daolin (賁道林)	√	√
Independent Non-executive Directors:		
Ms. Zhang Lanrong (張嵐嶸)	√	–
Mr. Ding Zaiguo (丁再國)	√	–
Mr. Mak Hing Keung, Thomas (麥興強)	√	–

Prior to the listing of the Company, each of the aforesaid Directors have attended the training courses conducted by the legal adviser of the Company. The content of such training related to the duties of directors and on-going obligations of listed companies.

The Directors are asked to submit a signed training record to the Company on an annual basis.

(8) Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Mr. Wang Jiaan is the chairman of the Board. After Listing, the day-to-day management, administration and operation of the Company are delegated to all of the executive Directors. Therefore, there is no issue of the role of the chairman of the Board and the chief executive officer of the Group being performed by the same individual and leading to power being concentrated in any one individual. Each of the Board members has no financial, business, family or other material/relevant relationships with each other.

The Board and the senior management, which comprises experienced and high calibre individuals, can ensure the balance of power and authority. As at the date of this annual report, the Board comprises four executive Directors and three independent non-executive Directors.

(9) Appointment and Re-Election of Directors

Each of Mr. Wang Jiaan, Mr. Zhou Yinbiao, Mr. Dai Xianru and Mr. Ben Daolin, being the executive Directors, has entered into a service agreement with the Company. The initial term of their service agreements is three years commencing from the Listing Date, which may be terminated in accordance with the provisions of the service agreement or by not less than three months' notice in writing served by either party on the other. Save for the amount of Directors' remuneration, particulars of the service agreements of the executive Directors are in all material respects the same.

Each of Ms. Zhang Lanrong, Mr. Ding Zaiguo and Mr. Mak Hing Keung, Thomas, being the independent non-executive Directors, has entered into a letter of appointment with the Company for a fixed term of three years commencing from the Listing Date. The appointments are subject to the provisions of retirement by rotation of Directors under the Articles of Association.

Save as disclosed above, none of the Directors has entered into any Director's service agreement or letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for election by Shareholders at the first general meeting of the Company after appointment and any new Director appointed by the Board as an addition to the existing Board shall submit himself/herself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring and making recommendations to the Board on the appointment, re-election and succession planning of Directors, in particular the chairman of the Board and the chief executive officer of the Company.

(10) Board Meetings and Committee Meetings

The Company became listed on 15 November 2019. The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Each of the Nomination Committee, the Remuneration Committee and the Investment Committee shall meet at least once every year and the Audit Committee shall meet at least twice a year. Notices of not less than 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the intended date of the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or the committee members prior to the meeting. Minutes of meetings are kept by the Company Secretary with copies circulated to relevant Board or Board committee for comments and records.

Minutes of the Board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Board or committee members and dissenting views expressed. Draft minutes of each Board meeting and committee meeting are sent to the relevant Board or committee members for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by Directors.

Apart from the regular Board Meetings, the chairman of the Board also held a meeting on 31 March 2020 with all independent non-executive Directors without the presence of executive Directors.

Since the Listing Date and up to the date of this annual report, 3 board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Wang Jiaan (Chairman and Executive Director)	3/3
Mr. Zhou Yinbiao (Executive Director)	3/3
Mr. Dai Xianru (Executive Director)	3/3
Mr. Ben Daolin (Executive Director)	3/3
Ms. Zhang Lanrong (Independent Non-executive Director)	3/3
Mr. Ding Zaiguo (Independent Non-executive Director)	3/3
Mr. Mak Hing Keung, Thomas (Independent Non-executive Director)	3/3

(11) Model Code for Securities Transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 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 since the Listing Date and up to 31 December 2019.

(12) Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board to ensure that they remain appropriate to the Company's needs. Approval has to be obtained from the Board prior to any significant transactions entered into by the management on the Company's behalf.

(13) Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and has delegated the corporate governance duties to the Audit Committee which include:

(a) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Group;

(c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and

(e) to review the Group's compliance with the CG Code from time to time adopted by the Group and the disclosure in the Corporate Governance Report to be contained in the Company's annual reports.

BOARD COMMITTEES

(1) Nomination Committee

We established a Nomination Committee on 25 October 2019 with its written terms of reference in compliance with the Listing Rules. The written terms of reference of Nomination Committee are available on the respective websites of the Stock Exchange and the Company. As at the date of this annual report, the Nomination Committee currently comprises four members including Mr. Wang Jiaan, an executive Director, and three independent non-executive Directors, namely Ms. Zhang Lanrong, Mr. Ding Zaiguo and Mr. Mak Hing Keung, Thomas. The majority of the committee members are independent non-executive Directors. Mr. Wang Jiaan is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include the followings:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;
- to assess the independence of independent non-executive Directors;
- to develop a policy concerning diversity of Board members, and disclose the policy or a summary of the policy in the corporate governance report.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

Due to the fact that the Company was listed on 15 November 2019, no Nomination Committee meeting was held during the Reporting Period.

One meeting of the Nomination Committee was held on 31 March 2020 and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Wang Jiaan (Chairman)	1/1
Ms. Zhang Lanrong	1/1
Mr. Ding Zaiguo	1/1
Mr. Mak Hing Keung, Thomas	1/1

In the meeting, the Nomination Committee reviewed and discussed the policy, procedure and criteria for nomination of the Directors, reviewed and discussed the Board diversity policy and discussed all measurable objectives set for implementing the Board diversity policy and the progress made towards meeting the measurable objective in the policy, assessed the independence of independent non-executive Directors, considered the re-appointment of the retiring Directors, reviewed the time commitment required from the Directors and fulfilled duties as required aforesaid.

(2) Nomination Policy

The Nomination Committee is authorised by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive. When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity, experience and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities will be taken into consideration as a whole. In the case of independent non-executive directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to professional skills, regional and industry experience, knowledge, gender, age, cultural and educational background, ethnicity and length of service would be considered in accordance with the Board diversity policy adopted by the Board.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the Shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The nomination policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Committee will review this policy from time to time, and monitor the implementation of this policy, to ensure its effectiveness.

(3) Remuneration Committee

We established a Remuneration Committee on 25 October 2019 with its written terms of reference in compliance with the Listing Rules. The written terms of reference of Remuneration Committee are available on the respective websites of the Stock Exchange and the Company. As at the date of this annual report, the Remuneration Committee currently comprises three members including Mr. Dai Xianru, an executive Director, and two independent non-executive Directors, namely Mr. Ding Zaiguo and Ms. Zhang Lanrong. The majority of the committee members are independent non-executive Directors. Mr. Ding Zaiguo is the chairman of the Remuneration Committee.

The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Listing Rules (i.e. make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group).

The principal duties of the Remuneration Committee include the followings:

- to make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual executive directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- to make recommendations to the Board on the remuneration of non-executive directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no director or any of his/her associates is involved in deciding his/her own remuneration.

Due to the fact that the Company was listed on 15 November 2019, no Remuneration Committee meeting was held during the Reporting Period.

One meeting of the Remuneration Committee was held on 31 March 2020 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Ding Zaiguo (Chairman)	1/1
Mr. Dai Xianru	1/1
Ms. Zhang Lanrong	1/1

In the meeting, the Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, assessed performance of executive Directors, made recommendations to the Board on the remuneration packages of individual executive Directors and senior management and fulfilled duties as required aforesaid.

Details of the remuneration by band of the members of the senior management of the Company for the year ended 31 December 2019 are set out below:

Remuneration by band	**Number of individual**
Nil to HK$1,000,000	1

(4) Audit Committee

We established an Audit Committee on 25 October 2019 with its written terms of reference in compliance with the Listing Rules. The written terms of reference of Remuneration Committee are available on the respective websites of the Stock Exchange and the Company. As at the date of this annual report, the Audit Committee currently comprises three members and all are independent non-executive Directors, namely Mr. Mak Hing Keung, Thomas, Ms. Zhang Lanrong and Mr. Ding Zaiguo. Mr. Mak Hing Keung, Thomas is the chairman of the Audit Committee.

The main duties of the Audit Committee include the following:

Relationship with the external auditor

- to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

- to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally;

- to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

- to monitor the integrity of financial statements of the Company and the Company's annual report and accounts and half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained therein. In reviewing these reports before submission to the Board, focusing particularly on:

  (a) any changes in accounting policies and practices;

  (b) major judgemental areas;

  (c) significant adjustments resulting from the audit;

  (d) going concern assumptions and any qualifications;

  (e) compliance with accounting standards; and

  (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

  in regard to the duties under the above paragraph,

  1. the members of the Audit Committee should liaise with the Board and senior management of the Company;

2. the Audit Committee must meet, at least twice a year, with the external auditor of the Company; and

3. the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's the financial reporting system and internal control procedures

- to review the Company's financial controls, internal control and risk management systems;

- to discuss the internal control system with management and to ensure that management has performed its duty to have an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial functions;

- to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- where an internal audit function exists, to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

- to review the Group's financial and accounting policies and practices;

- to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

- to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- to report to the Board on the matters set out in the CG Code in Appendix 14 of the Listing Rules;

- to consider other matters, as required by the Board, to be performed by the Audit Committee.

Others

- to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

- to act as the key representative body for overseeing the Company's relations with the external auditor;

- where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken different view;

- to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;

- to perform the Company's corporate governance functions;

- to review and monitor the training and continuous professional development of directors and senior management of the Company;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report of the Company.

Due to the fact that the Company was listed on 15 November 2019, no Audit Committee meeting was held during the Reporting Period.

Two meetings of the Audit Committee were held on 31 March 2020 and 27 April 2020, respectively, and the attendance record of the Audit Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Mak Hing Keung, Thomas (Chairman)	2/2
Ms. Zhang Lanrong	2/2
Mr. Ding Zaiguo	2/2

In the meeting, the Audit Committee reviewed the Group's policies on corporate governance and discussed the same with the Board, reviewed the financial reporting system, compliance procedures, internal control and risk management systems (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions) and associated processes and the reappointment of the external auditor and fulfilled duties as required aforesaid. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

The Audit Committee also reviewed the annual results of the Company and its subsidiaries for the year ended 31 December 2019 as well as the audit report prepared by the external auditor relating to accounting issues and major findings in the course of audit.

There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

(5) Investment Committee

We established an Investment Committee on 25 October 2019 with its written terms of reference which are available on the respective websites of the Stock Exchange and the Company. As at the date of this annual report, the Investment Committee currently comprises four members and all are executive Directors, namely Mr. Wang Jiaan, Mr. Zhou Yinbiao, Mr. Dai Xianru and Mr. Ben Daolin. Mr. Dai Xianru is the chairman of the Investment Committee.

The principal duties of the Investment Committee include the followings:

- to control, review and approve any investment or subscription of financial products and other types of investments initiated by our finance department and undertaken by the Group;
- to study and make recommendations to the Board on the major investment and financing solutions;

- to study and make recommendations to the Board on the major capital investment and assets management;
- to study and make recommendation to the Board on other significant investment matters which may have effect on the development of the Company;
- to supervise the implementation of the above-mentioned matters duly approved by the Board; and
- other matters as delegated by the Board.

Their written terms of reference are available on the respective website of the Stock Exchange and the Company.

Due to the fact that the Company was listed on 15 November 2019, no Investment Committee meeting was held during the Reporting Period.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2019 which give a true and fair view of the affairs of the Company and its results and cash flows.

The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the external auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its responsibility to ensure the Company establishes internal control system within the Group and to assess its effectiveness. In accordance with applicable laws and regulations, we have established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, connected transactions, anti-bribery and anti-corruption, legal matters, finance and auditing, as appropriate for the needs of the Company. We have established comprehensive risk management, primarily composed of departments specialized in auditing, finance, safety and quality, investment and legal matters and other functional management departments, through which we monitor, evaluate and manage risks related to work safety, financial matters, market development, capital management, human resources and other matters that we are exposed to in our business activities. We plan to review and refine our risk management system regularly, based on changes to our business. Our senior management oversees our risk management systems and reviews the results of our annual risk assessment. Our risk assessment is conducted by a number of risk management departments within our Group. These departments conduct annual risk evaluations and regular risk management and controls, and report to senior management about material findings, in a timely manner. We also run training programs for our risk management personnel each year in order to enhance their overall risk management ability and knowledge.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to manage and mitigate risks inherent in the Group's business to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Board, on the basis of the target setting, identifies the risks in the process of internal control through daily and regular assessment procedures and methods, classifies the risks and prepares the Company's risk list. The Company understands its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the SFO safe harbours. Meanwhile, the Company has set up an inside information management system, the insider internal reporting obligations, reporting procedures and liability of disclosure of information of the personnel concerned has been clearly stated, and the Company shall arrange self-examination in a timely manner in accordance with the provisions of the relevant regulatory authorities. The real-time monitoring performed by the Company may involve the inside information, and should organize intermediary agencies to determine whether the information belongs to an inside information and practical, if it has fulfilled the disclosure requirements, will soon organize the disclosure and will strictly control the scope of the monitoring before the disclosure, the volatility of share price will be monitored until the disclosure of inside information is completed; if the disclosure requirements are not satisfied, the Company will also maintain strict confidentiality. The main functions of the risk management and internal control systems are to safeguard assets, to ensure proper maintenance of accounting records and provide reliable financial reporting, and to ensure compliance with relevant legislation and regulations.

The Company will review the internal control and risk management system once a year. During the Reporting Period, the Board has reviewed the effectiveness of the internal control and risk management systems of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards, and confirmed its effectiveness and appropriateness. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions. Based on information furnished to it and on its own observations, the Board believes that the existing internal control system is adequate and effective, in particular, from financial reporting and Listing Rules compliance perspectives.

The Shares were listed on the Stock Exchange on 15 November 2019, therefore, the Company has not set up the internal audit function during the Reporting Period. The Company established an internal audit function on 31 March 2020, and it is performed by the Internal Audit and Risk Department. It is responsible for conducting independent reviews of the appropriateness and effectiveness of the Company's internal control and risk management system. It also assesses the risks inherent in particular business or functional areas, including fraud or corruption, and conducts reviews or audits to provide reasonable, though not absolute, assurance that adequate governance and controls are in place to address such risks.

AUDITOR'S REMUNERATION

Audit fees of the Group for the year ended 31 December 2019 payable to the external auditors were approximately RMB3.1 million, and the Group incurred approximately RMB3.2 million in 2019 for non-audit services related to the Listing.

COMPANY SECRETARY

In compliance with Rule 3.29 of the Listing Rules, Ms. Chau Hing Ling undertook not less than 15 hours of relevant professional training to update her skills and knowledge during the Reporting Period.

GENERAL MEETING

The Company became listed on 15 November 2019. No general meeting was held after the Listing and up to the date of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Shareholders and potential investors on the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for Shareholders to communicate directly with the Directors. The chairman of the Board, the chairmen of the Board Committees will attend the annual general meeting of the Company to answer Shareholders' questions. The external auditors of the Company will also attend the annual general meeting of the Company to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at http://pengfei.com.cn/, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. The Board will review the Shareholders' communication policy regularly to ensure its effectiveness.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed by the chairman of that meeting for each substantially separate issue at Shareholder meetings, including nomination and election of individual directors.

All resolutions put forward at Shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each Shareholder meeting in accordance with the Listing Rules.

(1) Procedures for Shareholders to convene an extraordinary general meeting

In accordance with Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(2) Procedures for putting forward proposals at general meeting

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Companies Law of the Cayman Islands. However, Shareholders who wish to propose resolutions may follow Article 64 of the Articles for requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures of Article 64 of the Articles are set out above.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

(3) Enquiries to the Board

Shareholders and investors may send written enquiries or requests to the Company as follows:

Address: Benjiaji, Northern Suburb, Haian City, Jiangsu Province, the PRC
Attention: Mr. Ben Daolin
Tel: +86-513-88758898
Fax: +86-513-88755315
Enquiries will be dealt with in a timely and informative manner.

DIVIDEND POLICY

The Group is committed to sharing its development and achievements with Shareholders through proactive, stable and sustainable dividend policy. The declaration, payment and amount of dividends in respect of any particular financial year will be subject to the discretion of our Board, taking into consideration factors including results of operations, cash flows and financial position of the Group, statutory and regulatory restrictions on the dividends paid by the Group, future prospects and other factors which the Board consider relevant. The Group expects to pay a dividend of no less than 30% of the profit after tax upon Listing each year. The proposed payment of dividends is also subject to the approval of our Shareholders. The Board will review the dividend policy on an annual basis.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles has been amended and restated with effect from the Listing Date, and are available on the respective websites of the Stock Exchange and the Company.

Save as disclosed above, there is no other change in constitutional documents of the Company during the Reporting Period.

TO THE SHAREHOLDERS OF CHINA PENGFEI GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China PengFei Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 56 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction of production line	
We identified the revenue recognition on construction of production line as a key audit matter due to its significance to the consolidated financial statements, and the requirement of significant estimations in determining the stage of completion. As disclosed in note 5, revenue from construction of production line is recognised as a performance obligation satisfied over time and based on the stage of completion of the contract using the input method. In determining the stage of completion of each construction of production line, the management of the Group has relied on past experience and knowledge of project engineers employed by the Group. During the year ended 31 December 2019, the Group has recognised revenue amounting to RMB482,450,000 from construction of production line contracts as disclosed in note 6 to the consolidated financial statements, represented 32.9% of the total revenue of the Group.	Our procedures in relation to the revenue recognition on construction of production line included: • Evaluating the design and implementation of key controls relating to budget preparation and updates, margin and revenue recognition on construction of production line; • Evaluating and challenging the reasonableness and the basis in determining the estimated total contract costs as at 31 December 2019 and assessing the budget or revised budget by checking to agreements, the contract terms and conditions with customers and sub-contractors and historical accuracy of the estimates of total budget costs; • Checking contract costs incurred during the year and up to 31 December 2019 by tracing to supporting documents, including the goods delivery documents of the Group's equipment delivered to site of production line and written confirmation on subcontracting costs incurred from third party sub-contractors, and reviewing the contract terms conditions, on a sample basis; and • Evaluating the stage of completion by visiting, on a sample basis, the sites of production line to physically inspecting the production line under construction, enquiring with the site personnel for the extent to which the construction work was completed and identifying any areas of unusual deviations.

Key Audit Matters (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Impairment losses on trade receivables and contract assets	
We identified the impairment losses on trade receivables and contract assets as a key audit matter due to the significance of trade receivables and contract assets to the consolidated financial statements, and the use of judgement by the management in evaluating the impairment of trade receivables and contract assets. As disclosed in notes 4, 5 and 35, the Group measures impairment loss allowance on trade receivables and contract assets based on lifetime expected credit losses (the "ECL"). The ECL on trade receivables and contract assets are assessed on an individual basis for customers with (1) high credit risk or (2) significant balances with different credit period and the remaining is collectively using provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. As at 31 December 2019, the Group's carrying amount of trade receivables and contract assets amounted to RMB370,346,000 and RMB54,640,000, net of impairment loss allowance for trade receivables and contract assets amounting to RMB18,881,000 and RMB4,006,000 as disclosed in notes 22 and 18 to the consolidated financial statements, represented 15.3% and 2.3% of the total assets of the Group, respectively.	Our procedures in relation to the impairment losses on trade receivables and contract assets included: • Evaluating the design and implementation of key controls relating to estimate the ECL of trade receivables and contract assets; • Assessing the management of the Group's identification and evaluation of individually assessed trade receivables, and the reasonableness of the Group management's grouping of remaining trade debtors into different categories in the provision matrix; • Testing the appropriateness of trade receivables' ageing report as at 31 December 2019, on a sampling basis, by comparing individual items in the ageing report with the relevant supporting documents, including the sale agreements and/or other supporting documents; • Assessing the reasonableness of the management's basis in determining the credit rating for and the corresponding loss rates applied to each individually assessed debtor. For trade receivables with securities and guarantee obtained, assessing the management's approach on the estimation of the fair value of the securities and guarantee in deriving the loss given default amount; and • Assessing the reasonableness of the management's basis in determining the weighted average loss rates applied in each category in the provision matrix.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors of the Company and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tse Ming Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	**1,465,464**	1,016,201
Cost of sales and services		**(1,149,670)**	(799,836)
Gross profit		**315,794**	216,365
Other income	7	**3,003**	27,332
Other gains and losses	8	**6,405**	8,324
Selling and distribution expenses		**(108,892)**	(74,749)
Administrative expenses		**(47,186)**	(41,557)
Research expenditure		**(46,600)**	(32,377)
Impairment losses on trade and other receivables and contract assets, net of reversal		**(8,990)**	(2,514)
Listing expenses		**(15,731)**	(11,772)
Finance costs	9	**(589)**	(1,204)
Profit before tax	10	**97,214**	87,848
Income tax expense	11	**(17,309)**	(14,532)
Profit and total comprehensive income for the year		**79,905**	73,316
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**78,935**	72,506
– Non-controlling interests		**970**	810
		79,905	73,316
Earnings per share	14		
– Basic (RMB cent)		**20.18**	19.33
– Diluted (RMB cent)		**20.18**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	190,851	212,184
Investment properties	16	12,846	14,001
Intangible assets		70	109
Right-of-use assets	17	40,314	40,005
Deposits paid for acquisition of property, plant and equipment		9,584	–
		253,665	266,299
CURRENT ASSETS			
Inventories	21	690,047	419,135
Trade, bills and other receivables	22	746,144	578,403
Contract assets	18	54,640	66,424
Contract costs	19	14,990	12,724
Value-added tax recoverable		14,017	3,497
Prepayments to suppliers		155,527	92,364
Financial assets at fair value through profit or loss ("FVTPL")		–	3,426
Restricted bank deposits	25	12,211	13,597
Bank balances and cash	25	486,445	233,881
		2,174,021	1,423,451
CURRENT LIABILITIES			
Trade, bills and other payables	26	638,418	668,621
Contract liabilities	27	1,241,038	692,381
Amount due to a related party	24B	–	817
Dividends payable		–	19,270
Tax payable		455	5,114
		1,879,911	1,386,203
NET CURRENT ASSETS		294,110	37,248
TOTAL ASSETS LESS CURRENT LIABILITIES		547,775	303,547

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019	2018
		As at 31 December	
		RMB'000	RMB'000
CAPITAL AND RESERVES			
Share capital	28	4,504	51,386
Share premium		208,617	–
Reserves		325,350	245,585
Equity attributable to owners of the Company		538,471	296,971
Non-controlling interests		(94)	(1,064)
TOTAL EQUITY		538,377	295,907
NON-CURRENT LIABILITY			
Deferred tax liabilities	20	9,398	7,640
		547,775	303,547

These consolidated financial statements on pages 56 to 127 were approved and authorised for issue by the board of directors on 27 April 2020 and are signed on its behalf by:

Mr. Wang Jiaan
DIRECTOR

Mr. Dai Xianru
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company							
	Paid-in/ share capital	Share premium	Capital surplus reserve	Other reserve	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (note a)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	88,702	–	71,010	–	306,240	465,952	(1,521)	464,431
Profit and total comprehensive income for the year	–	–	–	–	72,506	72,506	810	73,316
Transferred to capital surplus reserve	–	–	19,460	–	(19,460)	–	–	–
Dividends recognised as distribution (note 13)	–	–	–	–	(201,854)	(201,854)	–	(201,854)
Effect of Group Reorganisation (note b)	(37,316)	–	–	319	–	(36,997)	–	(36,997)
Deemed distributions to shareholders (note c)	–	–	–	–	(3,739)	(3,739)	–	(3,739)
Partial disposal of equity interest of a subsidiary to non-controlling interests (note d)	–	–	–	956	–	956	(306)	650
Capital contribution from non-controlling shareholders to a subsidiary (note d)	–	–	–	147	–	147	(47)	100
At 31 December 2018	51,386	–	90,470	1,422	153,693	296,971	(1,064)	295,907
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**78,935**	**78,935**	**970**	**79,905**
Waiver of amount due to a related party (note 24(B))	**–**	**–**	**–**	**830**	**–**	**830**	**–**	**830**
Transferred to capital surplus reserve	**–**	**–**	**18,720**	**–**	**(18,720)**	**–**	**–**	**–**
Effect of re-denomination of shares capital (note 28(i))	**(50,922)**	**50,922**	**–**	**–**	**–**	**–**	**–**	**–**
Capitalisation issue (note 28(ii))	**2,921**	**(2,921)**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of new shares upon Listing (as defined in note 2) (note 28(iii))	**1,119**	**175,657**	**–**	**–**	**–**	**176,776**	**–**	**176,776**
Cost of issuing new shares	**–**	**(15,041)**	**–**	**–**	**–**	**(15,041)**	**–**	**(15,041)**
At 31 December 2019	**4,504**	**208,617**	**109,190**	**2,252**	**213,908**	**538,471**	**(94)**	**538,377**

Notes:

a: In accordance with the articles of association of the subsidiaries established in the People's Republic of China ("the PRC"), the subsidiaries are required to transfer at least 10% of their profit after tax in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC before any distribution of dividends to owner each year to capital surplus reserve until the reserve reaches 50% of their respective registered capital. The capital surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries. Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) ("Jiangsu Pengfei") had made voluntary contribution to capital surplus reserve when the reserve reaches 50% of its registered capital.

b: On 8 September 2018, as a step of the Group Reorganisation (as defined in note 1), Jiangsu Pengfei Group Nantong Heavy Equipment Company Limited* (江蘇鵬飛集團南通重型設備有限公司) ("Heavy Equipment PRC"), acquired an aggregate of 6.5341% and 8.0894%, respectively, equity interests of Jiangsu Pengfei from 38 individual shareholders of Jiangsu Pengfei and Mr. Wang (as defined in note 1) for an aggregate cash consideration of RMB36,997,000. The difference of the consideration and the amount of the paid-in capital of Jiangsu Pengfei prior to the completion of the Group Reorganisation in the amount of RMB319,000, had been credited to other reserve.

c: In respect of Heavy Equipment PRC's acquisition of 6.5341% and 8.0894% equity interests of Jiangsu Pengfei from 38 individual shareholders of Jiangsu Pengfei and Mr. Wang, individual income tax totalling RMB3,739,000 imposed on the 38 individual shareholders and Mr. Wang were borne by the Group and was therefore accounted as deemed distributions to them, accordingly.

d: Pursuant to shareholders' resolution of Jiangsu Pengfei Group Haian Construction Equipment Company Limited* (江蘇鵬飛集團海安建材設備有限公司) ("Pengfei Equipment") dated 1 September 2018, Jiangsu Pengfei transferred an aggregate of 6.43% equity interest in Pengfei Equipment to 9 individual shareholders of Pengfei Equipment at a cash consideration of RMB650,000. Pursuant to the same shareholders' resolution, an independent third party contributed RMB100,000 to Pengfei Equipment and the Group's equity interest in Pengfei Equipment had been further diluted by 0.65% and the Group's equity interest in Pengfei Equipment, since then, decreased from 73.21% to 66.13%, accordingly.

* English name is for identification purpose only.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**97,214**	87,848
Adjustments for:		
Finance costs	**589**	1,204
Bank interest income	**(738)**	(889)
Interest income from independent third parties	**(35)**	(658)
Other investment gain	**(6,506)**	(3,438)
Depreciation of property, plant and equipment	**4,254**	5,751
Depreciation of investment properties	**1,155**	1,459
Amortisation of intangible assets	**22**	9
Depreciation of right-of-use assets	**90**	121
Amortisation of contract costs	**5,560**	6,289
Gain on disposal of property, plant and equipment	**(214)**	(248)
Impairment losses on trade and other receivables and contract assets, net of reversal	**8,990**	2,514
Net foreign exchange loss (gain)	**292**	(3,512)
Operating cash flows before movements in working capital	**110,673**	96,450
Increase in inventories	**(238,992)**	(139,573)
Increase in trade, bills and other receivables	**(188,151)**	(150,484)
Decrease (increase) in contract assets	**10,278**	(21,900)
Increase in contract costs	**(7,826)**	(9,118)
(Increase) decrease in value-added tax recoverable	**(10,520)**	9,076
Increase in prepayments to suppliers	**(63,163)**	(13,859)
(Decrease) increase in trade, bills and other payables	**(20,981)**	142,805
Increase in contract liabilities	**548,657**	88,513
Cash generated from operations	**139,975**	1,910
PRC Enterprise Income Tax paid	**(20,210)**	(9,851)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**119,765**	(7,941)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**398**	438
Net cash inflow arising from disposal of subsidiaries	**–**	5,000
Placement of restricted bank deposits	**(112,867)**	(202,755)
Withdrawal of restricted bank deposits	**114,253**	237,016
Purchase of and deposits paid for property, plant and equipment	**(23,794)**	(9,933)
Purchase of intangible assets	**(140)**	–
Upfront payments for right-of-use assets	**(1,057)**	(10,010)
Consideration paid for the acquisition of assets through acquisition of a subsidiary (note 29)	**–**	(6,659)
Bank interest received	**738**	889
Interest income from independent third parties	**35**	658
Purchase of financial assets at FVTPL	**(703,400)**	(459,000)
Disposal of financial assets at FVTPL	**713,332**	763,612
Loan to independent third parties	**–**	(28,449)
Repayment received from loan to independent third parties	**8,449**	29,208
Advance to related parties	**–**	(2,825)
Repayments received from advance to related parties	**–**	2,837
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(4,053)**	320,027
FINANCING ACTIVITIES		
Repayments of bank borrowing	**–**	(3,000)
Interest paid	**(1,332)**	(464)
Issue of shares of the Company	**176,776**	37,663
Loan received from independent third parties (notes 24(A) and 26)	**2,046**	23,543
Repayments of loan from independent third parties	**(10,038)**	(6,720)
Advance from related parties	**–**	817
Repayments of lease liabilities	**(19)**	(19)
Issue cost paid	**(11,975)**	(2,322)
Capital contribution from a non-controlling shareholder	**–**	100
Cash paid for Group Reorganisation	**–**	(36,997)
Deemed distribution to shareholders as part of the Group Reorganisation	**–**	(3,739)
Dividend paid	**(19,270)**	(184,883)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**136,188**	(176,021)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**251,900**	136,065
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**233,881**	96,589
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**664**	1,227
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**486,445**	233,881

1. CORPORATE INFORMATION

China PengFei Group Limited (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 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 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.

Pursuant to a group reorganisation as detailed below, which was completed on 8 September 2018, the Company became the holding company of the entities now comprising the Group.

Prior to the completion of the Group Reorganisation as detailed in note 2, 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 holding approximately 41.49% of the equity interests of the Company. PF International Group Limited ("PF International"), an investment holding company incorporated in the BVI with limited liability on 27 November 2017, and PF Global Limited ("PF Global"), an investment holding company incorporated in the BVI with limited liability on 27 November 2017, holding 24.39% and 9.12%, respectively, of the equity interest of the Company. Ambon was wholly owned by Mr. Jiaan Wang ("Mr. Wang", or the "Controlling Shareholder"). PF International and PF Global were owned by 7 and 31 individual shareholders, respectively.

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

2. GROUP REORGANISATION, BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB").

Prior to the completion of the group reorganisation ("Group Reorganisation"), the principal businesses of the Group had been operated by Jiangsu Pengfei and its subsidiaries. Historically, all the entities comprising the Group's businesses were controlled by the Controlling Shareholder. The shareholding structure of all the entities comprising the Group's businesses were the same before and after the completion of Group Reorganisation.

In preparation for the initial public offering and listing of the shares of the Company on the Stock Exchange ("Listing"), the Group underwent the Group Reorganisation as described below.

The major steps of Group Reorganisation comprised the following steps:

- On 31 July 2017, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of RMB600,000,000 divided into 600,000,000 shares of RMB1 each. As at the date of its incorporation, the initial subscribing shareholder transferred the one issued share to Ambon at par, and allotted and issued 51,385,899 shares to Ambon at par. The Company was owned as to 100% by Ambon. Out of the total capital contribution of RMB51,386,000, the Company received RMB18,843,000 and RMB18,820,000 in cash in April and May 2018, respectively, and the outstanding balance of RMB13,723,000 was offset against the Group's amounts due to shareholders (detailed in notes 24, 26 and 36) during the year ended 31 December 2018;

2. GROUP REORGANISATION, BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

- On 2 August 2017 and 11 August 2017, the Company incorporated its wholly-owned subsidiaries, including PengFei Holdings Limited ("Pengfei BVI") and China Heavy Equipment Engineering Limited* (中國重器工程有限公司) ("Heavy Equipment HK"), respectively;

- On 20 December 2017, Ambon transferred 32.5192% and 12.1631% equity interest of the Company to PF International and PF Global at a consideration of RMB16,710,000 and RMB6,250,000, respectively. Upon completion of the transfer, the Company was owned as 55.3177%, 32.5192% and 12.1631% by Ambon, PF International and PF Global, respectively;

- On 14 March 2018, Heavy Equipment HK made capital contribution of US$8,200,000 (equivalent to RMB51,828,000) to Heavy Equipment PRC. On the same date, the sole shareholder of Heavy Equipment PRC prior to the capital contribution entered into an equity transfer agreement with Heavy Equipment HK, pursuant to which the then sole shareholder of Heavy Equipment PRC transferred its entire equity interest of Heavy Equipment PRC to Heavy Equipment HK at a cash consideration of US$1,360,000 (equivalent to RMB8,596,000). Upon completion of the transfer, Heavy Equipment PRC became a wholly-owned subsidiary of Heavy Equipment HK;

- On 22 August 2018, PF International and PF Global transferred 293 shares and 109 shares of the Company (equivalent to 0.0006% and 0.0002% of the issued share capital of the Company) to Ambon, respectively, both in consideration of RMB1;

- On 8 September 2018, being the completion date of Group Reorganisation, Heavy Equipment PRC entered into a capital contribution agreement, pursuant to which Heavy Equipment PRC agreed to contribute RMB300,000,000 to Jiangsu Pengfei prior to 8 September 2028. Heavy Equipment PRC obtained 85.3762% equity interest of Jiangsu Pengfei from this capital contribution agreement according to the articles of association of Jiangsu Pengfei dated 8 September 2018. Up to the date of the issuance of these consolidated financial statements, Heavy Equipment PRC did not make any capital contribution to Jiangsu Pengfei yet. On the same date, Heavy Equipment PRC entered into equity transfer agreements with 38 individual shareholders of Jiangsu Pengfei and Mr. Wang to transfer an aggregate of 6.5341% and 8.0894% equity interest of Jiangsu Pengfei, respectively, to Heavy Equipment PRC at an aggregate consideration of RMB36,997,000. On the same date, Nantong Golden Environmental Protection Technology Company Limited* (南通金度環保科技有限公司) ("Nantong Golden"), a wholly-owned subsidiary of Heavy Equipment PRC, entered into an equity transfer agreement with Mr. Wang to transfer 0.0003% equity interest of Jiangsu Pengfei to Nantong Golden at a consideration of RMB648. The equity transfer consideration of RMB36,997,000 and RMB648 are fully settled in October 2018.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2018 include the results, changes in equity and cash flows of companies comprising the Group as if the group structure upon completion of Group Reorganisation had been in existence throughout the year ended 31 December 2018, or since their date of incorporation or acquisition, where there is a shorter period.

* English name is for identification purpose only

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

For the purpose of preparing and presenting these consolidated financial statements of the Group for the year ended 31 December 2019, the Group has consistently applied IFRSs (including IFRS 16 "Leases") that are effective for the financial period beginning on 1 January 2019 throughout the years ended 31 December 2018 and 2019.

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[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, these consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared on the historical cost basis, except for financial assets at FVTPL, at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of assets".

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Revenue recognition

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customers.

Control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (i.e. certain sale of equipment contracts include the provision of installation services), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For contracts where the Group transferred the associated goods or services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception/modification. The Group recognises interest income during the period between the payment from customers and the transfer of the associated goods or services.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group's incremental costs mainly being the commission fee paid to the Group's employees or intermediaries.

The Group recognises such commission fee as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Over time recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the contract costs incurred to the satisfaction of a performance obligation relative to the estimated total contract costs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of the production line.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments included in the measurement of the lease liability represent the fixed payments of the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group presented the lease liabilities in "other payables" in note 26.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to government managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in these consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress/assets under installation as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress/assets under installation less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The Group's intangible assets represent software with estimated useful life of 5 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Research expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Impairment on property, plant and equipment, right-of-use assets, intangible assets and contract costs

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, or when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment, right-of-use assets, intangible assets and contract costs (continued)

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15 "*Revenue from Contracts with Customers*" ("IFRS 15"), the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the CGU to which they belong for the purpose of evaluating impairment of that CGU.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchases and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Costs of raw material are determined on a weighted average method and costs of work-in-progress and finished goods are determined on a specific identification basis based on the actual costs specific to each processing order incurred. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Warranties

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets and other item subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade, bills and other receivables, restricted bank deposits and bank balances) and contract assets which are subjected to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed on an individual basis for customers with (1) high credit risk or (2) significant balances with different credit period and the remaining is collectively using provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other instruments, the Group measures the impairment loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information includes the future prospects of the industries in which the Group's debtors operate as well as various external sources of forecast on macro-economic condition, such as gross domestic product growth rate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Definition of default

The Group considers the following as constituting an event for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a deregistration event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e., the Group's trade, bills and other receivables, contract assets, restricted bank deposits and bank balances are each assessed as a separate group);

- Past-due status; and

- Nature, size and industry of debtors.

The grouping is regularly reviewed by the management of the Group to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities subsequently measured at amortised cost

Financial liabilities, including trade, bills and other payables, amount due to a related party and dividends payable, are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the management of the Group has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in these consolidated financial statements.

Principal versus agent for revenue recognition on installation service

The Group is the contracting party to its customers in rendering the installation service and the Group is primarily responsible for fulfilling the promise to provide the installation service and has the discretion on establishing the contract price. Thus, the management of the Group considers the Group acts as principal and recognises revenue generated from the installation service on a gross basis. Having considered the costs and benefits in performing the installation service, the Group had subcontracted the installation service to independent third parties. Significant judgement is made by the management of the Group in determining whether the Group is acting as a principal or agent in its performance of the installation service.

During the year ended 31 December 2019, the Group has recognised revenue amounting to RMB21,422,000 (2018: RMB21,985,000) from the rendering of installation service.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Revenue recognition on construction of production line

The Group recognises revenue on construction of production line by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction of production line contract can be estimated reliably. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs (i.e. input method).

Significant estimations are required in determining the stage of completion, the extent of the contract costs incurred and estimated total contract cost, as well as the recoverability of the contract costs incurred. In making these estimates, the management of the Group has relied on past experience and knowledge of project engineers employed by the Group.

The stage of completion of each construction of production line contract is assessed on a cumulative basis in each reporting period. Changes in estimate of contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expense recognised in profit or loss in the year in which the change is made and in subsequent years. Such impact could potentially be significant.

During the year ended 31 December 2019, the Group has recognised revenue amounting to RMB482,450,000 (2018: RMB213,806,000) from construction of production line contracts.

Estimated impairment losses on trade receivables and contract assets

Trade receivables and contract assets with (1) high credit risk or (2) significant balances with different credit period, are assessed for ECL individually, and the remaining is estimated collectively by using a provision matrix. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in note 35.

Price allocation for multiple performance obligations

Certain of the Group's sale of equipment contracts includes the provision of installation services to customers. For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

The management of the Group exercises judgement in determining the price allocation basis between the performance obligations of sale of equipment and installation service.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Useful lives and depreciation charges of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase or decrease the depreciation charge where useful lives are less or more than previously estimated lives.

As at 31 December 2019, the carrying amount of property, plant and equipment amounted to RMB190,851,000 (2018: RMB212,184,000).

6. 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	
	2019	2018
	RMB'000	RMB'000
Sale of equipment, recognised at a point in time	**961,592**	780,410
Revenue from construction of production line, recognised over time	**482,450**	213,806
Installation service, recognised over time	**21,422**	21,985
	1,465,464	1,016,201

Sale of equipment

The Group sells equipment directly to customers. The Group mainly sells equipment including related parts and components for various industries including building materials production, metallurgy, chemical and environmental protection. The key equipment manufactured by the Group consists of rotary kiln system and grinding equipment system.

Revenue is recognised at a point in time when the goods are accepted by the customers after delivery to the customers' premises, since only by that time the Group passes control of the equipment to the customers. The Group does not grant any credit period to its customers.

Customers are generally required to make an advance payment of 30% of the total contract sum before the Group commences any work, and this will give rise to contract liabilities at the start of a contract. During the course of production, customers will generally be required to make progress payment. Once the production process is completed, customers will be required to make delivery payment before delivery of the products. Generally, customers will be required to pay 90% to 95% of the total contract sum before delivery. Contract liabilities are recognised when milestone payments are received for sale of equipment in which revenue has yet been recognised.

6. REVENUE AND SEGMENT INFORMATION (continued)

Sale of equipment (continued)

The Group normally provides a warranty period of around 12 months from the date of acceptance by customers. For those contracts with warranty period provided, the outstanding balances representing the retention money of approximately 5% to 10% of the total contract sum initially recognised as contract assets upon delivery of goods and will be transferred to trade receivables and paid to the Group in the absence of warranty claim after the warranty period.

Construction of production line

The Group provides construction of production line services to customers of building materials industry, such as cement production line projects, and other industries including metallurgy and environmental protection. Most customers of the construction of production line business are located outside the PRC during the year.

Revenue from construction of production line is recognised as a performance obligation satisfied over time. The Group's performance under the construction contracts creates production lines without an alternative use to the Group. As the Group has an enforceable right to payment for performance performed to date, the Group recognises revenue over time for construction of production line services. Revenue is recognised for these construction of production line services based on the stage of completion of the contract using the input method.

Customers are generally required to make an advance payment of 30% of the total contract sum before the Group commences any work, this will give rise to contract liabilities at the start of a contract until the revenue recognised exceeds the amount of advance payment received. During the course of production, customers will generally be required to make progress payment. During the course of production, the Group will deliver the products required for the constitution of production line to the designated port or the customer's site by batches pursuant to the terms of the contract. In general, customers will be required to pay not less than 80% of the total contract sum corresponding to the relevant batch of products that the Group deliver before each delivery. If customers are satisfied with the production line installed, they will issue an acceptance certificate to the Group. The Group will receive no less than 90% of the total contract sum upon the acceptance certificate has been issued. The Group normally provides a retention period of 12 months after the operation of the production line and the issuance of the final acceptance certificate. For those contracts with retention period provided, the outstanding balances representing the retention money of approximately 5% to 10% of the total contract sum initially recognised as contract assets until the end of retention period and will be transferred to trade receivables and paid to the Group in the absence of warranty claim.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction of production line services are performed representing the Group's rights to consideration for the services performed because the rights to billing are conditional upon specified payment milestones. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the Group achieved the specific milestones of payments in the corresponding contracts.

Installation services

Revenue relating to the installation services is recognised over time throughout the installation period because the Group's performance enhances an asset that its customers control as the asset is enhanced. The provision of installation services is normally included in the contracts for sale of equipment as aforementioned and is subject to the same retention terms under the contracts for sale of equipments.

6. REVENUE AND SEGMENT INFORMATION (continued)

Transaction price allocated to the remaining performance obligations for contracts with customers

The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied in respect of installation service as the Group's contract has an original expected duration of less than one year.

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) in respect of provision of construction of production line as at the end of each reporting period and the expected timing of recognising revenue.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Provision of construction of production line		
Within one year	**688,415**	1,102,944
More than one year but not more than two years	**310,993**	–
	999,408	1,102,944

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) in respect of the Group's sale of equipment was RMB1,705,385,000 (2018: RMB1,402,441,000) as at 31 December 2019. In normal circumstances, the performance obligation is expected to be satisfied within one year. However, the timing of recognition is subject to the request of delivery from the customers and may be uncertain due to political uncertainty of the countries at where the Group's customers are situated, which may cause such revenue to be recognised more than one year after the end of the reporting period.

Information reported to the Chairman of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sale of equipment, construction of production line and installation services. No other discrete financial information is provided other than the Group's results and financial position as a whole. Thus, the management of the Group considers that the Group has one operating and reportable segment. No operating segment information is presented other than the entity-wide disclosures.

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:

6. REVENUE AND SEGMENT INFORMATION (continued)

Entity-wide disclosures (continued)

Geographical information (continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Mainland China	**923,264**	713,423
Outside Mainland China		
Including: Kazakhstan	**295,338**	138,531
Cote d'lvoire	**120,585**	-
Uzbekistan	**40,748**	9,906
Congo	**37,514**	-
Indonesia	**19,097**	-
Turkey	**1,804**	70,176
Bangladesh	**–**	27,022
Other countries	**27,114**	57,143
	1,465,464	1,016,201

Information about major customers

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Customer A	**295,338**	138,531

7. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Bank interest income	**738**	889
Interest income from independent third parties	**35**	658
Government subsidies (note)	**1,141**	23,826
Rental income	**1,064**	1,876
Others	**25**	83
	3,003	27,332

Note: The amount represents unconditional government subsidies received from local government in connection with the enterprise development support, innovation capability incentives and/or the expenses related to the Listing incurred by the Group during the year.

8. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Investment gain on financial assets at FVTPL	**6,506**	3,438
Net foreign exchange (loss) gain	**(690)**	4,697
Gain on disposal of property, plant and equipment	**214**	248
Others	**375**	(59)
	6,405	8,324

9. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest on bank and other borrowings	**–**	45
Interest expense of amounts due to independent third parties	**585**	1,155
Interest expense of lease liabilities	**4**	4
	589	1,204

10. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**35,359**	36,040
Depreciation of investment properties	**1,155**	1,459
Amortisation of intangible assets	**179**	58
Depreciation of right-of-use assets	**748**	682
	37,441	38,239
Capitalised in inventories	**(31,920)**	(30,899)
Total depreciation and amortisation charged to profit or loss	**5,521**	7,340
Analysed as:		
Charged in administrative expenses	**4,352**	6,173
Charged in selling and distribution expenses	**32**	–
Charged in research expenditure	**1,137**	1,167
	5,521	7,340
Auditors' remuneration	**3,142**	34
Cost of inventories recognised as cost of sales	**947,370**	645,112
Directors' remuneration (note 12)		
– Fees	**37**	–
– Salaries and other benefits	**1,240**	1,191
– Retirement benefit scheme contributions	**80**	119
– Discretionary performance related bonus	**353**	185
	1,710	1,495
Other staff costs		
– Salaries and other benefits	**83,391**	77,917
– Retirement benefit scheme contributions	**13,701**	12,539
– Discretionary performance related bonus	**6,299**	2,940
	103,391	93,396

10. PROFIT BEFORE TAX (continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Total staff costs	**105,101**	94,891
Capitalised in contract costs	**(7,826)**	(9,118)
Capitalised in inventories	**(59,969)**	(53,772)
Total staff costs charged to profit or loss	**37,306**	32,001
Analysed as:		
Charged in administrative expenses	**21,966**	19,169
Charged in selling and distribution expenses	**6,786**	6,651
Charged in research expenditure	**8,554**	6,181
	37,306	32,001
Research expenditure		
Staff cost	**8,554**	6,181
Depreciation and amortisation	**1,137**	1,167
Technical consultancy fee	**27,302**	17,587
Materials consumed	**6,825**	4,492
Others	**2,782**	2,950
	46,600	32,377
Gross rental income from investment properties	**1,064**	1,876
Less:		
Direct operating expenses incurred for investment properties that generate rental income during the year	**(1,155)**	(1,459)
	(91)	417
Impairment losses on trade receivables, net of reversal	**7,663**	2,002
Reversal of impairment losses on other receivables, net of impairment losses	**(179)**	(227)
Impairment losses on contract assets, net of reversal	**1,506**	739
	8,990	2,514

11. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")	**15,551**	10,443
Deferred tax charge (note 20)	**1,758**	4,089
	17,309	14,532

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 Profit Tax was made in these consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profit Tax during the years ended 31 December 2018 and 2019 .

Jiangsu Pengfei obtained the renewal of "High Technology Enterprise" certification in 2019, and therefore continued the entitlement of a preferential tax rate of 15% to 31 December 2020.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the years ended 31 December 2018 and 2019.

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	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**97,214**	87,848
Tax at PRC EIT rate of 15% (2018: 15%)	**14,582**	13,177
Tax effect of expense not deductible for tax purpose	**2,855**	2,172
Tax effect of deductible temporary differences	**21**	110
Utilisation of deductible temporary differences and tax losses previously not recognised	**(93)**	(426)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(401)**	(545)
Effect of different tax rates of other subsidiaries	**345**	44
Income tax expense	**17,309**	14,532

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(A) Directors' and the chief executive's emoluments

Details of the emoluments paid to the individuals who were appointed as the directors and Chief Executive Officer of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company), during the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, are as follows:

	Date of appointment as a director of the Company	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary performance related bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2019						
Executive directors						
Mr. Wang (note i)	31 July 2017	–	368	–	89	457
Dai Xianru	7 November 2018	–	291	8	89	388
Zhou Yinbiao	7 November 2018	–	326	37	87	450
Ben Daolin	7 November 2018	–	255	35	88	378
Independent non-executive directors						
Zhang Lanrong	25 October 2019	12	–	–	–	12
Ding Zaiguo	25 October 2019	12	–	–	–	12
Mak Hing Keung, Thomas	25 October 2019	13	–	–	–	13
		37	1,240	80	353	1,710

	Date of appointment as a director of the Company	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary performance related bonus	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2018						
Executive directors						
Mr. Wang (note i)	31 July 2017	–	361	–	52	413
Dai Xianru	7 November 2018	–	272	42	40	354
Zhou Yinbiao	7 November 2018	–	310	42	43	395
Ben Daolin	7 November 2018	–	248	35	50	333
		–	1,191	119	185	1,495

Note:

(i) Mr. Wang is Chairman of the Group and assumed the role of Chief Executive Officer of the Group during the year ended 31 December 2018 and the period from 1 January 2019 to the date of the Listing whose emolument has been included in the above. After the Listing, the Company has resolved to redesignate such role to all executive directors of the Company.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(A) Directors' and the chief executive's emoluments (continued)

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(B) Five highest paid employees

The five highest paid individuals of the Group include 4 (2018: 4) directors of the Company for the current year. The emoluments of the remaining 1 (2018: 1) for the current year are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and other benefits	**239**	229
Retirement benefit schemes contribution	**40**	29
Discretionary performance related bonus	**63**	54
	342	312

The emoluments of the five highest paid individuals were within the following bands:

	Year ended 31 December	
	2019	2018
Nil to HK$1,000,000	**5**	5

During the years ended 31 December 2018 and 2019, no emoluments were paid by the Group to any of the directors and Chief Executive Officer of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the five highest paid individuals of the Group waived any emoluments during the years ended 31 December 2018 and 2019.

13. DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Jiangsu Pengfei:		
Dividends declared	**–**	201,854

Prior to the completion of the Group Reorganisation, Jiangsu Pengfei declared dividend amounted to RMB201,854,000 to its shareholders. The rate of dividend and number of shares ranking for dividend in 2018 are not presented as such information is not considered meaningful having regards to the purpose of these consolidated financial statements. Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of RMB0.05 per ordinary share, in an aggregate amount of RMB25 million, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. 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	
	2019	2018
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB'000)	**78,935**	72,506
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	**391,095,890**	375,000,000

The number of ordinary shares for the purpose of calculating basic and diluted earnings per share has been determined on the assumption that the Group Reorganisation and the capitalisation issue of the shares of the Company as set out in notes 2 and 28, respectively, had been effective on 1 January 2018.

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the year ended 31 December 2018. In the computation of diluted earnings per share for the year ended 31 December 2019, it does not assume the exercise of the over-allotment options granted, as detailed in the prospectus of the Company dated 31 October 2019, since the exercise price of those options was higher than the average share price of the Company from the date of grant to the end of the exerciseable period.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress/ assets under installation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2018	228,333	256,891	6,500	16,503	144	508,371
Additions	–	4,591	227	1,018	4,097	9,933
Acquisition of assets through acquisition of a subsidiary *(note 29)*	4,504	–	–	–	–	4,504
Transfers	198	4,043	–	–	(4,241)	–
Disposal	–	(1,389)	(196)	(268)	–	(1,853)
At 31 December 2018	233,035	264,136	6,531	17,253	–	520,955
Additions	–	5,201	1,010	863	7,136	14,210
Transfers	127	553	–	–	(680)	–
Disposal	(1,052)	(186)	–	(1,453)	–	(2,691)
At 31 December 2019	**232,110**	**269,704**	**7,541**	**16,663**	**6,456**	**532,474**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2018	89,480	167,488	6,245	11,181	–	274,394
Provided for the year	10,931	23,004	211	1,894	–	36,040
Eliminated on disposals	–	(1,219)	(190)	(254)	–	(1,663)
At 31 December 2018	100,411	189,273	6,266	12,821	–	308,771
Provided for the year	11,232	22,070	271	1,786	–	35,359
Eliminated on disposals	(951)	(175)	–	(1,381)	–	(2,507)
At 31 December 2019	**110,692**	**211,168**	**6,537**	**13,226**	**–**	**341,623**
CARRYING VALUE						
At 31 December 2018	132,624	74,863	265	4,432	–	212,184
At 31 December 2019	**121,418**	**58,536**	**1,004**	**3,437**	**6,456**	**190,851**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress/assets under installation, are depreciated on a straight-line basis over the following estimated useful lives after taking into account their estimated residual values:

	Useful lives	Estimated residual values
Buildings	20 years	5%
Plant and machinery	10 years	5%
Office equipment	3 to 5 years	0~5%
Motor vehicles	4 years	5%

As at 31 December 2018, buildings with a total carrying amount of RMB10,227,000 were pledged to obtain banking facilities as summarised in note 31. Such pledge has been released upon expiring of the banking facilities during the year ended 31 December 2019.

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2018, and 31 December 2018 and 2019	32,280
ACCUMULATED DEPRECIATION	
At 1 January 2018	16,820
Provided for the year	1,459
At 31 December 2018	18,279
Provided for the year	1,155
At 31 December 2019	**19,434**
CARRYING VALUE	
At 31 December 2018	14,001
At 31 December 2019	**12,846**

16. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties as at 31 December 2019 was RMB39,077,000 (2018: RMB41,354,000). The fair value has been arrived at based on a valuation carried out by a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar investment properties. The fair value is determined based on the income capitalisation approach by taking into account the rental income of a property derived from its existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Fair value	
	Level 3	**As at 31 December 2019**
	RMB'000	**RMB'000**
Commercial properties located in Haian City, Jiangsu Province, the PRC	**39,077**	**39,077**

	Fair value	
	Level 3	As at 31 December 2018
	RMB'000	RMB'000
Commercial properties located in Haian City, Jiangsu Province, the PRC	41,354	41,354

The above investment properties are depreciated on a straight-line basis over the following estimated useful life after taking into account their estimated residual value:

	Useful life	**Estimated residual value**
Buildings	20 years	5%

17. RIGHT-OF-USE ASSETS

	RMB'000
COST	
At 1 January 2018	32,546
Additions	10,010
Acquisitions of assets through acquisition of a subsidiary *(note 29)*	2,024
At 31 December 2018	44,580
Additions	1,057
At 31 December 2019	**45,637**
ACCUMULATED DEPRECIATION	
At 1 January 2018	3,893
Provided for the year	682
At 31 December 2018	4,575
Provided for the year	748
At 31 December 2019	**5,323**
CARRYING VALUE	
At 31 December 2018	40,005
At 31 December 2019	**40,314**

The Group's right-of-use assets at the end of each reporting period and the related depreciation represent the lands rented from independent third parties and are depreciated on a straight-line basis over the lease terms.

As at 31 December 2018, right-of-use assets of a total carrying amount of RMB16,377,000 were pledged to obtain banking facilities as summarised in note 31. Such pledge has been released upon expiring of the banking facilities during the year ended 31 December 2019.

18. CONTRACT ASSETS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Construction of production line	**–**	18,149
Sale of equipment	**54,730**	40,996
Installation service	**3,916**	9,779
	58,646	68,924
Less: Impairment loss allowance for contract assets	**(4,006)**	(2,500)
	54,640	66,424

As at 1 January 2018, contract assets amounted to RMB47,024,000.

The contract assets primarily relate to the Group's right to billing for work completed and not billed because the rights are conditional upon specified payment milestones at the end of each reporting period. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the Group achieved the specific milestones of payments in the corresponding contracts.

The Group classifies these contract assets as current asset because the Group expects to realise them in its normal operating cycle.

Movement of impairment loss allowance on contract assets

	RMB'000
At 1 January 2018	1,761
Impairment loss allowance recognised	1,986
Impairment loss allowance reversed	(1,247)
At 31 December 2018	2,500
Impairment loss allowance recognised	2,972
Impairment loss allowance reversed	(1,466)
At 31 December 2019	**4,006**

19. CONTRACT COSTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Commission fees	**14,990**	12,724

Incremental costs to obtain contracts included in contract costs relate to commission fees paid or payable to employees or intermediaries as a result of obtaining contracts.

For contract costs in relation to the sale of equipment, they are charged to profit or loss when the equipment is accepted by the customers and control passes to the customers. For contract costs in relation to provision of installation services/construction of production line, they are amortised on the same basis of revenue recognised for installation services/construction of production line as this reflects the period over which the goods or services are transferred to the customers. For the year ended 31 December 2019, amortisation amounting to RMB5,560,000 (2018: RMB6,289,000) was recognised as selling and distribution expenses in the consolidated statement of profit or loss and other comprehensive income. There was no impairment loss in relation to the costs capitalised.

20. DEFERRED TAX LIABILITIES

For the purpose of presentation in these consolidated financial statements, all deferred tax assets have been offset with deferred tax liabilities. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred tax assets	**14,787**	12,254
Deferred tax liabilities	**(24,185)**	(19,894)
	(9,398)	(7,640)

20. DEFERRED TAX LIABILITIES (continued)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the year:

	Items impacted by the revenue recognition (note)	Accrued expenses	Impairment loss allowance on trade and other receivables and contract assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	(14,900)	5,783	5,566	(3,551)
(Charge) credit to profit or loss	(4,994)	733	172	(4,089)
At 31 December 2018	(19,894)	6,516	5,738	(7,640)
(Charge) credit to profit or loss	(4,291)	1,788	745	(1,758)
At 31 December 2019	**(24,185)**	**8,304**	**6,483**	**(9,398)**

Note: Amount represented the net deferred taxation impact arising from the effect of revenue recognition under IFRS 15 for the purpose of preparing these consolidated financial statements as compared to the revenue recognition under the relevant accounting principles and financial regulations applicable to the PRC enterprises for the purpose of preparing PRC EIT filing. The respective items resulting in the net future taxable temporary differences include inventories, trade receivables, contract assets, contract costs and contract liabilities.

As at 31 December 2018 and 2019, the Group had no unused tax losses available to offset against future profits.

As at 31 December 2019, the Group had deductible temporary differences of RMB103,762,000 (2018: RMB87,352,000) available to offset against future profits. Deferred tax assets have been recognised in respect of deductible temporary differences of RMB98,583,000 as of 31 December 2019 (2018: RMB81,691,000). No deferred tax assets have been recognised in relation to the remaining deductible temporary differences of RMB5,179,000 (2018: RMB5,661,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2019, deferred tax liability has not been provided in these consolidated financial statements in respect of all temporary differences attributable to undistributed profits of the PRC subsidiaries attributable to owners of the Company amounting to RMB244,117,000 (2018: RMB180,835,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21. INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**132,437**	159,848
Work-in-progress	**556,734**	258,411
Finished goods	**876**	876
	690,047	419,135

No allowance for inventory provision was provided during the years ended 31 December 2018 and 2019.

22. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**389,227**	187,949
Less: Impairment loss allowance for trade receivables	**(18,881)**	(14,271)
	370,346	173,678
Bills receivables	**369,642**	382,603
Total trade receivables and bills receivables *(note i)*	**739,988**	556,281
Other receivables and prepayments		
Other receivables *(note ii)*	**5,085**	8,578
Prepaid expenses	**377**	818
Loans to independent third parties *(note iii)*	**800**	9,249
Deferred issue costs *(note iv)*	**–**	3,762
	6,262	22,407
Less: Impairment loss allowance for other receivables	**(106)**	(285)
	6,156	22,122
	746,144	578,403

22. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Note i: As at 1 January 2018, the Group's trade receivables amounted to RMB147,141,000 (net of impairment loss allowance of RMB9,225,000) and bills receivables amounted to RMB263,368,000.

As at 31 December 2019, included in the Group's trade receivables was a balance of RMB278,471,000 (net of impairment loss allowance of RMB889,000) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan. 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 test run 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 taking 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 carry at a fixed interest rate of 8.41% per annum and settle in every three months by twelve installments starting from 30 June 2020.

The test run of the production line was completed during the year ended 31 December 2019. As at 31 December 2019 and up to the date of issuance of these consolidated financial statements, the Group and the customer have not yet entered into the Finalised Deferred Payment Agreement.

Note ii: As at 31 December 2019, other receivables mainly included staff advance of RMB2,915,000 (2018: RMB4,356,000) and refundable tender deposits paid to potential customers of RMB2,167,000 (2018: RMB4,206,000). 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 2019, the Group's loans to independent third parties are unsecured, repayable on demand and carry at fixed interests of 4.4% (2018: ranging from 4.4% to 4.5%) per annum.

Note iv: Deferred issue costs represent the qualifying portion of issue costs incurred up to 31 December 2018 which had been debited to equity of the Group as share issue costs in respect of the issue of new shares upon Listing on 15 November 2019.

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 RMB38,206,000 (2018: RMB41,955,000) as at 31 December 2019, of which the conditions to entitlement of consideration had been reached and became unconditional.

22. TRADE, BILLS AND OTHER RECEIVABLES (continued)

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.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
0 to 1 year	**323,531**	118,377
1 to 2 years	**19,716**	19,606
Over 2 years	**27,099**	35,695
	370,346	173,678

As at 31 December 2019, the Group's trade receivables of RMB370,346,000 (2018: RMB173,678,000) 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.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
0 to 180 days	**338,356**	324,379
181 days to 1 year	**31,286**	58,224
	369,642	382,603

22. TRADE, BILLS AND OTHER RECEIVABLES (continued)

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.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
0 to 180 days	**352,505**	379,893
181 days to 1 year	**17,137**	2,710
	369,642	382,603

As at 31 December 2019, bills receivables of RMB1,753,000 (2018: RMB53,460,000) were pledged to banks for issuing bills payables as summarised in note 31.

Movements of impairment loss allowance on trade and other receivables

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

	RMB'000
At 1 January 2018	15,107
Impairment loss allowance recognised	3,989
Impairment loss allowance reversed	(1,987)
Write-off as uncollectible	(2,838)
At 31 December 2018	14,271
Impairment loss allowance recognised	11,083
Impairment loss allowance reversed	(3,420)
Write-off as uncollectible	(3,053)
At 31 December 2019	18,881

22. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Movements of impairment loss allowance on trade and other receivables (continued)

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

	12m ECL
	RMB'000
At 1 January 2018	512
Impairment loss allowance recognised	105
Impairment loss allowance reversed	(332)
At 31 December 2018	285
Impairment loss allowance recognised	45
Impairment loss allowance reversed	(224)
At 31 December 2019	106

Included in the balance of impairment loss allowance are individually impaired trade receivables in full with an aggregate balance of RMB11,324,000 (2018: RMB6,766,000) as at 31 December 2019, 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:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Analysis of trade and other receivables by currency:		
Denominated in United States dollar ("USD")	**9,717**	23,444
Denominated in European dollar ("EUR")	**75**	70

23. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2019, the Group has transferred bills receivables amounting to RMB241,808,000 (2018: RMB295,115,000) to its suppliers to settle its payables of the same amount through endorsing the bills with full recourse basis. The Group has not derecognised these bills receivables and the payables to suppliers in their entirety as in the opinion of the management of the Group, the Group has not transferred substantially all the risks and rewards of ownership of these receivables and has not discharged its obligation of the payables to its suppliers.

During the year, the Group issued certain bills payables to settle the Group's trade payables to the suppliers, independent third parties, and the Group's issued bills to suppliers may be eventually received by the Group. As at 31 December 2019, such bills kept by the Group amounted to RMB2,150,000 (2018: RMB490,000). In this circumstance, in respect of such bills held by the Group which were issued by the Group, the Group had no right to receive and no obligation to pay as such bills were not presented to the bank. Accordingly, no such bill receivables and bill payables were recognised at the end of the reporting period.

24. AMOUNTS DUE FROM (TO) RELATED PARTIES

(A) Amounts due from related parties – non-trade nature

Particulars of the amounts due from related parties are disclosed as follows:

	Relationship (Note)	As at 31 December		As at 1 January	Maximum balance outstanding Year ended 31 December	
		2019	2018	2018	**2019**	2018
		RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
Ambon#	(i)	**–**	–	28,345	**–**	28,345
PF International#	(i)	**–**	–	16,769	**–**	16,769
PF Global#	(ii)	**–**	–	6,272	**N/A**	N/A
Mr. Wang	(iii)	**–**	–	–	**–**	1,305
Zhou Yinbiao	(iii)	**–**	–	–	**–**	1,500
Ben Daolin	(iii)	**–**	–	12	**–**	32
		–	–	51,398		

Among these balances, totalling RMB51,386,000 as at 1 January 2018, RMB37,663,000 had been settled in cash in 2018 and the remaining balance of RMB13,723,000 had been offset with the Group's amounts due to shareholders in 2018 as detailed in note 26(i).

24. AMOUNTS DUE FROM (TO) RELATED PARTIES (continued)

(B) Amount due to a related party – non-trade nature

Particulars of the amount due to a related party are disclosed as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Ambon *(note i)*	**–**	817

These amounts were non-trade in nature, unsecured, unguaranteed, interest free and repayable on demand. In November 2019, Ambon unconditionally and irrevocably waived such amounts due from the Group.

Notes:

(i) Being shareholders of the Company controlled by directors of the Company.

(ii) Being shareholders of the Company. As there is no common directorship between the Group and PF Global, no disclosure of the maximum balance outstanding during the respective years is presented.

(iii) Being directors of the Company and key management personnel of the Group.

25. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

The Group's restricted bank deposits were deposited to banks for the issue of bills payables and letter of credit by the Group and are therefore classified as current assets. The restricted bank deposits will be released upon the settlement of relevant bills payables and letter of credit.

Bank balances and restricted bank deposits carry interest at market rates ranging from 0.005% to 2.25% (2018: 0.3% to 2.25%) per annum as at 31 December 2019.

The Group's bank balances and cash and restricted bank deposits that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Analysis of bank balances and cash and restricted bank deposits by currency:		
Denominated in USD	**63,484**	26,170
Denominated in EUR	**20,320**	1,567
Denominated in Hong Kong dollar ("HKD")	**56,431**	306

26. TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	**537,697**	502,045
Bills payables	**28,332**	93,958
Other taxes payables	**8,672**	9,008
Amounts due to independent third parties *(note i)*	**2,046**	10,556
Accrued expense	**5,059**	196
Accrued issue costs and listing expenses	**3,026**	5,926
Accrued payroll and welfare	**20,006**	13,743
Unpaid incremental commission	**33,322**	32,412
Lease liabilities *(note ii)*	**74**	89
Other payables	**184**	688
	638,418	668,621

The credit period on purchases of goods ranges from 0 to 365 days during the years ended 31 December 2018 and 2019 and certain suppliers allow longer credit period on a case-by-case basis.

Notes:

(i) As at 31 December 2019, the amount represented loans raised from independent third parties, which were unsecured, unguaranteed and carried interests at a fixed rate of 3% per annum, respectively. Such loans were all repayable within one year.

As at 31 December 2018, amount of RMB10,556,000 represented loans raised from Peak Holding Limited ("Peak Holding"), an independent third party. These loans were unsecured, unguaranteed and carried interest at a fixed rate of 6% per annum. A capital increment agreement ("Capital Increment Agreement") dated 22 December 2017 was entered into by the Group and Peak Holding, pursuant to which Peak Holding initially agreed to subscribe for the Company's shares in consideration of RMB22,000,000 (equivalent to US$3,408,000) (the "Subscription Amount") subject to the fulfilment of certain conditions. The Subscription Amount of US$3,408,000 was paid to the Group in May 2018.

On 27 October 2018, the Group and Peak Holding mutually agreed that Peak Holding would no longer invest in the Group and entered into a loan agreement on the same date and a supplementary loan agreement dated 15 November 2018 to advance a loan amount equivalent to the Subscription Amount to the Company. Such loan was unsecured, unguaranteed, carried interest at a fixed rate of 6% per annum and with a term of one year. The Capital Increment Agreement was terminated on 28 October 2018.

On 11 November 2018, Peak Holding and each of Ambon, PF International and PF Global entered into deeds of assignments, pursuant to which Peak Holding will assign RMB7,591,000 (equivalent to US$1,094,000), RMB4,463,000 (equivalent to US$643,000) and RMB1,669,000 (equivalent to US$241,000) of its debts owed by the Company to Ambon, PF International and PF Global, respectively, totalling RMB13,723,000 ("Assigned Amount"), resulting in a decrease of amount due to Peak Holding and recognition of amounts due to related parties of the Assigned Amount. The Assigned Amount totalling RMB13,723,000 was equivalent to the Company's receivables from related parties as at 11 November 2018. On the same date, the Company resolved to offset the amounts due from related parties and amounts due to related parties by the Assigned Amount. The outstanding balance of RMB10,556,000 is fully settled in the current year.

(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 of which was located in Haian 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 4.9% 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.

26. TRADE, BILLS AND OTHER PAYABLES (continued)

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
0 to 1 year	**507,505**	462,984
1 year to 2 years	**13,152**	24,925
Over 2 years	**17,040**	14,136
	537,697	502,045

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

	As at 31 December	
Age	**2019**	2018
	RMB'000	RMB'000
0 to 180 days	**28,332**	93,958

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

	As at 31 December	
Age	**2019**	2018
	RMB'000	RMB'000
0 to 180 days	**28,332**	93,958

27. CONTRACT LIABILITIES

	As at 31 December		As at 1 January
	2019	2018	2018
	RMB'000	RMB'000	RMB'000
Amounts received in advance in respect of			
– Sale of equipment (note i)	**1,048,005**	659,024	499,607
– Construction of production line (note ii)	**193,033**	33,357	104,261
	1,241,038	692,381	603,868

Contract liabilities that were expected to be settled within the Group's normal operating cycle are classified as current liabilities.

Notes:

(i) For sale of equipment, revenue is recognised when control of the equipment has transferred to the customer, being at the point the equipment is accepted by the customer.

(ii) These are balances due to customers under construction of production line contracts. These arise if a particular milestone payment received exceeds the revenue recognised by the Group at the end of each reporting period.

The significant increase in contract liabilities as at 31 December 2019 was mainly due to the advances received from customers for new contracts obtained.

Revenue recognised that was included in the balance of contract liabilities at the beginning of the year.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Sale of equipment	**358,262**	200,640
Revenue from construction of production line	**23,764**	104,261
	382,026	304,901

There were no revenue recognised in the current year that related to performance obligations that were satisfied in prior year.

28. SHARE CAPITAL

	Par value	Number of shares	Amount
		'000	'000
Authorised:			
On 1 January 2018 and 31 December 2018	RMB1	600,000	RMB600,000
Re-denomination of share capital from par value of RMB1 each to HK$0.01 each *(note i)*			
– increased	HK$0.01	10,000,000	HK$100,000
– repurchased and cancelled	RMB1	(600,000)	RMB(600,000)
On 31 December 2019	HK$0.01	10,000,000	HK$100,000
Issued:			
On 1 January 2018 and 31 December 2018	RMB1	51,386	RMB51,386
Re-denomination of share capital from par value of RMB1 each to HK$0.01 each *(note i)*			
– allotment and issued	HK$0.01	51,386	HK$514
– repurchased and cancelled	RMB1	(51,386)	RMB(51,386)
Capitalisation issue *(note ii)*	HK$0.01	323,614	HK$3,236
Issuance of new shares upon Listing *(note iii)*	HK$0.01	125,000	HK$1,250
On 31 December 2019	HK$0.01	500,000	HK$5,000
Presented in RMB'000			RMB4,504

The new shares rank pari passu with the then existing shares in all respects.

Notes:

(i) Pursuant to the resolution of the shareholders of the Company passed on 25 October 2019, the authorised share capital of the Company was increased from RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each to the aggregate of (i) RMB600,000,000 divided into 600,000,000 shares of par value of RMB1 each and (ii) HK$100,000,000 divided into 10,000,000,000 shares with a par value of HK$0.01 each by the creation of 10,000,000,000 shares with a par value of HK$0.01 each.

As at 25 October 2019, 28,425,900, 16,710,000 and 6,250,000 shares with par value of HK$0.01 each in the Company were allotted and issued as fully paid to Ambon, PF International and PF Global for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000, respectively.

Immediately after the above allotment and issue having been effected, the Company repurchased 28,425,900, 16,710,000 and 6,250,000 shares with a par value RMB1 each in issue for considerations of RMB28,425,900, RMB16,710,000 and RMB6,250,000, respectively, from Ambon, PF International and PF Global. The net effect of the re-denomination of the Company's share capital of RMB50,922,000 is credited to share premium.

Following the repurchase, the authorised but unissued shares capital of the Company was reduced by the cancellation of 600,000,000 shares of a par value of RMB1 each, such that the authorised share capital of the Company became HK$100,000,000 divided into 10,000,000,000 shares with a par value of HK$0.01 each.

28. SHARE CAPITAL (continued)

(ii) On 25 October 2019, the directors of the Company are authorised to capitalise the sum of HK$3,236,000 (equivalent to RMB2,921,000) to the credit of the share premium account of the Company and apply the same in paying up in full at par 323,614,100 shares for allotment and issue to the shareholders whose names appeared on the register of members of the Company as at 25 October 2019 in proportion to their then existing shareholders in the Company and such shares to be allotted and issued shall rank pari passu in all respects with all other existing issued shares. The capitalisation issue is completed on 14 November 2019.

(iii) On 15 November 2019, the Company's shares were listed on the Stock Exchange. Based on the offer price of HK$1.58 per share, the net proceeds with 125,000,000 ordinary shares offered from the Listing received by the Company, after deduction of the underwriting commission were HK$190,588,000 (equivalent to RMB170,589,000).

29. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 14 March 2018, the Group acquired 100% equity interest of Heavy Equipment PRC from an independent third party for a cash consideration of US$1,360,000 (equivalent to RMB8,596,000). Heavy Equipment PRC's major assets were leasehold land and buildings in Haian City, Jiangsu Province, the PRC. This transaction had been accounted for as an acquisition of assets as these assets acquired did not meet the definition of a business.

The net assets acquired in the transaction were as follows:

	RMB'000
Property, plant and equipment	4,504
Right-of-use assets	2,024
Other receivables	131
Bank balances and cash	1,937
	8,596
Satisfied by:	
Cash consideration paid	8,596
Net cash outflow arising on acquisition	
Cash consideration paid	8,596
Bank balances and cash acquired	(1,937)
	6,659

30. OPERATING LEASE

The Group as lessor

At the end of each reporting period, the undiscounted lease payments in respect of the Group's rental income to be received and the expected timing of receipt are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 1 year	**642**	439
1 to 2 years	**476**	419
2 to 3 years	**426**	384
3 to 4 years	**401**	370
4 to 5 years	**399**	317
Over 5 years	**4,648**	4,672
	6,992	6,601

31. PLEDGE OF ASSETS

Save as disclosed elsewhere in these consolidated financial statements, the following assets have been pledged to various banks for obtaining line of credit, securing of the Group's banking facilities or the issue of bills payables at the end of each reporting period:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Restricted bank deposits	**12,211**	13,597
Right-of-use assets	**–**	16,377
Buildings included in property, plant and equipment	**–**	10,227
Bills receivables	**1,753**	53,460
	13,964	93,661

32. CAPITAL COMMITMENTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in these consolidated financial statements	**19,002**	432

33. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to related parties	Amounts due to independent third parties	Lease liabilities	Dividends payable	Amount due from holding company	Accrued issue cost	Bank borrowing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	–	6,720	104	2,299	(51,386)	–	3,000	(39,263)
Financing cash flows	(39,919)	16,404	(19)	(184,883)	37,663	(2,322)	(3,045)	(176,121)
Non-cash changes								
Interest expenses	–	1,155	4	–	–	–	45	1,204
Issue cost accrued	–	–	–	–	–	3,762	–	3,762
Offsetting arrangement *(note 26)*	–	(13,723)	–	–	13,723	–	–	–
Effect of Group Reorganisation	36,997	–	–	–	–	–	–	36,997
Deemed distribution to owners of the Company	3,739	–	–	–	–	–	–	3,739
Dividend declaration	–	–	–	201,854	–	–	–	201,854
At 31 December 2018	817	10,556	89	19,270	–	1,440	–	32,172
Financing cash flows	**–**	**(9,324)**	**(19)**	**(19,270)**	**–**	**(11,975)**	**–**	**(40,588)**
Non-cash changes								
Waiver of amount due to a related party *(note 24(B))*	**(830)**	**–**	–	**–**	**–**	**–**	**–**	**(830)**
Interest expenses	**–**	**585**	**4**	**–**	**–**	**–**	**–**	**589**
Issue cost accrued	**–**	**–**	**–**	**–**	**–**	**11,279**	**–**	**11,279**
Net exchange gain	**13**	**229**	**–**	**–**	**–**	**–**	**–**	**242**
At 31 December 2019	**–**	**2,046**	**74**	**–**	**–**	**744**	**–**	**2,864**

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost	**1,244,423**	816,945
Financial assets at FVTPL	**–**	3,426
	1,244,423	820,371
Financial liabilities		
Financial liabilities at amortised cost	**604,607**	665,672
Lease liabilities	**74**	89
	604,681	665,761

Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, financial assets at FVTPL, restricted bank deposits, bank balances and cash, trade, bills and other payables, amount due to a related party and dividends payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Currency risk

During the year, approximately 15% (2018: 15%) of the Group's sales is denominated in currencies other than the functional currency of the relevant group entities making the sale.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currency at the end of each reporting period are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Assets		
USD	**73,201**	49,614
EUR	**20,395**	1,637
HKD	**56,431**	306
Liabilities		
USD	**–**	11,741
HKD	**5,072**	4,154

The Group currently does not have a foreign currency hedging policy as the management of the Group considers that the foreign exchange risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2018:10%) decrease in the functional currency (i.e., RMB) of the relevant group entities against the foreign currencies. 10% (2018:10%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% (2018:10%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for the year where RMB weakening against the relevant foreign currencies. For a 10% strengthen of RMB, there would be an equal and opposite impact on the profit after tax.

	Year ended At 31 December	
	2019	2018
	RMB'000	RMB'000
USD	**6,250**	3,054
EUR	**1,734**	139
HKD	**5,136**	(385)

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loans to independent third parties and amounts due to independent third parties (details are set out in notes 22 and 26). The Group currently do not have any interest rate hedging policy. The management of the Group monitors the Group's exposures on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate restricted bank deposits and bank balances.

The Group's exposures to interest rates on financial liabilities are detailed in the management section of this note.

In the opinion of the management of the Group, the exposure of cash flow interest rate risk arising from floating-rate restricted bank deposits and bank balances is insignificant and thus no sensitivity analysis is prepared.

Credit risk

Credit risk refers to the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group considers all elements of credit risk exposure such as counterparty default risk and sector risk for risk management purposes.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade, bills and other receivables, contract assets, restricted bank deposits and bank balances.

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. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The term deposits, restricted bank deposits, bank balances and bills receivables are determined to have low credit risk at the end of each reporting period. The credit risk on term deposits, restricted bank deposits, bank balances and bills receivables is limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

The Group has concentration of credit risk as 75% (2018: 28%) of the total trade receivables was due from the Group's largest customer as at 31 December 2019. Other than the largest customer, the Group had no trade receivables due from the remaining four largest customers as at 31 December 2019. 42% of the total trade receivables was due from the five largest customers as at 31 December 2018.

In addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the impairment loss allowance based on lifetime ECL rather than 12m ECL.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

Trade receivables and contract assets

For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the impairment loss allowance at lifetime ECL. The Group determines the ECL on these items on an individual basis for customer with (1) high credit risk or (2) significant balances with different credit period, as assessed based on the Group's historical credit loss experience of different customer portfolio, and the remaining is estimated collectively by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off trade receivables and contract assets when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

Other receivables

For other receivables, the Group has applied the general approach in IFRS 9 to measure the impairment loss allowance at 12m ECL, since the directors of the Company assessed that there has not been any significant increase in credit risk.

In determining the expected credit losses, the management of the Group have taken into account the historical credit loss experience based on the past default experience of the counterparty, general economic conditions of the industry in which the counterparty operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The following table shows the Group's credit risk grading framework in respect of financial assets:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit-impaired	Trade receivables and contract assets Lifetime ECL – not credit-impaired Other receivables 12m ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets which are subject to ECL assessment:

31 December 2019	**Notes**	**Internal credit ratings**	**12-month or lifetime ECL**	**Gross carrying amount**
				RMB'000
Trade receivables	**22**	**(Note)**	**Lifetime ECL (provision matrix)**	**98,543**
		Doubtful	**Lifetime ECL (individually assessed)**	**279,360**
		Default	**Lifetime ECL - credit-impaired**	**11,324**
				389,227
Contract assets	**18**	**(Note)**	**Lifetime ECL (provision matrix)**	**58,646**
Other receivables	**22**	**Performing**	**12-month ECL**	**5,885**
Bills receivables	**22**	**Performing**	**12-month ECL**	**369,642**
Restricted bank deposits	**25**	**Performing**	**12-month ECL**	**12,211**
Bank balances	**25**	**Performing**	**12-month ECL**	**486,445**

31 December 2018	Notes	Internal credit ratings	12-month or lifetime ECL	Gross carrying amount
				RMB'000
Trade receivables	22	(Note)	Lifetime ECL (provision matrix)	181,183
		Default	Lifetime ECL - credit-impaired	6,766
				187,949
Contract assets	18	(Note)	Lifetime ECL (provision matrix)	68,924
Other receivables	22	Performing	12-month ECL	17,827
Bills receivables	22	Performing	12-month ECL	382,603
Restricted bank deposits	25	Performing	12-month ECL	13,597
Bank balances	25	Performing	12-month ECL	233,881

Note: For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the impairment loss allowance at lifetime ECL. All of the Group's contract assets are not yet due for payment or in default. Except for debtors with (1) high credit risk or (2) significant balances with different credit period, the Group determines the ECL on these items by using a provision matrix grouped by internal credit rating.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following tables provide information about the exposure to credit risk for trade receivables which are assessed based on provision matrix grouped by internal credit rating considering geographical information of the customers and aging of the receivables as at 31 December 2018 and 2019, respectively, within lifetime ECL (not credit-impaired). Debtors with high credit risk (credit-impaired) or significant balances with different credit period, with gross carrying amounts of RMB11,324,000 (2018: RMB6,766,000) and RMB279,360,000 (2018: nil) as at 31 December 2019 were assessed individually, respectively.

Gross carrying amounts as at 31 December 2019

	Weighted average loss rate	Trade receivables
		RMB'000
Customers located in Mainland China with trade receivables aged		
Within 1 year	2.0%	42,607
1 to 2 years	6.3%	20,218
Over 2 years	15.2%	26,707
		89,532
Customers outside Mainland China with trade receivables aged		
Within 1 year	2.2%	3,946
1 to 2 years	5.3%	723
Over 2 years	8.5%	4,342
		9,011

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

Gross carrying amounts as at 31 December 2018

	Weighted average loss rate	Trade receivables
		RMB'000
Customers located in Mainland China with trade receivables aged		
Within 1 year	1.4%	52,344
1 to 2 years	3.0%	18,411
Over 2 years	10.0%	37,668
		108,423
Customers outside Mainland China with trade receivables aged		
Within 1 year	3.0%	68,811
1 to 2 years	5.0%	1,839
Over 2 years	15.0%	2,110
		72,760

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

During the current year, the Group reversed net impairment loss allowance based on the provision matrix for trade receivables of RMB837,000 (2018: recognition of RMB1,623,000), and recognised net impairment loss allowance for contract assets of RMB1,506,000 (2018: RMB739,000). Provision of net impairment loss allowance of RMB8,500,000 (2018: RMB379,000) were individually made on trade receivables from debtors with (1) high credit risk or (2) significant balances with different credit period during the current year.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2018	7,643	9,225	16,868
Impairment loss allowance provided	5,975	–	5,975
Impairment loss allowance reversed	(3,234)	–	(3,234)
Transfer to credit-impaired	(379)	379	–
Write-off as uncollectible	–	(2,838)	(2,838)
As at 31 December 2018	10,005	6,766	16,771
Impairment loss allowance provided	14,055	–	14,055
Impairment loss allowance reversed	(3,884)	(1,002)	(4,886)
Transfer to credit-impaired	(8,613)	8,613	–
Write-off as uncollectible	–	(3,053)	(3,053)
As at 31 December 2019	**11,563**	**11,324**	**22,887**

Liquidity risk

The management of the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

At 31 December 2019	Weighted average effective interest rate	On demand	Within 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade, bills and other payables	–	599,535	–	–	–	599,535	599,535
Amount due to independent third parties	3%	–	–	2,107	–	2,107	2,046
Accrued issue costs and listing expenses	–	3,026	–	–	–	3,026	3,026
Lease liabilities	4.90%	–	9	10	71	90	74
		602,561	9	2,117	71	604,758	604,681

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

At 31 December 2018	Weighted average effective interest rate	On demand	Within 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade, bills and other payables	–	629,103	–	–	–	629,103	629,103
Accrued issue costs and listing expenses	–	5,926	–	–	–	5,926	5,926
Amounts due to independent third parties	6.00%	–	–	10,978	–	10,978	10,556
Lease liabilities	4.90%	–	9	10	90	109	89
Amount due to a related party	–	817	–	–	–	817	817
Dividends payable	–	19,270	–	–	–	19,270	19,270
		655,116	9	10,988	90	666,203	665,761

Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

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

	Fair value as at 31 December		**Fair value hierarchy**	**Valuation technique and key input**
	2019	2018		
	RMB'000	RMB'000		
Financial assets at FVTPL				
Unlisted money market funds	**N/A**	3,426	Level 2	Quoted bid prices, adjusted for estimated transaction costs

There were no transfers between Level 1 and 2 during the year.

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, Peak Holding and each of Ambon, PF International and PF Global entered into deeds of assignments pursuant to which Peak Holding assigned its debts owed by the Company amounted to RMB13,723,000 to Ambon, PF International and PF Global. Furthermore, the Group, Ambon, PF International and PF Global entered into an offsetting arrangement to offset the Group's amounts due from Ambon, PF International and PF Global with the Assigned Amount owed by the Group as detailed in notes 24(A) and 26.

In November 2019, Ambon unconditionally and irrevocably waived the amount due from the Group amounting to US$119,000 (equivalent to RMB830,000).

Furthermore, the change in the Company's share capital resulted from re-denomination and capitalisation issue of the Company's share capital as detailed in note 28 are not settled in cash.

37. RELATED PARTY DISCLOSURES

(a) Related party transactions

Saved as disclosed elsewhere in this report, the Group also has the following significant related party transactions.

Mr. Wang and his wife had provided personal guarantees to bank in respect of the Group's banking facilities amounted to RMB200,000,000 and RMB350,000,000 on 26 March 2018 and 19 March 2018, respectively. Such personal guarantees provided by Mr. Wang and his wife had been released on 31 October 2018 and 7 November 2018, respectively.

(b) Compensation of key management personnel

	Year ended At 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, bonus and other benefits	**1,357**	1,236
Retirement benefits scheme contributions	**121**	222
Discretionary performance related bonus	**390**	144
	1,868	1,602

The remuneration of key management personnel (being Chairman and director of the Company and other key management of the Group), is determined with reference to the performance of individuals and market trends.

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**59,987**	59,987
CURRENT ASSETS		
Amount due from a subsidiary	**70,772**	–
Other receivables	**–**	3,762
Bank balances and cash	**56,274**	118
	127,046	3,880
CURRENT LIABILITIES		
Amount due to a related party	**–**	604
Other payables	**3,026**	16,482
Amount due to a subsidiary	**–**	9,608
	3,026	26,694
NET CURRENT ASSETS (LIABILITIES)	**124,020**	(22,814)
TOTAL ASSETS LESS CURRENT LIABILITIES	**184,007**	37,173
CAPITAL AND RESERVES		
Share capital	**4,504**	51,386
Share premium	**208,617**	–
Reserves	**(29,114)**	(14,213)
TOTAL EQUITY	**184,007**	37,173

Movements of the Company's reserves

	Share Premium	Other reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	–	–	–	–
Loss and total comprehensive expense for the year	–	–	(14,213)	(14,213)
At 31 December 2018	–	–	(14,213)	(14,213)
Loss and total comprehensive expense for the year	–	–	(15,512)	(15,512)
Waiver of amount due to a related party	–	611	–	611
Effect of re-denomination of shares capital *(note 28)*	50,922	–	–	50,922
Capitalisation issue *(note 28)*	(2,921)	–	–	(2,921)
Issuance of new shares upon Listing *(note 28)*	175,657	–	–	175,657
Cost of issuing new shares	(15,041)	–	–	(15,041)
At 31 December 2019	**208,617**	**611**	**(29,725)**	**179,503**

39. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Principal place of operation and incorporation/ establishment, date of incorporation/ establishment	Paid-in/ share capital	Shareholding/equity interest attributable to the Group as at 31 December 2019	2018	Principal activities
Jiangsu Pengfei *(note a)*	the PRC, 8 July 2002	RMB37,316,000	**100.00%**	100.00%	Building material manufacturing
Pengfei Equipment *(note a)*	the PRC, 13 November 2001	RMB10,115,500	**66.13%**	66.13%	Building material manufacturing
PengFei BVI	the BVI, 2 August 2017	USD1	**100.00%**	100.00%	Investment holding company
Heavy Equipment HK	Hong Kong, 11 August 2017	HKD1	**100.00%**	100.00%	Investment holding company
Heavy Equipment PRC *(note b)*	the PRC, 8 April 2004	USD9,560,000	**100.00%**	100.00%	Leasing of property and equipment
Nantong Golden *(note a)*	the PRC, 24 July 2018	RMB300,000	**100.00%**	100.00%	Machine manufacturing

Notes:

(a) These companies are limited liability companies.

(b) The company is a wholly owned foreign enterprise.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

40. EVENT AFTER THE REPORTING PERIOD

Except for transactions disclosed elsewhere in these consolidated financial statements, the following events took place subsequent to the end of the reporting period:

The Coronavirus Disease 2019 ("COVID-19") outbreak from the end of January 2020 has brought additional uncertainties to the Group's operating environment and has impacted the Group's operations. Due to the suspension or limited transportation services in certain areas within the PRC, certain workers in the affected provinces and municipalities were unable to return to the Group's production plants as planned and the Group also expects delays in the supply of raw materials from its suppliers and the delivery of products to its customers as a result thereof.

40. EVENT AFTER THE REPORTING PERIOD (continued)

With respect to the Group's construction of production line business which consists mainly overseas projects, it is necessary for the Group to send staff, including project managers and engineers, to monitor the progress of the overseas projects as well as provide assistance and training to customers on how to use the Group's products. It is expected that the Group may face difficulty in obtaining relevant visas, such as work visa for the Group's staff should those countries in which the Group's production line projects are located impose travel restrictions against mainland Chinese citizens in order to prevent the spread of the COVID-19.

The aforesaid has led to a temporary drop of the Group's production capacity which has in turn resulted in late delivery of products in the first quarter of 2020. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures.

As of the date of the issuance of these consolidated financial statements, the situation related to the COVID-19 is not clear, and the impact on the financial situation and operating results of the Group is still under evaluation.

FOUR YEAR FINANCIAL SUMMARY

	For the year ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,465,464**	1,016,201	946,143	776,661
Profit and total comprehensive income for the year	**79,905**	73,316	57,656	33,574
Profit and total comprehensive income for the year attributable to owners of the Company	**78,935**	72,506	58,720	31,842

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**253,665**	266,299	278,257	357,003
Current assets	**2,174,021**	1,423,451	1,332,774	993,748
Non-current liabilities	**9,398**	7,640	4,661	8,211
Current liabilities	**1,879,911**	1,386,203	1,134,894	962,633
Net current assets	**294,110**	37,248	197,880	31,115
Total equity	**538,377**	295,907	471,476	379,907
Total equity attributable to owners of the Company	**538,471**	296,971	472,795	379,647