

China PengFei Group Limited 中国鹏飞集团有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3348

Interim Report
2021



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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, FCS, FCG)

AUTHORISED REPRESENTATIVES

Mr. Ben Daolin (賁道林)
Ms. Chau Hing Ling (周慶齡) (LLM, FCS, FCG)

REGISTERED OFFICE

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HONG KONG BRANCH SHARE REGISTRAR

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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AUDITOR

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Registered Public Interest Entity Auditors
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PRINCIPAL BANKERS

Jiangsu Bank, Haian Branch
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Haian City, Jiangsu Province
PRC

COMPANY'S WEBSITE

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STOCK CODE

3348

HIGHLIGHTS

- Revenue for the six months ended 30 June 2021 was approximately RMB852.5 million, representing an increase of approximately 11.5% as compared to the corresponding period last year.
- Gross profit for the six months ended 30 June 2021 was approximately RMB127.9 million, representing a slight decrease of approximately 0.6% as compared to the corresponding period last year.
- Profit before tax for the six months ended 30 June 2021 was approximately RMB63.0 million, representing an increase of approximately 10.9% as compared to the corresponding period last year.
- Profit and total comprehensive income for the six months ended 30 June 2021 attributable to owners of the Company was approximately RMB54.2 million, representing an increase of approximately 11.1% as compared to the corresponding period last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB10.84 cents per share for the six months ended 30 June 2021.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of China PengFei Group Limited (the “**Company**”), I am pleased to present to you the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**” or “**PengFei Group**” or “**we**” or “**our**” or “**us**”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period ended 30 June 2020.

Since the beginning of the year, we have been striving to consolidate our leading position in the rotary kiln and grinding equipment industry in both China and the global market, with a view to continuously promoting the steady development of the Group. The Group's long-term strategies of expanding into the emerging markets along the “Belt and Road” while reinforcing its position in the existing markets remain unchanged, with a view to setting up the general layout of the domestic market. Meanwhile, we will continue to explore new markets as well as accelerating the transformation and upgrade of the Company. In the face of the challenges brought about by the novel coronavirus pneumonia epidemic (“**COVID-19 Pandemic**”), we proactively adapted to the new development pattern featuring domestic and international dual circulation by focusing on domestic sales in response to the rebound of domestic demand following a series of stimulus measures rolled out by the Chinese government. For the six months ended 30 June 2021, the Group recorded a revenue of approximately RMB852.5 million and a profit and total comprehensive income attributable to owners of the Company of approximately RMB54.2 million, which is basically the same as the corresponding period of last year.

In 2021, we staged a campaign of striving for performance excellence and enterprise standardization with a view to achieving high quality development, whereby we made remarkable efforts to enhance the awareness of quality among our employees, upheld the belief in superior quality, made quality assurance our top priority, established a scientific standardization system, and continuously improved our management expertise. The Group played a leading role in convening the national standards review conference on the “Technical Requirements for Complete Set of Lime Calcination Equipment” (“《石灰煅燒成套裝備技術要求》”), with the relevant standards submitted to the authorities for approval. Currently, the Group is leading the drafting of the “Rotary Kiln for Cement Industry” (“《水泥工業用回轉窯》”), the group standard for building materials industry in Jiangsu Province. Due to the impact of the COVID-19 Pandemic, we encountered travel restrictions that confronted us with difficulties in dispatching personnel and shipping cargo to overseas project sites, as a result of which the construction of our production lines was inevitably disrupted, and the progress of the projects under the “Belt and Road” Initiative was hindered. In 2021, we foresee that the construction of our production lines will be delayed to some extent, however, we are strongly confident that our projects will be completed.

In 2021, we adhered to our strategy of technology innovation and cooperated with Nanjing Tech University* (南京工業大學), Institute of Process Engineering of Chinese Academy of Sciences* (中國科學院過程工程研究所) and Tsinghua University on the development of energy-saving and eco-friendly equipment, research and development and industrialization of pyrolysis technology for low-rank coal clean utilization, sludge disposal equipment, hazardous and solid waste disposal equipment, and domestic waste disposal equipment. We gave full play to our own strengths in penetrating the international and domestic markets, and made due efforts to promote the dual-circulation strategy. We seized the opportunities brought by the “Belt and Road” supporting policy to achieve a breakthrough in investment in countries along the “Belt and Road”. We accelerated the strategic implementation of “developing our Group with talents”, cultivating a executive team of broad international vision and pioneering spirit, an international operation management team familiar with international practices, as well as a market development team proficient in business and market with fluent language skills. We developed market-oriented and international hiring standards to enhance our appeal to international talents, and helped PangFei Group fly higher and farther during the 14th Five-Year Plan period with a brilliant team of talents.

CHAIRMAN'S STATEMENT

The sharp increase in the prices of steel and other raw material in 2021 imposed increasing cost pressure on manufacturers, while the spread of COVID-19 Pandemic across the globe hampered our penetration into the international market, resulting in slow progress of overseas projects, which will affect the sustainable development of the industry. As the COVID-19 Pandemic was reined in and economic and social development achievements were further consolidated, the demand in the building materials machinery market continued to recover. It is expected that China's economic performance for the whole year will be encouraging, while the main economic indices will continue to grow.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the management team and our employees for their hard work and inspirational contributions to the development of the Group. I would also thank our shareholders (the "**Shareholders**"), investors, customers and partners who have always been supporting the development of the Group! With your joint efforts, we will definitely meet with new achievements and glories in our future expedition.

China PengFei Group Limited

WANG Jiaan

Chairman

Jiangsu, China
13 August 2021

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.

Despite the uncertainties caused by the COVID-19 Pandemic outbreak since January 2020 and various COVID-19 Pandemic control conditions during the early part of 2020 in China, the nation has rebounded well with most areas gradually return to pre-COVID-19 Pandemic levels. Coupled with the promotion of vaccinations, the Group remains optimistic in the rotary kiln, grinding equipment and their related equipment market. During the six months ended 30 June 2021 with the Group's continued endeavours to minimise the impact of the COVID-19 Pandemic, the Group had maintained its operation and financial performance of the Group and had stuck to its business strategies.

Expansion of customer base

The Group continued to expand its customer base by reinforcing the Group's market presence in the building materials industry. For the six months ended 30 June 2021, revenue generated from customers in the building materials industry amounted to approximately RMB414.0 million (six months ended 30 June 2020: RMB344.9 million).

Apart from serving our customers in the building materials industry, the Group has also expanded its products and services to serve our customers in other industries, mainly metallurgy, chemical and environmental protection industries as a result of our research and development efforts. Revenue generated from our customers of equipment manufacturing in non-building materials industries accounted for approximately 67.0% and 65.4%, respectively, of our total revenue in the manufacturing of equipment for the six months ended 30 June 2020 and 2021. In order to tap into the metallurgy, chemical and environmental protection industries with a primary focus on the treatment of various municipal solid waste, during the six months ended 30 June 2021, approximately HK\$98.4 million of the net proceeds from the share offer (the "Share Offer") as described in the prospectus of the Company dated 31 October 2019 (the "Prospectus") were used in the purchase of new machinery and the construction of a new production plant for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology.

The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Uzbekistan, Ivory Coast (Côte d'Ivoire) and Kazakhstan. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 18.4% and 21.8%, respectively, of our total revenue for the six months ended 30 June 2020 and 2021. During the six months ended 30 June 2021, the Group had 3 on-going production line projects, all located in "Belt and Road" countries.

Research and Development

To maintain the Group's market position in the rotary kiln and grinding equipment industries and expand the Group's product portfolio and improve the functionality and efficiency of its products, the Group has invested in its research and development capabilities focusing on the energy saving and environmentally-friendliness technologies and continued to cooperate with research institutions in the PRC. Currently, the Group is conducting research and development with Tsinghua University on "Key Technology for Efficient Pyrolysis and Clean Utilisation of Low-rank Coal" (《低階煤高效熱解清潔利用關鍵技術》). During the six months ended 30 June 2021, the Group has continued to participate in the discussion on the setting of 5 national and industry standards, among which the drafting of a national standard named "Complete Sets of Equipment Technical Requirements for Lime Calcining" (石灰煅燒成套裝備技術要求) has been completed and submitted to relevant authority for approval. The Group has also been taking the lead in drafting an industry standard named "Rotary Kiln for Cement Industry" (水泥工業用迴轉窯) for the Jiangsu Building Material Industry Association* (江蘇省建材行業協會). As at 30 June 2021, the Group had 74 authorised patents, comprising 42 invention patents and 32 utility model patents. There are also 67 patent applications pending approval which primarily relate to manufacture of products in our rotary kiln and grinding equipment system.

Outlook

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

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

The outbreak of COVID-19 Pandemic in January 2020 had a certain impact on the development of our overseas business, such as tighter control of overseas projects during the pandemic, disruption of international travel of personnel, and temporary traffic restrictions on cross-border logistics and transportation which are largely still on-going in 2021. As a result, we had still been experiencing a slower progress in our exploration of overseas markets and the COVID-19 Pandemic had still brought uncertainties to our ability to obtain new contracts from overseas customers during 2021. Despite the hindrance, we will continue to keep an eye on "Belt and Road" countries to explore potential markets. In view of the COVID-19 Pandemic, we have formulated a comprehensive and stringent prevention and control plan in a timely manner in accordance with the relevant national and local regulations on epidemic prevention and control to protect the health of our employees as well as to ensure stable production process. In addition, our customers, especially those from our construction of production line business, have also been negatively affected by the COVID-19 Pandemic causing an increase of overall credit risks of such customers. While the vaccine rollout marks a crucial step forward in defeating COVID-19 Pandemic and it is expected that the global economy will be likely to improve in the second half of 2021, the Directors will continue to closely monitor the settlement payment and financial position of our customers in the second half of 2021 to ensure prompt action against any recoverability issue for our trade receivables. Due to the uncertainty of the development of the COVID-19 Pandemic, it is difficult to predict the duration of these conditions and the extent of the impact on our business in the second half of 2021. We will continue to monitor the situation of the COVID-19 Pandemic, assess and react proactively to its impact on the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

	Six months ended 30 June				Period-over- Period Change
	2021		2020		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	%
Manufacturing of equipment	666,752	78.2	614,745	80.4	8.5
Installation services	3,838	0.5	11,291	1.5	-66.0
Construction of production line	181,890	21.3	138,728	18.1	31.1
Total	852,480	100.0	764,764	100.0	11.5

Our revenue increased by approximately RMB87.7 million or 11.5% to approximately RMB852.5 million for the six months ended 30 June 2021 from approximately RMB764.8 million for the six months ended 30 June 2020 as a result of both the growth of our revenue generated from manufacturing of equipment and construction of production line businesses.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by approximately RMB52.0 million or 8.5% to approximately RMB666.8 million for the six months ended 30 June 2021 from approximately RMB614.7 million for the six months ended 30 June 2020. The increase in revenue derived from manufacturing of equipment business was primarily due to growth in our sales made to a few major customers in mainland China with considerably large revenue contribution during the six months ended 30 June 2021 as compared with the corresponding period last year.

Installation services. Revenue derived from our installation services business decreased by approximately RMB7.5 million or 66.0% to approximately RMB3.8 million for the six months ended 30 June 2021 from approximately RMB11.3 million for the six months ended 30 June 2020. This decrease was mainly due to the decreased demand of installation services from customers under our manufacturing of equipment business for the six months ended 30 June 2021.

Construction of production line. Revenue from our construction of production line business increased by approximately RMB43.2 million or 31.1% to approximately RMB181.9 million for the six months ended 30 June 2021 from approximately RMB138.7 million for the six months ended 30 June 2020. This increase was mainly attributable to the progress of one of our construction of production line projects generating revenue of approximately RMB128.4 million during the six months ended 30 June 2021 as compared to approximately RMB28.1 million during the corresponding period last year.

Cost of sales and services

Our cost of sales and services increased by approximately RMB88.5 million or 13.9% to approximately RMB724.6 million for the six months ended 30 June 2021 from approximately RMB636.1 million for the six months ended 30 June 2020 mainly due to increase of sales during the same period. Cost of raw materials, being the largest component of our cost of sales and services, decreased by approximately RMB3.4 million during the six months ended 30 June 2021 as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased slightly by approximately RMB0.8 million or 0.6% to approximately RMB127.9 million for the six months ended 30 June 2021 from approximately RMB128.7 million for the six months ended 30 June 2020. The Group's gross profit margin decreased to 15.0% for the six months ended 30 June 2021 from 16.8% for the corresponding period last year.

Other income

Our other income decreased significantly by approximately RMB10.7 million or 72.1% to approximately RMB4.1 million for the six months ended 30 June 2021 from approximately RMB14.9 million for the six months ended 30 June 2020 primarily attributable to the decrease in Chinese government subsidies of approximately RMB10.8 million received during the six months ended 30 June 2021 as compared with the corresponding period last year.

Other gains and losses

We record other losses of approximately RMB0.1 million for the six months ended 30 June 2021 as compared with other gains of approximately RMB3.5 million for the six months ended 30 June 2020 mainly due to the decrease in foreign exchange gain during the six months ended 30 June 2021 as compared with the corresponding period last year.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB12.6 million or 29.8% to approximately RMB29.7 million for the six months ended 30 June 2021 from approximately RMB42.3 million for the six months ended 30 June 2020 mainly due to the lower transportation costs incurred by the Group during the same period as transportation services requested by our customers mainly involves short-distance transport and the lower transportation expenses incurred for our overseas production line projects.

Administrative expenses

Our administrative expenses decreased by approximately RMB5.3 million or 20.3% to approximately RMB20.6 million for the six months ended 30 June 2021 from approximately RMB25.8 million for the six months ended 30 June 2020. The comparatively higher administrative expenses for the six months ended 30 June 2020 was mainly attributable to the additional lease payments for lease of land incurred by the Group during such period.

Research expenditure

Our research expenditure increased by approximately RMB2.9 million or 28.4% to approximately RMB13.3 million for the six months ended 30 June 2021 from approximately RMB10.4 million for the six months ended 30 June 2020 mainly due to increased staff costs and materials consumed for our research activities during the six months ended 30 June 2021 as compared with the corresponding period last year.

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

Impairment loss on trade and other receivables and contract assets decreased by approximately RMB6.5 million or 55.1% to approximately RMB5.3 million for the six months ended 30 June 2021 from approximately RMB11.7 million for the six months ended 30 June 2020 mainly due to a decrease in impairment loss on trade receivables provided for the six months ended 30 June 2021. The decrease in impairment loss on trade receivables provided for the six months ended 30 June 2021 was mainly due to the lower increment of trade receivables during the six months ended 30 June 2021 as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

Our income tax expenses increased by approximately RMB0.3 million or 3.7% to approximately RMB9.2 million for the six months ended 30 June 2021 from approximately RMB8.9 million for the six months ended 30 June 2020. Our effective tax rate was 15.6% and 14.6% for the six months ended 30 June 2020 and 2021, respectively. The comparatively lower effective tax rate for the six months ended 30 June 2021 was mainly due to the increased deductible research expenditure incurred.

Profit and total comprehensive income for the period

As a result of the foregoing, our profit and total comprehensive income for the period attributable to owners of the Company increased by approximately RMB5.4 million or 11.1% to approximately RMB54.2 million for the six months ended 30 June 2021 from approximately RMB48.8 million for the six months ended 30 June 2020.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 30 June 2021 and continued to adopt a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities of its business.

Net current assets of the Group amounted to approximately RMB85.0 million (31 December 2020: RMB100.0 million) with a current ratio calculated by dividing our current assets over our current liabilities of 123.0% as at 30 June 2021 (31 December 2020: 105.1%).

Inventories increased by approximately RMB22.4 million or 3.3% to approximately RMB701.1 million as at 30 June 2021 from approximately RMB678.7 million as at 31 December 2020. Inventory turnover days was 171 days for the six months ended 30 June 2021, representing a decrease of 26 days as compared to 197 days for the year ended 31 December 2020. The increase in inventories was mainly due to the increasing domestic sales orders received during the six months ended 30 June 2021. The decrease in inventory turnover days was mainly due to increase in our sales during the six months ended 30 June 2021.

Trade, bills and other receivables increased by approximately RMB61.4 million or 13.9% to approximately RMB502.9 million as at 30 June 2021 from approximately RMB441.5 million as at 31 December 2020, among which trade receivables increased by approximately RMB28.4 million or 7.3% to approximately RMB419.0 million as compared with approximately RMB390.6 million as at 31 December 2020. Such change was mainly due to the increase in our sales during the six months ended 30 June 2021. In May 2019, the Group, due to the expected delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank, entered into a supplemental agreement with such customer pursuant to which the Group agreed that such customer to defer an amount of RMB280 million (the “**Deferred Payment**”) bearing a fixed interest rate of 8.41% per annum secured and guaranteed by such customer. As agreed in the supplemental agreement, the Deferred Payment up to a maximum amount of RMB280 million was agreed to be settled in every three months by 12 installments, which was intended to start from 30 September 2020, but subject to a specific date upon finalisation of negotiation by both parties. The management of the Group expects that the negotiation will be finalised during the year ending 31 December 2021 but the commencement date of such repayments is still uncertain. As at 30 June 2021, outstanding balance of approximately RMB279.1 million (net of impairment loss allowance of approximately RMB5.8 million) was included in the Group’s trade receivables. Subsequent to 30 June 2021, repayment of approximately RMB32.3 million was made by such customer. Our trade receivables turnover days was 78 days for the six months ended 30 June 2021 (2020: 84 days) representing a decrease of 6 days as compared with the corresponding period last year. The decrease in trade receivable turnover days during the six months ended 30 June 2021 was primarily due to customer settlement as a result of the Group’s efforts in payment collection.

Prepayments to suppliers decreased slightly by approximately RMB4.0 million or 1.9% to approximately RMB201.7 million as at 30 June 2021 from approximately RMB205.7 million as at 31 December 2020 primarily due to decreased prepayments made to the suppliers for the purchase of raw materials.

MANAGEMENT DISCUSSION AND ANALYSIS

Contract liabilities decreased by approximately RMB79.5 million or 6.0% to approximately RMB1,256.0 million as at 30 June 2021 from approximately RMB1,335.5 million as at 31 December 2020. The decrease in contract liabilities was mainly due to the accelerated completion progress of our contracts on hand as a result of our increased production capacity.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group has adopted a treasury management plan allowing it to invest not more than 30% of its cash-in-hand at any relevant time during the year 2021 in financial assets limited to wealth management products issued by banks and subject to the following conditions:

- (a) all investments in wealth management products shall be principal guaranteed;
- (b) all wealth management products invested by the Group shall be of not more than three months investment period (save for any extension of investment period as a result of any public holidays);
- (c) the aggregate amount of funds to be invested in wealth management products shall not exceed the cash flow needs of the Group for the next three months at any relevant time; and
- (d) detailed descriptions of the wealth management products are required to be submitted for consideration and prior approval at the respective meetings of the investment committee of the Board and the Board.

As at 30 June 2021, the Group invested in wealth management products issued by the bank of approximately RMB50.0 million (31 December 2020: Nil).

As at 30 June 2021, the Group had cash and cash equivalents of approximately RMB343.7 million (31 December 2020: approximately RMB434.8 million). A portion of the Group's bank deposits totaling approximately RMB20.7 million (31 December 2020: approximately RMB17.1 million) were restricted for the issue of bills payables and letter of credit by the Group. The Group's cash and cash equivalents and restricted bank deposits were mostly denominated in Renminbi, United States dollars, Hong Kong dollars and Euro.

As at 30 June 2021, we had banking facilities of approximately RMB400.0 million, of which approximately RMB26.4 million were utilised. The utilised banking facilities as at 30 June 2021 represented bank guarantee of approximately RMB21.6 million and bank acceptance bill amounted to approximately RMB4.8 million. As at 30 June 2021, the Group had unutilised banking facilities amounted to approximately RMB373.6 million. As at 30 June 2021, the Group did not have any bank borrowings (31 December 2020: Nil).

As at 30 June 2021, the Company's gearing ratio, which is calculated by dividing our total liabilities over our equity attributable to owners of the Company multiplied by 100%, was 312.0% (31 December 2020: 309.0%).

During the six months ended 30 June 2021, the Group recorded approximately RMB21.3 million (six months ended 30 June 2020: RMB139.7 million) net cash from operating activities. Net cash used in investing activities for the six months ended 30 June 2021 amounted to approximately RMB110.6 million (six months ended 30 June 2020: RMB207.5 million). Net cash used in financing activities for the six months ended 30 June 2021 amounted to approximately RMB9,000 (six months ended 30 June 2020: RMB1.8 million).

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

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

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

Currency risk

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

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's 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, term deposits, restricted bank deposits and bank balances.

Given that 73% of the total trade receivables was due from a construction of production line customer of the Group as at 30 June 2021 (31 December 2020: 78%), the Group has concentration of credit risk.

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

Liquidity risk

During the six months ended 30 June 2021, the Group did not experience any liquidity shortage. We managed our liquidity risks by maintaining adequate level of cash and cash equivalents to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE

During the six months ended 30 June 2021, the Group's capital expenditure amounted to approximately RMB59.2 million (six months ended 30 June 2020: approximately RMB35.9 million) which was mainly related to the acquisition of property, plant and equipment and upfront payments for right-of-use assets.

PLEDGE OF ASSETS

As at 30 June 2021, the Group's bills receivables with a carrying amount of approximately RMB20.0 million (31 December 2020: RMB35.0 million) were pledged to banks for issuing bills payables.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB21.3 million (31 December 2020: approximately RMB4.0 million).

OFF-BALANCE SHEET TRANSACTIONS

Save for the capital commitments and pledged assets disclosed above, the Group did not enter into any material off-balance sheet transactions or arrangements during the six months ended 30 June 2021 and up to the date of this report.

EMPLOYEES AND REMUNERATION INFORMATION

As at 30 June 2021, the Group had a total of 1,019 employees (30 June 2020: 996) including staff from administrative, finance, sales, supply, technical, quality control, and production departments.

Remuneration packages of our employees usually comprise, among other things, salaries, bonus, contribution to pension schemes and allowances. We regularly review and determine the remuneration and compensation package of our employees by reference to, among other things, their performance, qualifications, respective responsibilities and market levels of salaries paid by comparable companies. For the six months ended 30 June 2021, the Group incurred staff cost (including Directors' remuneration) of approximately RMB53.8 million (six months ended 30 June 2020: approximately RMB44.8 million).

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 of Hong Kong Limited (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 30 June 2021. All the unused proceeds have been deposited into a bank account maintained by the Group.

	Percentage to total amount %	Net proceeds HK\$ million	Utilised amount as at 30 June 2021 ^(Note 1) HK\$ million	Unutilised amount as at 30 June 2021 HK\$ million	Expected timeline for unutilised amount ^(Note 2)
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	78.7	118.0	100.6 ^(Note 3)	17.4	To be fully utilised by 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	10.5	–	Fully utilised in 2021
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	0.3 ^(Note 4)	9.9	To be fully utilised by the end of 2021
Marketing activities	3.5	5.2	3.7	1.5	To be fully utilised by third quarter of 2021
Working capital	4.0	6.1	6.1	–	Fully utilised in 2020
	100.0	150.0	121.2	28.8	

Notes:

1. The net proceeds were used by our PRC subsidiaries in RMB. The translation of RMB into Hong Kong dollars have been made at the rate of RMB1.00 to HK\$1.2018.
2. For further details of the expected timeline, please refer to the Prospectus.
3. The utilisation of proceeds for purchasing new machinery of the Group has fallen behind the schedule as disclosed in the Prospectus as a result of the late delivery of machinery by our supplier due to the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by third quarter of 2021.
4. The utilisation of proceeds for participating in the national and the international drafting committees for setting the technical requirement for lime calcination rotary kiln of the Group has fallen behind the schedule as disclosed in the Prospectus due to the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by third quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

As at 30 June 2021, Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) (“**Jiangsu Pengfei**”), an indirect wholly-owned subsidiary of the Company, had subscribed for a wealth management product issued by Bank of Jiangsu Co. Ltd. (“**Bank of Jiangsu**”) (the “**Subscription**”), as detailed below. Bank of Jiangsu is a joint stock commercial bank and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600919). Bank of Jiangsu and its subsidiaries are principally engaged in the provision of banking and related financial services, such as personal banking, corporate banking, interbank financing, network finance, small and micro financing, as well as credit card issuing. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, each of Bank of Jiangsu and its ultimate beneficial owners is a third party independent of the Company and its connected persons.

During the six months ended 30 June 2021, the Group has invested its available cash-in-hand in wealth management products issued by banks in the PRC as part of the Group’s treasury measure for better short-term cash flows management purposes. As at 30 June 2021, the financial assets at FVTPL held by the Group were RMB50.0 million (31 December 2020: Nil), representing 2.4% of total assets of the Group. Details of the financial assets at FVTPL held by the Group as at 30 June 2021 are set out as follows:

Financial assets at FVTPL	Subscription date	Interest rate (per annum)	Maturity date	Principal	Changes in	Carrying
				amount of Subscription (RMB’000)	fair value for the six months ended 30 June 2021 (RMB’000)	amount as of 30 June 2021 (RMB’000)
“Jubao Caifu Rongda No. 1” Open-ended Net Worth Wealth Management Product (“聚寶財富融達 1 號”開放式 淨值型理財產品) (Note)	27 May 2021	3.9%	25 November 2021	50,000	0	50,000

Note:

This wealth management product is not principal guaranteed, with no fixed rate of return and redeemable upon the maturity date. This wealth management product primarily invests 80% to 100% in debt assets and 0 % to 20% in listed securities, public funds, commodities and financial derivatives and other assets permitted by relevant regulatory authorities.

The Group has since 2015 adopted investment management policies to monitor and control the potential risks relating to the Group’s investment activities and thereafter adopted enhanced internal control measures to better safeguard the Group against the interests risk, default risk and market risk associated with such form of short-term cash management through investment in financial assets. Taking into account, among others, (i) the investment portfolio of this products consists of over 80% debt assets featured with medium to low risks and limited choice of principal-guaranteed wealth management products available to the Group offered by the banks in the PRC; (ii) the better yield expected by the Directors than current deposits generally offered by commercial banks in the PRC; (iii) the relative short term to maturity; and (iv) sufficient working capital available to the Group after the Subscription, the Directors are of the view that the terms of such wealth management product are on normal commercial terms negotiated at arm’s length and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

At present, the Group does not intend to renew such wealth management product upon its maturity. Going forward, should the Group decides to invest in any bank issued wealth management product, the Group will comply with the applicable requirements under the Listing Rules as well as the Group's treasury management plan details of which are set out in the paragraph headed "Liquidity and financial resources" under this section in this report.

Save as disclosed above, during the six months ended 30 June 2021 and up to the date of this report, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group does not have other plans for material investments and capital assets during the six months ended 30 June 2021 and up to the date of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 of the Company (the “Shares”) as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the six months ended 30 June 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the “Corporate Governance Code”) contained in Appendix 14 to the Listing Rules as its own code on corporate governance. During the six months ended 30 June 2021, the Company has complied with the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the six months ended 30 June 2021.

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

As at 30 June 2021, 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 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)	215,249,438	43.05%

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 30 June 2021, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Directors' Rights to Acquire Shares and Debentures

At any time during the six months ended 30 June 2021 and up to the date of this 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 30 June 2021, 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 Substantial Shareholder	Nature of Interest	Number of Shares	Approximate percentage of shareholding interest
Ambon Holding Limited	Beneficial owner ^(Note 1)	215,249,438	43.05%
PF International Group Limited ("PF International")	Beneficial owner ^(Note 2)	126,534,381	25.31%
PF Global Limited ("PF Global")	Beneficial owner ^(Note 3)	47,326,181	9.47%

Notes:

- (1) Ambon Holding Limited is wholly-owned by Mr. Wang Jian (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 (周悅), 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 30 June 2021, 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.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2021.

REVIEW OF UNAUDITED INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the Corporate Governance Code. As at the date of this report, the Audit Committee comprises three members, namely Mr. Mak Hing Keung, Thomas, Mr. Ding Zaiguo and Ms. Zhang Lanrong. Mr. Mak Hing Keung, Thomas is the Chairman of the Audit Committee.

The Audit Committee has reviewed the Group’s unaudited interim condensed consolidated financial information for the six months ended 30 June 2021. The Audit Committee is of the view that the Group’s unaudited interim condensed consolidated financial information for the six months ended 30 June 2021 are in compliance with the applicable accounting standards, the Listing Rules and other legal requirement and that sufficient disclosure has been made.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2021 have not been audited or reviewed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu.

CHANGES IN THE BOARD AND THE DIRECTORS’ INFORMATION

Changes in the Board and the information of Directors since the date of annual report 2020 of the Company are as follows:

- (1) Mr. Ben Daolin (賁道林) has been awarded the title of National Model Worker in Building Materials Industry* (全國建材行業勞動模範稱號) in May 2020. In November 2020, he obtained the Jiangsu Province Senior Professional and Technical Qualification Certificate* (江蘇省高級專業技術資格證書).
- (2) Mr. Mak Hing Keung, Thomas (麥興強) has been an independent non-executive director of Global New Material International Holdings Limited (listed on the Stock Exchange, stock code: 6616) since July 2021.

Save as disclosed above, there is no changes in the Board and in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

Save as disclosed in this report, as of the date of this report, the Company does not have any subsequent event after 30 June 2021 which is required to be disclosed.

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

Jiangsu, China
13 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	852,480	764,764
Cost of sales and services		(724,583)	(636,058)
Gross profit		127,897	128,706
Other income	5	4,146	14,860
Other gains and losses		(142)	3,517
Selling and distribution expenses		(29,708)	(42,308)
Administrative expenses		(20,596)	(25,848)
Research expenditure		(13,291)	(10,350)
Impairment losses on trade and other receivables and contract assets, net of reversal		(5,267)	(11,732)
Finance costs		(2)	(2)
Profit before tax	6	63,037	56,843
Income tax expense	7	(9,185)	(8,856)
Profit and total comprehensive income for the period		53,852	47,987
Profit (loss) and total comprehensive income (expenses) for the period attributable to:			
– Owners of the Company		54,198	48,775
– Non-controlling interests		(346)	(788)
		53,852	47,987
Earnings per share	9		
– Basic (RMB cent)		10.84	9.76
– Diluted (RMB cent)		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

	Notes	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
NON-CURRENT ASSETS			
Trade receivables		279,060	278,568
Property, plant and equipment	10	256,564	213,456
Investment properties	10	11,189	11,720
Intangible assets		11	27
Right-of-use assets	10	47,291	47,773
Deposits paid for acquisition of property, plant and equipment		13,750	11,538
		607,865	563,082
CURRENT ASSETS			
Inventories		701,094	678,673
Trade, bills and other receivables	13	502,938	441,495
Contract assets	11	123,386	119,301
Contract costs		16,033	15,102
Value-added tax recoverable		—	14,492
Prepayments to suppliers		201,685	205,696
Financial assets at FVTPL		50,000	—
Term deposits over three months		150,000	150,000
Restricted bank deposits		20,695	17,121
Bank balances and cash		343,697	434,795
		2,109,528	2,076,675
CURRENT LIABILITIES			
Trade, bills and other payables	14	720,153	637,966
Contract liabilities		1,255,959	1,335,502
Dividend payable		40,000	—
Value-added tax payable		2,269	—
Tax payable		6,156	3,164
		2,024,537	1,976,632
NET CURRENT ASSETS		84,991	100,043
TOTAL ASSETS LESS CURRENT LIABILITIES		692,856	663,125

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AT 30 June 2021

	Notes	<u>30 June 2021</u>	<u>31 December 2020</u>
		RMB'000	RMB'000
		(unaudited)	(audited)
CAPITAL AND RESERVES			
Share capital	15	4,504	4,504
Share premium		183,617	183,617
Reserves		471,485	457,287
Equity attributable to owners of the Company		659,606	645,408
Non-controlling interests		(363)	(17)
TOTAL EQUITY		659,243	645,391
NON-CURRENT LIABILITY			
Deferred income		14,000	—
Deferred tax liabilities	12	19,613	17,734
		33,613	17,734
		692,856	663,125

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Attributable to owners of the Company					Subtotal	Non-controlling interests	Total
	Paid-in/ share capital	Share premium	Capital surplus reserve	Other reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021 (audited)	4,504	183,617	128,977	2,252	326,058	645,408	(17)	645,391
Profit (loss) and total comprehensive income (expenses) for the period	–	–	–	–	54,198	54,198	(346)	53,852
Dividends recognised as distribution (note 8)	–	–	–	–	(40,000)	(40,000)	–	(40,000)
At 30 June 2021 (unaudited)	4,504	183,617	128,977	2,252	340,256	659,606	(363)	659,243
At 1 January 2020 (audited)	4,504	208,617	109,190	2,252	213,908	538,471	(94)	538,377
Profit (loss) and total comprehensive income (expenses) for the period	–	–	–	–	48,775	48,775	(788)	47,987
Dividends recognised as distribution (note 8)	–	–	–	–	(25,000)	(25,000)	–	(25,000)
At 30 June 2020 (unaudited)	4,504	208,617	109,190	2,252	237,683	562,246	(882)	561,364

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	21,307	139,661
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	239	42
Placement of term deposits	(150,000)	(150,000)
Withdrawal of term deposits	150,000	–
Placement of restricted bank deposits	(60,433)	(31,083)
Withdrawal of restricted bank deposits	56,859	7,253
Purchase of and deposits paid for acquisition of property, plant and equipment	(59,181)	(27,542)
Upfront payments for right-of-use assets	–	(8,389)
Bank interest received	1,933	2,224
Interest income from independent third parties	–	17
Purchase of financial assets at FVTPL	(50,000)	–
NET CASH USED IN INVESTING ACTIVITIES	(110,583)	(207,478)
FINANCING ACTIVITIES		
Issue cost paid	–	(744)
Repayments of loan from independent third parties	–	(1,068)
Repayments of lease liabilities	(9)	(9)
NET CASH USED IN FINANCING ACTIVITIES	(9)	(1,821)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(89,285)	(69,638)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	434,795	486,445
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(1,813)	1,192
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	343,697	417,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendment to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of equipment, recognised at a point in time	666,752	614,745
Revenue from construction of production line, recognised over time	181,890	138,728
Installation service, recognised over time	3,838	11,291
	852,480	764,764

Entity-wide disclosures

Geographical information

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Mainland China	629,988	606,556
Outside Mainland China		
Including: Uzbekistan	128,413	29,154
Cote d'Ivoire	52,880	87,101
Japan	16,328	—
Republic of Kazakhstan	596	22,388
Other countries	24,275	19,565
	852,480	764,764

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

5. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	1,933	2,224
Interest income from independent third parties	–	17
Government subsidies	1,089	11,878
Rental income	862	687
Others	262	54
	4,146	14,860

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	13,803	14,799
Depreciation of investment properties	531	596
Amortisation of intangible assets	16	21
Depreciation of right-of-use assets	482	468
	14,832	15,884
Capitalised in inventories	(12,126)	(13,018)
Total depreciation and amortisation charged to profit or loss	2,706	2,866
Impairment losses on trade receivables, net of reversal	4,864	10,815
Impairment losses on other receivables, net of reversal	19	31
Impairment losses on contract assets, net of reversal	384	886
	5,267	11,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")	7,306	9,845
Deferred tax credit (Note 12)	1,879	(989)
	<u>9,185</u>	<u>8,856</u>

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

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

No provision of Hong Kong Profit Tax was made in the condensed consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profit Tax during the six months ended 30 June 2020 and 2021.

Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) 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 Group is currently in the process of application of the renewal and expects such renewal will be obtained before year-end.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the six months ended 30 June 2020 and 2021.

8. DIVIDENDS

During the current interim period, a final dividend of RMB0.08 (2020: RMB0.05) per ordinary share in respect of the year ended 31 December 2020 was declared to the owners of the Company. The aggregate amount of the final dividend declared in the current interim period amounted to RMB40,000,000 (2019: RMB25,000,000).

The directors of the Company have determined that no dividend will be declared in respect of the six months ended 30 June 2021.

* English name is for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB'000)	<u>54,198</u>	<u>48,775</u>
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	<u>500,000</u>	<u>500,000</u>

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the six months ended 30 June 2020 and 2021.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the current interim period, the Group disposed of certain property, plant and machinery with an aggregate carrying amount of RMB58,000 (2020: RMB6,000) for cash proceeds of RMB239,000 (2020: RMB42,000), resulting in a gain on disposal of RMB181,000 (2020: RMB36,000).

During the current interim period, the Group acquired property, plant and equipment of RMB56,969,000 (2020: RMB26,510,000).

During the current interim period, no right-of-use assets is acquired or disposed by the Group (2020: RMB8,389,000).

During the current interim period, no investment property is acquired or disposed by the Group (2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

11. CONTRACT ASSETS

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Construction of production line	18,517	2,800
Sale of equipment	104,949	114,634
Installation service	11,534	13,097
	<u>135,000</u>	<u>130,531</u>
Less: Impairment loss allowance for contract assets	<u>(11,614)</u>	<u>(11,230)</u>
	<u><u>123,386</u></u>	<u><u>119,301</u></u>

12. DEFERRED TAX LIABILITIES

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

	<u>Items impacted by the revenue recognition</u>	<u>Accrued expenses</u>	<u>Impairment loss allowance on trade and other receivables and contract assets</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020 (audited)	(24,185)	8,304	6,483	(9,398)
Credit (charge) to profit or loss	1,141	(1,466)	1,314	989
At 30 June 2020 (unaudited)	<u>(23,044)</u>	<u>6,838</u>	<u>7,797</u>	<u>(8,409)</u>
At 31 December 2020 (audited)	<u>(35,211)</u>	<u>7,972</u>	<u>9,505</u>	<u>(17,734)</u>
(Charge) credit to profit or loss	<u>(1,178)</u>	<u>(1,335)</u>	<u>634</u>	<u>(1,879)</u>
At 30 June 2021 (unaudited)	<u><u>(36,389)</u></u>	<u><u>6,637</u></u>	<u><u>10,139</u></u>	<u><u>(19,613)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. TRADE, BILLS AND OTHER RECEIVABLES

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables	419,008	390,608
Less: Impairment loss allowance for trade receivables	<u>(38,179)</u>	<u>(34,190)</u>
	380,829	356,418
Analysed as:		
Current	101,769	77,850
Non-current (<i>note i</i>)	279,060	278,568
Bills receivables	<u>390,435</u>	<u>354,126</u>
Total trade receivables and bills receivables	771,264	710,544
Other receivables and prepayments		
Other receivables	8,267	6,114
Prepaid expenses	1,784	2,703
Loans to independent third parties	<u>800</u>	<u>800</u>
	10,851	9,617
Less: Impairment loss allowance for other receivables	<u>(117)</u>	<u>(98)</u>
	<u>10,734</u>	<u>9,519</u>
	<u><u>781,998</u></u>	<u><u>720,063</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Note (i): As at 30 June 2021, included in the Group's trade receivables was a balance of RMB279,060,000 (31 December 2020: RMB278,568,000) (net of impairment loss allowance of RMB5,788,000 (31 December 2020: RMB5,656,000)) 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 production line. Both parties agreed to enter into another finalised Deferred Payment agreement with such details and terms to be fixed (the "Finalised Deferred Payment Agreement").

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

The test run of the production line was completed during the year ended 31 December 2019. However, due to the COVID-19 Pandemic outbreak, the production line was still yet to be completed as at 30 June 2020 and up to the date of the issuance of the condensed consolidated financial statements, while the Group and the customer were still in negotiation and had not yet entered into the Finalised Deferred Payment Agreement.

The management of the Group expects the Finalised Deferred Payment Agreement will be able to sign during the year ending 31 December 2021 but is still uncertain to the date when the install repayment will commence. Installment repayment might or might not be commenced during 2021. Subsequent to the end of the reporting period, the customer made repayment of RMB32,330,000.

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

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

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 1 year	76,577	89,438
1 to 2 years	167,152	250,941
Over 2 years	137,100	16,039
	<u>380,829</u>	<u>356,418</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. TRADE, BILLS AND OTHER RECEIVABLES (continued)

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

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	377,915	324,449
181 days to 1 year	<u>12,520</u>	<u>29,677</u>
	<u><u>390,435</u></u>	<u><u>354,126</u></u>

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

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	381,975	346,574
181 days to 1 year	<u>8,460</u>	<u>7,552</u>
	<u><u>390,435</u></u>	<u><u>354,126</u></u>

As at 30 June 2021, RMB20,000,000 bills receivables of the Group (31 December 2020: RMB35,000,000) were pledged to banks for issuing bills payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

14. TRADE, BILLS AND OTHER PAYABLES

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade payables	589,433	533,147
Bills payables	74,534	38,983
Other taxes payables	8,994	8,837
Amounts due to independent third parties	917	926
Accrued expense	2,875	3,254
Accrued payroll and welfare	8,616	19,535
Unpaid incremental commission	34,594	33,042
Lease liabilities	52	59
Other payables	138	183
	<u>720,153</u>	<u>637,966</u>

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

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 1 year	543,580	498,524
1 year to 2 years	21,866	16,958
Over 2 years	23,987	17,665
	<u>589,433</u>	<u>533,147</u>

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

Age	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>74,534</u>	<u>38,983</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

14. TRADE, BILLS AND OTHER PAYABLES (continued)

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

Age	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>74,534</u>	<u>38,983</u>

15. SHARE CAPITAL

	<u>Par value</u>	<u>Number of shares</u>	<u>Amount</u>
		'000	'000
Authorised:			
On 1 January 2020 (audited), 30 June 2020 (unaudited), 31 December 2020 (audited) and 30 June 2021 (unaudited)	HK\$0.01	<u>10,000,000</u>	<u>HK\$100,000</u>
Issued:			
On 1 January 2020 (audited), 30 June 2020 (unaudited), 31 December 2020 (audited) and 30 June 2021 (unaudited)	HK\$0.01	<u>500,000</u>	<u>HK\$5,000</u>
Presented in RMB'000			<u>RMB4,504</u>

16. CAPITAL COMMITMENTS

	<u>30 June 2021</u>	<u>31 December 2020</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>21,339</u>	<u>3,968</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

17. 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 condensed consolidated statement of financial position approximate to their fair values.

Some of the Group's financial assets are measured at fair value at the end of the 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 30 June 2021 RMB'000	Fair value as at 31 December 2020 RMB'000	Fair value hierarchy	Valuation technique and key input
Financial assets at FVTPL:				
Unlisted financial products	50,000	N/A	Level 2	Discounted cash flows. Future cash flows are estimated based on expected return of the financial products

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

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Salaries, bonus and other benefits	703	671
Retirement benefits scheme contributions	23	20
Discretionary performance related bonus	182	200
	<u>908</u>	<u>891</u>

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.