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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3348)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

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.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Directors**") of China PengFei Group Limited (the "**Company**") is pleased to announce the unaudited interim condensed consolidated financial information of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2023 with comparative figures for the corresponding period of last year.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June **2023** *RMB'000* (unaudited)	2022 *RMB'000* (unaudited)
Revenue	*4*	**843,542**	859,204
Cost of sales and services		**(699,115)**	(707,962)
Gross profit		**144,427**	151,242
Other income		**4,421**	2,169
Other gains and losses		**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	*5*	**77,994**	70,703
Income tax expense	*6*	**(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	*8*		
– Basic (RMB cent)		**12.78**	12.16
– Diluted (RMB cent)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	**30 June 2023** ***RMB'000*** **(unaudited)**	31 December 2022 *RMB'000* (audited)
NON-CURRENT ASSETS			
Trade receivables	*9*	**127,726**	136,500
Financial assets at fair value through profit or loss ("FVTPL")		**–**	100,000
Property, plant and equipment		**395,776**	403,950
Investment properties		**9,067**	9,597
Intangible assets		**174**	192
Right-of-use assets		**45,388**	45,854
Deferred tax assets		**19,678**	20,612
Deposits paid for acquisition of property,plant and equipment		**15**	780
		597,824	717,485
CURRENT ASSETS			
Inventories		**1,031,574**	1,002,803
Trade, bills and other receivables	*9*	**431,819**	479,350
Contract assets		**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
		2,308,343	2,285,971
CURRENT LIABILITIES			
Trade, bills and other payables	*10*	**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
		2,021,035	2,147,126
NET CURRENT ASSETS		**287,308**	138,845
TOTAL ASSETS LESS CURRENT LIABILITIES		**885,132**	856,330

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

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.

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.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2023 RMB'000 (unaudited)	2022 RMB'000 (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

6. INCOME TAX EXPENSE

	Six months ended 30 June 2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
PRC Enterprise Income Tax ("**PRC EIT**")	**11,194**	11,506
Deferred tax charge (credit)	**2,911**	(1,399)
	14,105	10,107

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.

7. 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.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	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)	**63,922**	60,783
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	**500,000**	500,000

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.

9. TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**337,477**	339,016
Less: Impairment loss allowance for trade receivables	**(53,486)**	(53,826)
	283,991	285,191
Bills receivables	**268,219**	323,205
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	**800**	800
	7,454	7,573
Less: Impairment loss allowance for other receivables	**(119)**	(119)
	7,335	7,454
	559,545	615,850
Analysed as:		
Current	**431,819**	479,350
Non-current *(note i)*	**127,726**	136,500
	559,545	615,850

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 this announcement, 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 the customer set out in abovementioned note (i).

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

	30 June 2023	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
	283,991	285,191

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

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 180 days	**259,336**	232,053
181 days to 1 year	**8,883**	91,152
	268,219	323,205

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

	30 June 2023 *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (audited)
0 to 180 days	**265,059**	319,948
181 days to 1 year	**3,160**	3,257
	268,219	323,205

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.

10. TRADE, BILLS AND OTHER PAYABLES

	30 June 2023 *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (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
	782,770	758,232

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

	30 June 2023 *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (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
	711,968	681,146

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

Age	**30 June 2023** *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (audited)
0 to 180 days	**9,351**	3,551

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

Age	**30 June 2023** *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (audited)
0 to 180 days	**9,351**	3,551

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.

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-
	2023		2022		Period Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(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.

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.

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.

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 announcement, 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.

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 announcement.

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.

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 fair value for the six months ended 30 June 2023** *(RMB'000)*	**Carrying amount as of 30 June 2023** *(RMB'000)*	**Percentage of total assets of the Group as of 30 June 2023**
BOC Linked Structured Deposit CSDVY202225493 (Institutional Customer)* (中國銀行掛鈎型結構性存款 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)* (中國銀行掛鈎型結構性存款 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 announcement.

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.

SUBSEQUENT EVENTS

No material events were undertaken by the Group subsequent to 30 June 2023.

OTHER INFORMATION

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2023.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code on corporate governance. During the 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.

REVIEW OF UNAUDITED INTERIM RESULTS BY THE AUDIT COMMITTEE

Audit Committee

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

The Audit Committee has reviewed the Group's unaudited interim condensed consolidated financial information for the six months ended 30 June 2023. The Audit Committee is of the view that the unaudited interim condensed financial information are in compliance with the applicable accounting standards, the Listing Rules and other legal requirement and that sufficient disclosure has been made.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 have not been audited or reviewed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (http://pengfei.com.cn/). The interim report of the Company for the six months ended 30 June 2023 will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

By order of the Board
China PengFei Group Limited
WANG Jiaan
Chairman and executive Director

Hong Kong, 18 August 2023

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

*　*For identification purpose only*