

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

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號: 3348



Interim Report
中期報告
2023

CONTENTS

Corporate Information	2
Financial Highlights	3
Chairman’s Statement	4
Management Discussion and Analysis	5
Corporate Governance and Other Information	13
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	16
Condensed Consolidated Statement of Financial Position	17
Condensed Consolidated Statement of Changes in Equity	19
Condensed Consolidated Statement of Cash Flows	20
Notes to the Condensed Consolidated Financial Statements	21

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, FCG, HKFCG)

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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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

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Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
P.O. Box 1350, Clifton House
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AUDITOR

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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

HIGHLIGHTS

- Revenue for the six months ended 30 June 2023 was approximately RMB843.5 million, representing a decrease of approximately 1.8% as compared to the corresponding period last year.
- Gross profit for the six months ended 30 June 2023 was approximately RMB144.4 million, representing a decrease of approximately 4.5% as compared to the corresponding period last year.
- Profit before tax for the six months ended 30 June 2023 was approximately RMB78.0 million, representing an increase of approximately 10.3% as compared to the corresponding period last year.
- Profit and total comprehensive income for the six months ended 30 June 2023 attributable to owners of the Company was approximately RMB63.9 million, representing an increase of approximately 5.4% as compared to the corresponding period last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB12.78 cents per share for the six months ended 30 June 2023.

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 2023, together with the comparative figures for the corresponding period ended 30 June 2022.

Since the beginning of this year, in the face of a complicated market environment and enormous pressure from the economic downturn, Pengfei Group has managed to completely, precisely and comprehensively implement its new development strategy while earnestly aligning itself with the industry leaders, focusing on solving problems and shoring up its shortcomings, concentrating on practical work and pursuit of breakthroughs, making all-out efforts in promoting safe production, project construction and green, low-carbon and high-quality development, maintaining tight control of the quality of its products as well as turn-around time and contract fulfillment rate, and coordinated optimization of its production and processes, resulting in the quality of the Group's development continuing to improve. For the six months ended 30 June 2023, the Group recorded a revenue of approximately RMB843.5 million and a profit and total comprehensive income attributable to owners of the Company of approximately RMB63.9 million, representing a decrease of 1.8% and an increase of 5.4% as compared to the corresponding period last year, respectively.

During the year, the Group actively responded to China's strategic initiative of “Reaching Peak Carbon Emission and Achieving Carbon Neutrality” while constantly increasing its investment in independent technological innovation, embarking on the research and development of new technologies, new processes and new equipment such as energy-saving roasting, utilization of resources, and intelligent control systems in the fields of building materials, metallurgy, and environmental protection. The R&D and industrialization of the green and low-carbon process and complete set of energy-saving equipment for lithium extraction from lithium mines has been approved as the 2023 National “Pollution Control and Carbon Reduction” Project with the Group's rotary kiln passing the third-party life cycle evaluation and carbon footprint reporting and the Group itself being touted as one of the Top 50 industrial leaders and a charity star of Haian City.

Heading into the second half of the year, the global economy was evolving in a complex and volatile manner, which, together with the adverse factors such as the Russian-Ukrainian war and turbulence in Africa, had a significant impact on the Company's production line and grinding station EP/EPC business; in terms of the demand in the domestic market, the construction of affordable housing, renovation of villages in cities and construction of infrastructure for “both ordinary and emergency use” is expected to contribute incremental demand to the building materials industry. In a time when opportunities and challenges co-exist and the scrum between high expectation and insubstantial realistic achievement remains heated, product prices will continue to fluctuate at a low level in the short term. Pangfei Group will stick unflinchingly to its annual targets while further strengthening its awareness of crisis, competition and development, insisting on the three core values, i.e. “efficiency, effectiveness and talent”, and further improving its risk-resistant ability, competitiveness and profitability by making all-out efforts in reducing costs, improving efficiency and developing its talent pool, striving to outrace the market and stand up to the tide, and deliver another splendid performance.

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 like to thank our shareholders, investors, customers and partners who have always been supporting the development of the Group! With your joint efforts, we will definitely be met with new achievements and glories in our future expedition.

China PengFei Group Limited

Chairman

Wang Jiaan

Jiangsu, China
18 August 2023

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Expansion of customer base

Despite a slowdown in growth and demand in the building materials industry, the Group was able to secure new projects for energy-saving technology transformation for its customers in response to the local government's vigorous promotion of upgrading and transformation of the construction and building materials industry. For the six months ended 30 June 2023, revenue generated from customers in the building materials industry amounted to approximately RMB298.9 million (six months ended 30 June 2022: RMB348.2 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 69.9% and 64.8%, respectively, of our total revenue in the manufacturing of equipment for the six months ended 30 June 2022 and 2023. 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 2023, over 80% of our rotary kilns were used in emerging industries such as laterite nickel ore, new energy lithium batteries, environmental protection sludge, solid and hazardous waste disposal.

The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Republic of Bangladesh, Republic of Burundi, Republic of Korea, Uzbekistan and Kazakhstan. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 20.3% and 6.9%, respectively, of our total revenue for the six months ended 30 June 2022 and 2023. As at 30 June 2023, we had one on-going production line project which is 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》. As at 30 June 2023, the Group had 124 authorised patents, comprising 58 invention patents and 66 utility model patents. There are also 70 patent applications pending approval which primarily relate to manufacture of products in our rotary kiln and grinding equipment system.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

We believe that with the change to China’s zero-COVID policy and lifting of COVID-19 related prevention and control measures, we can achieve stable and sustainable performance despite the challenging environment and create long term value for shareholders. While the relaxation of border control policies marks a crucial step forward in defeating COVID-19 Pandemic and the national economy is expected to improve in 2023, the Directors will continue to closely monitor the settlement payment and financial position of our customers in the second half of 2023 to ensure prompt action against any recoverability issue for our trade receivables.

FINANCIAL REVIEW

Revenue

	Six months ended 30 June				Period-over- Period Change
	2023		2022		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Manufacturing of equipment	829,709	98.4	725,995	84.5	14.3
Installation services	13,833	1.6	6,700	0.8	106.5
Construction of production line	–	–	126,509	14.7	-100.0
Total	843,542	100.0	859,204	100.0	-1.8

Our revenue decreased by approximately RMB15.7 million or 1.8% to approximately RMB843.5 million for the six months ended 30 June 2023 from approximately RMB859.2 million for the six months ended 30 June 2022 as a result of the absence of revenue from our construction of production line business.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by approximately RMB103.7 million or 14.3% to approximately RMB829.7 million for the six months ended 30 June 2023 from approximately RMB726.0 million for the six months ended 30 June 2022. The increase in revenue derived from manufacturing of equipment business was primarily due to the increased sales of grinding equipment system during the six months ended 30 June 2023 as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Installation services. Revenue derived from our installation services business increased by approximately RMB7.1 million or 106.5% to approximately RMB13.8 million for the six months ended 30 June 2023 from approximately RMB6.7 million for the six months ended 30 June 2022. This increase was mainly due to the increased demand of installation services from customers under our manufacturing of equipment business for the six months ended 30 June 2023.

Construction of production line. During the six months ended 30 June 2023, no revenue was generated from our construction of production line projects as our ongoing production line project located in Uzbekistan was temporarily on hold during the six months ended 30 June 2023 at the request of such customer. The construction of this project has been resumed in August 2023. Revenue from our construction of production line business was approximately RMB126.5 million for the six months ended 30 June 2022.

Cost of sales and services

Our cost of sales and services remained stable at approximately RMB8.9 million, representing a slight decrease of 1.2% to approximately RMB699.1 million for the six months ended 30 June 2023 from approximately RMB708.0 million for the six months ended 30 June 2022. Cost of raw materials, being the largest component of our cost of sales and services, increased by approximately RMB56.5 million during the six months ended 30 June 2023 as compared with the corresponding period last year.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased by approximately RMB6.8 million or 4.5% to approximately RMB144.4 million for the six months ended 30 June 2023 from approximately RMB151.2 million for the six months ended 30 June 2022. The Group's gross profit margin remained relatively stable at 17.1% for the six months ended 30 June 2023 as compared to 17.6% for the corresponding period last year.

Other income

Our other income increased significantly by approximately RMB2.2 million or 103.8% to approximately RMB4.4 million for the six months ended 30 June 2023 from approximately RMB2.2 million for the six months ended 30 June 2022 primarily attributable to increased government grants received during the six months ended 30 June 2022 as compared to the corresponding period last year.

Other gains and losses

Our other gains decreased by approximately RMB7.8 million or 55.5% to approximately RMB6.2 million for the six months ended 30 June 2023 from approximately RMB14.0 million mainly due to significant decrease in our net foreign exchange gain during the six months ended 30 June 2023 as compared to the corresponding period last year.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB10.0 million or 20.5% to approximately RMB39.1 million for the six months ended 30 June 2023 from approximately RMB49.1 million for the six months ended 30 June 2022 mainly due to decrease of the transportation and port expenses incurred during the six months ended 30 June 2023 as compared to the corresponding period last year.

Administrative expenses

Our administrative expenses increased by approximately RMB7.0 million or 42.9% to approximately RMB23.4 million for the six months ended 30 June 2023 from approximately RMB16.3 million for the six months ended 30 June 2022 mainly attributable to higher professional services fee and staff cost incurred during the six months ended 30 June 2023 as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Research expenditure

Our research expenditure decreased by approximately RMB2.1 million or 15.0% to approximately RMB11.5 million for the six months ended 30 June 2023 from approximately RMB13.6 million for the six months ended 30 June 2022 mainly due to decreased materials consumed and technical service fees for our research activities during the six months ended 30 June 2023 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 RMB14.8 million or 83.8% to approximately RMB2.9 million for the six months ended 30 June 2023 from approximately RMB17.7 million for the six months ended 30 June 2022 mainly due to the decrease of credit-impaired trade receivables transferred from not credit-impaired trade receivables for the six months ended 30 June 2023 as compared to the corresponding period last year.

Income tax expenses

Our income tax expenses increased by approximately RMB4.0 million or 39.6% to approximately RMB14.1 million for the six months ended 30 June 2023 from approximately RMB10.1 million for the six months ended 30 June 2022. Our effective tax rate was 18.1% and 15.6% for the six months ended 30 June 2022 and 2023, respectively. The relatively higher effective tax rate for the six months ended 30 June 2023 was mainly due to the withholding tax resulting from the profits of subsidiaries which are expected to be distributed.

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 RMB3.1 million or 5.4% to approximately RMB63.9 million for the six months ended 30 June 2023 from approximately RMB60.8 million for the six months ended 30 June 2022.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 30 June 2023 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 RMB287.3 million (31 December 2022: RMB138.8 million) with a current ratio calculated by dividing our current assets over our current liabilities of 114.2% as at 30 June 2023 (31 December 2022: 106.5%).

Inventories increased by approximately RMB28.8 million or 2.9% to approximately RMB1,031.6 million as at 30 June 2023 from approximately RMB1,002.8 million as at 31 December 2022. Inventory turnover days was 262 days for the six months ended 30 June 2023, representing an increase of 5 days as compared to 257 days for the year ended 31 December 2022. The increase in inventories was mainly due to the increasing domestic sales orders received during the six months ended 30 June 2023. The increase in inventory turnover days was mainly because of the increase in work-in-progress arising from our ongoing contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade, bills and other receivables decreased by approximately RMB56.3 million or 9.1% to approximately RMB559.5 million as at 30 June 2023 from approximately RMB615.9 million as at 31 December 2022, among which bills receivables decreased by approximately RMB55.0 million or 17.0% to approximately RMB268.2 million as compared with approximately RMB323.2 million as at 31 December 2022. Such change was mainly due to the decreased number of domestic customers who used bank acceptance bills to settle our invoice. In May 2019, the Group, due to the expected delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank, entered into a supplemental agreement with such customer pursuant to which our Group agreed to defer an amount of RMB280 million (the “**Deferred Payment**”) bearing a fixed interest rate of 8.41% per annum secured and guaranteed by such customer. As agreed in the supplemental agreement, the Deferred Payment up to a maximum amount of RMB280 million was agreed to be settled in every three months by 12 installments, which was intended to start from 30 September 2020, but subject to a specific date upon finalisation of negotiation by both parties. During the year ended 31 December 2022, the Group entered into an offsetting agreement with the customer and a subcontractor engaged by the Group for constructing the production line, pursuant to which RMB102,921,000 of the Group’s receivables from the customer and RMB102,921,000 of the Group’s payables to the subcontractor had been offset as agreed by these contractual parties. The production line was completed during the year ended 31 December 2022. As at 30 June 2023 and up to the date of this report, the Group is still in negotiation and had not yet agreed on a commencement date of the repayment. As at 30 June 2023, outstanding balance of approximately RMB127.7 million (net of impairment loss allowance of approximately RMB11.2 million) was included in the Group’s trade receivables. Our trade receivables turnover days was 61 days for the year ended 30 June 2023 (2022: 76 days) representing a decrease of 15 days. The decrease in trade receivable turnover days during the six months ended 30 June 2023 was primarily due to the decreased average balance of trade receivables during the six months ended 30 June 2023.

Prepayments to suppliers decreased by approximately RMB20.5 million or 14.7% to approximately RMB119.0 million as at 30 June 2023 from approximately RMB139.5 million as at 31 December 2022 primarily due to decreased advance payment made to the suppliers in relation to our construction of production line project.

Contract liabilities decreased by approximately RMB126.7 million or 10.1% to approximately RMB1,131.1 million as at 30 June 2023 from approximately RMB1,257.8 million as at 31 December 2022. The decrease in contract liabilities was mainly due to the accelerated completion progress of our contracts on hand as a result of our increased production capacity.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

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

As at 30 June 2023, the Group had cash and cash equivalents of approximately RMB388.9 million (31 December 2022: approximately RMB345.7 million). A portion of the Group’s bank deposits totaling approximately RMB95.0 million (31 December 2022: approximately RMB114.1 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 2023, we had banking facilities of approximately RMB663.5 million, of which approximately RMB122.0 million were utilised. The utilised banking facilities as at 30 June 2023 represented bank guarantee of approximately RMB86.2 million, bank acceptance bill amounted to approximately RMB16.0 million and loans of approximately RMB19.8 million. As at 30 June 2023, our Group had unutilised banking facilities amounted to approximately RMB541.5 million. As at 30 June 2023, the Group had bank borrowings of approximately RMB56.1 million (31 December 2022: RMB105.4 million).

As at 30 June 2023, 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 249.8% (31 December 2022: 273.5%). The decrease in our gearing ratio was mainly due to the increased balance of our equity as at 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2023, the Group recorded net cash used in operating activities of approximately RMB38.5 million (six months ended 30 June 2022: RMB11.0 million). Net cash from investing activities for the six months ended 30 June 2023 amounted to approximately RMB129.4 million (net cash used in investing activities for six months ended 30 June 2022: RMB14.3 million). Net cash used in financing activities for the six months ended 30 June 2023 amounted to approximately RMB49.4 million (net cash from financing activities for six months ended 30 June 2022: RMB91,000).

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

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

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

Currency risk

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

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's bank borrowings, lease liabilities, 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 formal interest rate hedging policies. The management of the Group monitors its exposures on an on-going basis and will consider hedging interest rate risk should the need arise.

Credit risk

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

Given that 45% of the total trade receivables was due from a construction of production line customer of the Group as at 30 June 2023 (31 December 2022: 48%), 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 2023, 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 2023, the Group did not have any significant contingent liabilities (31 December 2022: Nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2023, the Group's capital expenditure amounted to approximately RMB0.5 million (six months ended 30 June 2022: purchase of and deposit paid for property, plant and equipment and purchase of intangible assets of approximately RMB49.9 million) which was mainly related to the purchase of and deposit policy for property, plant and equipment.

PLEDGE OF ASSETS

As at 30 June 2023, the Group's restricted bank deposits and bills receivables with an aggregated carrying amount of approximately RMB108.3 million (31 December 2022: RMB143.1 million) were pledged to banks for issuing bills payables.

CAPITAL COMMITMENTS

As at 30 June 2023, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB6.0 million (31 December 2022: approximately RMB1.8 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 2023 and up to the date of this report.

EMPLOYEES AND REMUNERATION INFORMATION

As at 30 June 2023, the Group had a total of 1,102 employees (30 June 2022: 1,078) 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 2023, the Group incurred staff cost (including Directors' remuneration) of approximately RMB66.1 million (six months ended 30 June 2022: approximately RMB61.7 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.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

On 30 December 2022, the Group 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 2023, the financial assets at FVTPL held by the Group were RMB100.8 million (31 December 2022: RMB200.0 million), representing 3.4% of total assets of the Group. Details of the financial assets at FVTPL held by the Group as at 30 June 2023 are set out as follows:

Financial assets at FVTPL	Subscription date	Interest rate (per annum)	Maturity date	Principal amount of subscription (RMB'000)	Changes in	Carrying amount as of 30 June 2023 (RMB'000)	Percentage of
					fair value for the six months ended 30 June 2023 (RMB'000)		total assets of the Group as of 30 June 2023
BOC Linked Structured Deposit CSDVY202225493 (Institutional Customer)* (中國銀行掛鉤型結構性存款 CSDVY202225493 (機構客戶)) (Note 1)	30 December 2022	1.6% or 4.5630%	6 January 2024	49,990	50,390	49,990	1.7%
BOC Linked Structured Deposit CSDVY202225494 (Institutional Customer)* (中國銀行掛鉤型結構性存款 CSDVY202225494 (機構客戶)) (Note 2)	30 December 2022	1.6% or 4.5530%	7 January 2024	50,010	50,410	50,010	1.7%

Notes:

1. This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon the maturity date. The Group expects to receive the principal amount and return of this product on 6 January 2024, being the maturity date. If the relevant linked indicator is lower than a set baseline at the observation time, the expected minimum rate of return will be 1.6% per annum, otherwise a maximum rate of return of 4.5630% per annum. For details of this wealth management product, please refer to the announcement of the Company dated 30 December 2022.
2. This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon the maturity date. The Group expects to receive the principal amount and return of this product on 7 January 2024, being the maturity date. If the relevant linked indicator is higher than a set baseline at the observation time, the expected minimum rate of return will be 1.6% per annum, otherwise a maximum rate of return of 4.5530% per annum. For details of this wealth management product, please refer to the announcement of the Company dated 30 December 2022.

Save as disclosed above, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures during the six months ended 30 June 2023 and up to the date of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 31 October 2019, the Group does not have other plans for material investments and capital assets.

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 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the principles and code provisions as set out in 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 2023, 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 2023.

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 2023, 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)	225,249,438	45.05%

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 2023, 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 2023 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 2023, 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)	225,249,438	45.05%
PF International Group Limited ("PF International")	Beneficial owner ^(Note 2)	133,211,176	26.64%
PF Global Limited ("PF Global")	Beneficial owner ^(Note 3)	49,635,386	9.93%

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 2023, 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 2023 (six months ended 30 June 2022: 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 2023.

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 2023. The Audit Committee is of the view that the unaudited interim condensed financial information for the six months ended 30 June 2023 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 2023 have not been audited or reviewed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu.

CHANGES IN THE BOARD AND THE DIRECTORS’ INFORMATION

As of the date of this report, there was no change in the Board and the information of Directors of the Company which is 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

As of the date of this report, the Company does not have any subsequent event after 30 June 2023 which is required to be disclosed.

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

Jiangsu, China
18 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Notes	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	843,542	859,204
Cost of sales and services		(699,115)	(707,962)
Gross profit		144,427	151,242
Other income	5	4,421	2,169
Other gains and losses	6	6,246	14,041
Selling and distribution expenses		(39,050)	(49,125)
Administrative expenses		(23,366)	(16,348)
Research expenditure		(11,520)	(13,552)
Impairment losses on trade and other receivables and contract assets, net of reversal		(2,863)	(17,722)
Finance costs		(301)	(2)
Profit before tax	7	77,994	70,703
Income tax expense	8	(14,105)	(10,107)
Profit and total comprehensive income for the period		63,889	60,596
Profit (loss) and total comprehensive income (expenses) for the period attributable to:			
– Owners of the Company		63,922	60,783
– Non-controlling interests		(33)	(187)
		63,889	60,596
Earnings per share	10		
– Basic (RMB cent)		12.78	12.16
– Diluted (RMB cent)		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	Notes	30 June 2023	31 December 2022
		RMB'000	RMB'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Trade receivables	14	127,726	136,500
Financial assets at fair value through profit or loss ("FVTPL")		–	100,000
Property, plant and equipment	11	395,776	403,950
Investment properties	11	9,067	9,597
Intangible assets		174	192
Right-of-use assets	11	45,388	45,854
Deferred tax assets	13	19,678	20,612
Deposits paid for acquisition of property, plant and equipment		15	780
		<u>597,824</u>	<u>717,485</u>
CURRENT ASSETS			
Inventories		1,031,574	1,002,803
Trade, bills and other receivables	14	431,819	479,350
Contract assets	12	121,727	78,045
Contract costs		19,618	15,948
Value-added tax recoverable		–	10,576
Prepayments to suppliers		118,963	139,478
Financial assets at FVTPL		100,800	100,000
Restricted bank deposits		94,965	114,090
Bank balances and cash		388,877	345,681
		<u>2,308,343</u>	<u>2,285,971</u>
CURRENT LIABILITIES			
Trade, bills and other payables	15	782,770	758,232
Contract liabilities		1,131,105	1,257,782
Dividend payable		37,000	–
Tax payable		31,544	40,989
Bank borrowings		36,385	87,579
Deferred income		2,231	2,544
		<u>2,021,035</u>	<u>2,147,126</u>
NET CURRENT ASSETS		<u>287,308</u>	<u>138,845</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>885,132</u>	<u>856,330</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	Notes	<u>30 June 2023</u>	<u>31 December 2022</u>
		RMB'000	RMB'000
		(unaudited)	(audited)
CAPITAL AND RESERVES			
Share capital	16	4,504	4,504
Share premium		73,617	110,617
Reserves		<u>752,662</u>	<u>688,740</u>
Equity attributable to owners of the Company		830,783	803,861
Non-controlling interests		<u>(285)</u>	<u>895</u>
TOTAL EQUITY		<u>830,498</u>	<u>804,756</u>
NON-CURRENT LIABILITY			
Deferred income		32,966	33,768
Bank borrowings		19,691	17,806
Deferred tax liabilities	13	<u>1,977</u>	<u>–</u>
		<u>54,634</u>	<u>51,574</u>
		<u>885,132</u>	<u>856,330</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023 (audited)	4,504	110,617	163,395	2,252	523,093	803,861	895	804,756
Profit (loss) and total comprehensive income (expenses) for the period	-	-	-	-	63,922	63,922	(33)	63,889
Dividends recognised as distribution (note 8)	-	(37,000)	-	-	-	(37,000)	-	(37,000)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1,147)	(1,147)
At 30 June 2023 (unaudited)	4,504	73,617	163,395	2,252	587,015	830,783	(285)	830,498
At 1 January 2022 (audited)	4,504	143,617	145,163	2,252	419,105	714,641	1,055	715,696
Profit (loss) and total comprehensive income (expenses) for the period	-	-	-	-	60,783	60,783	(187)	60,596
Dividends recognised as distribution (note 8)	-	(33,000)	-	-	-	(33,000)	-	(33,000)
At 30 June 2022 (unaudited)	4,504	110,617	145,163	2,252	479,888	742,424	868	743,292

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(38,519)	(11,026)
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	52	126
Placement of term deposits	–	(50,000)
Withdrawal of term deposits	–	50,000
Placement of restricted bank deposits	(17,580)	(17,304)
Withdrawal of restricted bank deposits	45,242	48,909
Purchase of and deposits paid for acquisition of property, plant and equipment	(541)	(49,849)
Purchase of intangible assets	–	(33)
Bank interest received	623	550
Purchase of financial assets at FVTPL	–	(200,000)
Withdrawal of financial assets at FVTPL	101,630	203,316
NET CASH FROM (USED IN) INVESTING ACTIVITIES	129,426	(14,285)
FINANCING ACTIVITIES		
Proceeds from a bank loan raised	38,270	100
Interest paid	(103)	–
Repayments of bank borrowings	(87,579)	–
Repayments of lease liabilities	(9)	(9)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(49,421)	91
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,486	(25,220)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	345,681	393,732
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	1,710	7,645
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	388,877	376,157

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

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 2023, for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

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	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of equipment, recognised at a point in time	829,709	725,995
Revenue from construction of production line, recognised over time	–	126,509
Installation service, recognised over time	13,833	6,700
	843,542	859,204

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	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Mainland China	728,174	645,633
Outside Mainland China		
Including: Republic of Bangladesh	47,124	–
Republic of Burundi	45,903	–
Uzbekistan	–	98,752
Brazil	–	35,286
Republic of Korea	–	25,306
Republic of Kazakhstan	–	24,277
Other countries	22,341	29,950
	843,542	859,204

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	623	550
Government grants	2,925	406
Rental income	842	1,168
Others	31	45
	4,421	2,169

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Investment gain on financial assets at FVTPL	2,430	2,721
Net foreign exchange gain	3,055	11,116
Gain on disposal of property, plant and equipment	43	64
Others	718	140
	6,246	14,041

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	17,607	12,229
Depreciation of investment properties	531	531
Amortisation of intangible assets	18	13
Depreciation of right-of-use assets	444	468
	18,600	13,241
Capitalised in inventories	(14,957)	(10,666)
Total depreciation and amortisation charged to profit or loss	3,643	2,575
Impairment losses on trade receivables, net of reversal	(957)	21,788
Impairment losses on other receivables, net of reversal	-	(48)
Impairment losses on contract assets, net of reversal	3,820	(4,018)
	2,863	17,722

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")	11,194	11,506
Deferred tax charge (credit) (Note 13)	2,911	(1,399)
	<u>14,105</u>	<u>10,107</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 2022 and 2023.

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 2021, and therefore continued the entitlement of a preferential tax rate of 15% to 31 December 2023.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the six months ended 30 June 2022 and 2023.

9. DIVIDENDS

During the current interim period, a final dividend of RMB0.074 (2022: RMB0.066) per ordinary share in respect of the year ended 31 December 2022 was declared to the owners of the Company. The aggregate amount of the final dividend declared in the current interim period amounted to RMB37,000,000 (2022: RMB33,000,000).

The directors of the Company have determined that no dividend will be declared in respect of the six months ended 30 June 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

10. 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	
	2023	2022
	(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>63,922</u>	<u>60,783</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 2022 and 2023.

11. 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 RMB9,000 (2022: RMB62,000) for cash proceeds of RMB52,000 (2022: RMB126,000), resulting in a gain on disposal of RMB43,000 (2022: RMB64,000).

During the current interim period, the Group acquired property, plant and equipment of RMB980,000 (2022: RMB67,075,000).

During the current interim period, no right-of-use assets is acquired or disposed by the Group (2022: nil).

During the current interim period, no investment property is acquired or disposed by the Group (2022: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

12. CONTRACT ASSETS

	<u>30 June 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Construction of production line	–	2,345
Sale of equipment	122,187	73,977
Installation service	10,285	8,648
	132,472	84,970
Less: Impairment loss allowance for contract assets	(10,745)	(6,925)
	121,727	78,045

13. DEFERRED TAXATION

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

	Accrued expenses	Impairment loss allowance on trade receivables and other contract assets	Distributable profits of subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022 (audited)	8,501	10,416	–	18,917
(Charge) credit to profit or loss	(1,008)	2,407	–	1,399
At 30 June 2022 (unaudited)	7,493	12,823	–	20,316
At 1 January 2023 (audited)	9,113	11,499	–	20,612
(Charge) credit to profit or loss	(1,192)	258	(1,977)	(2,911)
At 30 June 2023 (unaudited)	7,921	11,757	(1,977)	17,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

14. TRADE, BILLS AND OTHER RECEIVABLES

	<u>30 June 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables	337,477	339,016
Less: Impairment loss allowance for trade receivables	<u>(53,486)</u>	<u>(53,826)</u>
	283,991	285,191
Bills receivables	<u>268,219</u>	<u>323,205</u>
Total trade receivables and bills receivables	552,210	608,396
Other receivables and prepayments		
Other receivables	6,069	6,192
Prepaid expenses	585	581
Loans to independent third parties	<u>800</u>	<u>800</u>
	7,454	7,573
Less: Impairment loss allowance for other receivables	<u>(119)</u>	<u>(119)</u>
	<u>7,335</u>	<u>7,454</u>
	<u>559,545</u>	<u>615,850</u>
Analysed as:		
Current	431,819	479,350
Non-current (<i>note i</i>)	<u>127,726</u>	<u>136,500</u>
	<u>559,545</u>	<u>615,850</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

14. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Note (i): As at 30 June 2023, included in the Group's trade receivables was a balance of RMB127,726,000 (31 December 2022: RMB136,500,000) (net of impairment loss allowance of RMB11,228,000 (31 December 2022: RMB11,999,000)) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan, among which RMB6,531,000, RMB31,424,000 and RMB89,771,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively (31 December 2022: RMB31,166,000, RMB9,656,000 and RMB95,678,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively). In May 2019, due to the expected delay in settlement from this customer as a result of the prolonged approval procedures from the customer's financing bank, the Group entered into a supplemental agreement with the customer, pursuant to which the Group agreed to defer an estimated amount of RMB280,000,000 (the "Deferred Payment") upon completion of the test run of the production line on or before 31 December 2019. The amount of the Deferred Payment, time period for accrual of interest and repayment schedule are subjected to finalisation between both parties according to the actual outstanding principal and interest upon completion of the production line. Both parties agreed to enter into another finalised Deferred Payment agreement with such details and terms to be fixed (the "Finalised Deferred Payment Agreement").

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

During the year ended 31 December 2022, the Group entered into an offsetting agreement with the customer and a subcontractor engaged by the Group for constructing the production line, pursuant to which RMB102,921,000 of the Group's receivables from the customer and RMB102,921,000 of the Group's payables to the subcontractor had been offset as agreed by these contractual parties.

The production line was completed during the year ended 31 December 2022. Up to the date of the issuance of the condensed consolidated financial statements, the Group and the customer were still in negotiation and had not yet entered into the Finalised Deferred Payment Agreement.

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

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

	<u>30 June 2023</u>	31 December 2022
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 1 year	72,963	122,134
1 to 2 years	91,504	48,350
Over 2 years	119,524	114,707
	<u>283,991</u>	<u>285,191</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

14. 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 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	259,336	232,053
181 days to 1 year	8,883	91,152
	<u>268,219</u>	<u>323,205</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 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	265,059	319,948
181 days to 1 year	3,160	3,257
	<u>268,219</u>	<u>323,205</u>

As at 30 June 2023, RMB13,340,000 bills receivables of the Group (31 December 2022: nil) were pledged to banks for issuing bills payables.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

15. TRADE, BILLS AND OTHER PAYABLES

	<u>30 June 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade payables	711,968	681,146
Bills payables	9,351	3,551
Other taxes payables	5,816	9,186
Amounts due to independent third parties	1,019	983
Accrued expense	2,355	2,657
Accrued payroll and welfare	10,568	21,327
Unpaid incremental commission	41,469	39,238
Lease liabilities	18	27
Other payables	206	117
	<u>782,770</u>	<u>758,232</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 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 1 year	629,401	640,158
1 year to 2 years	53,817	17,110
Over 2 years	28,750	23,878
	<u>711,968</u>	<u>681,146</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 2023</u>	<u>31 December 2022</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>9,351</u>	<u>3,551</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

15. 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 2023</u>	31 December 2022
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>9,351</u>	<u>3,551</u>

16. SHARE CAPITAL

	<u>Par value</u>	<u>Number of shares</u>	<u>Amount</u>
		'000	'000
Authorised:			
On 1 January 2021 (audited), 30 June 2021 and 2022 (unaudited), 31 December 2021 and 2022 (audited) and 30 June 2023 (unaudited)	HK\$0.01	<u>10,000,000</u>	<u>HK\$100,000</u>
Issued:			
On 1 January 2021 (audited), 30 June 2021 and 2022 (unaudited), 31 December 2021 and 2022 (audited) and 30 June 2023 (unaudited)	HK\$0.01	<u>500,000</u>	<u>HK\$5,000</u>
Presented in RMB'000			<u>RMB4,504</u>

17. CAPITAL COMMITMENTS

	<u>30 June 2023</u>	31 December 2022
	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>5,997</u>	<u>1,820</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2023

18. 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 2023	Fair value as at 31 December 2022	Fair value hierarchy	Valuation technique and key input
	RMB'000	RMB'000		
Financial assets at FVTPL:				
Structured deposits	100,800	200,000	Level 2	Discounted cash flows. Future cash flows are estimated based on expected return of the structured deposits

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

19. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries, bonus and other benefits	770	749
Retirement benefits scheme contributions	29	25
Discretionary performance related bonus	260	243
	1,059	1,017

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.

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

