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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3348)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023 AND PROPOSED ADOPTION OF THE AMENDED AND RESTATED ARTICLES OF ASSOCIATION

HIGHLIGHTS OF THE ANNUAL RESULTS

- Revenue for the year ended 31 December 2023 was approximately RMB1,729.5 million, an increase of 9.0% as compared to last year.
- Gross profit for the year ended 31 December 2023 was approximately RMB374.6 million, a increase of approximately 29.8% as compared to last year.
- Profit before tax for the year ended 31 December 2023 was approximately RMB181.3 million, an increase of 25.4% as compared to last year.
- Profit and total comprehensive income for the year ended 31 December 2023 attributable to owners of the Company was approximately RMB143.5 million, an increase of 17.6% as compared to last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB28.57 cents per share for the year ended 31 December 2023.
- The Board recommended to declare the final dividend of RMB0.0857 per ordinary share, totalling approximately RMB42.9 million for the year ended 31 December 2023.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board of director (the "**Board**") of China PengFei Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2023 with comparative figures for the year ended 31 December 2022. The annual results have been prepared in accordance with International Financial Reporting Standards (the "**IFRS(s)**"). In addition, the annual results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

In this announcement (hereinafter referred to as "**this announcement**" or the "**Preliminary Announcement**"), "we", "us" and "our" refer to the Company and where the context otherwise requires, the Group.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**Year ended 31 December** **2023** ***RMB'000***	2022 *RMB'000*
Revenue	*3*	**1,729,530**	1,587,414
Cost of sales and services		**(1,354,971)**	(1,298,876)
Gross profit		**374,559**	288,538
Other income		**18,077**	9,715
Other gains and losses		**21,729**	16,972
Selling and distribution expenses		**(90,526)**	(83,293)
Administrative expenses		**(62,757)**	(47,919)
Research expenditure	*4*	**(35,982)**	(27,574)
Impairment losses under expected credit loss model, net of reversal	*4*	**(43,160)**	(11,690)
Finance costs		**(606)**	(113)
Profit before tax	*4*	**181,334**	144,636
Income tax expense	*5*	**(37,831)**	(22,576)
Profit and total comprehensive income for the year		**143,503**	122,060
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**142,866**	122,220
– Non-controlling interests		**637**	(160)
		143,503	122,060
Earnings per share	*7*		
– Basic (RMB cents)		**28.57**	24.44
– Diluted (RMB cents)		**N/A**	N/A

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 31 December 2023

		As at 31 December	
	Notes	**2023**	2022
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Trade receivables	*8*	**125,886**	136,500
Financial assets at fair value through profit or loss ("FVTPL")		**–**	100,000
Property, plant and equipment		**381,746**	403,950
Investment properties		**8,538**	9,597
Intangible assets		**262**	192
Right-of-use assets		**44,898**	45,854
Deferred tax assets		**25,415**	20,612
Deposits paid for acquisition of property, plant and equipment		**13,197**	780
		599,942	717,485
CURRENT ASSETS			
Inventories	*8*	**743,078**	1,002,803
Trade, bills and other receivables		**341,335**	479,350
Contract assets		**74,472**	78,045
Contract costs		**12,328**	15,948
Value-added tax recoverable		**2,872**	10,576
Prepayments to suppliers		**84,036**	139,478
Financial assets at FVTPL		**103,090**	100,000
Term deposits		**68,519**	–
Restricted bank deposits		**51,830**	114,090
Bank balances and cash		**378,902**	345,681
		1,860,462	2,285,971
CURRENT LIABILITIES			
Trade, bills and other payables	*9*	**559,468**	758,232
Contract liabilities		**838,358**	1,257,782
Tax payable		**40,984**	40,989
Bank borrowings		**37,361**	87,579
Deferred income		**2,659**	2,544
		1,478,830	2,147,126
NET CURRENT ASSETS		**381,632**	138,845
TOTAL ASSETS LESS CURRENT LIABILITIES		**981,574**	856,330

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**49,104**	33,768
Bank borrowings		**17,941**	17,806
Deferred tax liabilities		**4,418**	–
		71,463	51,574
CAPITAL AND RESERVES			
Share capital		**4,504**	4,504
Share premium		**73,617**	110,617
Reserves		**831,606**	688,740
Equity attributable to owners of the Company		**909,727**	803,861
Non-controlling interests		**384**	895
TOTAL EQUITY		**910,111**	804,756
		981,574	856,330

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. CORPORATE INFORMATION

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

The immediate and ultimate holding company of the Company is Ambon Holding Limited ("**Ambon**"), an investment holding company incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 27 July 2017. Ambon was wholly-owned by Mr. Wang Jiaan, the chairman and executive director of the Company ("**Mr. Wang**", or the "**Controlling Shareholder**").

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the 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 Contract
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. IAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 "Making Materiality Judgements" (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies to the consolidated financial statements.

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all these amendments to IFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from the sale of goods, construction of production line and rendering of installation services, net of sales related taxes during the year.

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Sale of equipment, recognised at a point in time	**1,661,171**	1,424,583
Revenue from construction of production line, recognised over time	**39,645**	143,750
Installation service, recognised over time	**28,714**	19,081
	1,729,530	1,587,414

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

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

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. Since the Group did not record any gross profit for the installation services according to the Group's pricing policy, the management of the Group would first estimate the stand-alone price of installation service based on the fee charged by the subcontractors, while then allocate the remaining as the transaction price for the performance obligation of sales of equipment.

Sale of equipment

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

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

Customers are generally required to make an advance payment of 10% to 30% of the total contract sum before the Group commences any work, and this will give rise to contract liabilities at the start of a contract. During the course of production of the equipment, customers will generally be required to make progress payment. Once the production process is completed, customers will be required to make delivery payment before delivery of the products. Generally, customers will be required to pay 90% to 95% of the total contract sum before delivery. Contract liabilities are recognised when milestone payments are received for sale of equipment in which revenue has yet been recognised.

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

Construction of production line

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

Revenue from construction of production line is recognised as a performance obligation satisfied over time. The Group's performance under the construction contracts creates production lines without an alternative use to the Group. As the Group has an enforceable right to payment for performance performed to date, the Group recognises revenue over time for construction of production line services. Revenue is recognised for these construction of production line services based on the stage of completion of the contract using the input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total estimated costs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Customers are generally required to make an advance payment of 30% of the total contract sum before the Group commences any work, this will give rise to contract liabilities at the start of a contract until the revenue recognised exceeds the amount of advance payment received. During the course of construction of production line, customers will generally be required to make progress payment and the Group will deliver the products required for the construction of production line to the designated port or the customer's site by batches pursuant to the terms of the contract. In general, customers will be required to pay no less than 50% of the total contract sum before the Group delivers all the products required. If customers are satisfied with the production line installed, they will issue an acceptance certificate to the Group. The Group will receive no less than 90% of the total contract sum in aggregation upon the acceptance certificate being issued. The Group normally provides a retention period of 12 months after the operation of the production line or the issuance of the final acceptance certificate by the customers. For those contracts with retention period provided, the outstanding balances representing the retention money of approximately 5% to 10% of the total contract sum initially recognised as contract assets and will be transferred to trade receivables and paid to the Group in the absence of warranty claim after the retention period.

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

Installation services

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

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

Contract costs

Incremental costs of obtaining a contract

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

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

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

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

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Provision of construction of production line		
Within 1 year	**258,413**	298,058

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) in respect of the Group's sale of equipment was RMB2,651,833,000 (2022: RMB2,960,538,000) as at 31 December 2023. In normal circumstances, the performance obligation is expected to be satisfied within one year. However, the timing of recognition is subject to the request of delivery from the customers and may be uncertain due to political uncertainty of the countries at where the Group's customers are situated, which may cause such revenue to be recognised more than one year after the end of the reporting period.

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

Entity-wide disclosures

Geographical information

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

		Year ended 31 December	
		2023	2022
		RMB'000	*RMB'000*
Mainland China		**1,289,416**	1,328,771
Outside Mainland China			
Including:	Tajikistan	**267,403**	675
	Bangladesh	**47,105**	–
	Burundi	**45,885**	–
	Uzbekistan	**39,645**	88,772
	Cote d 'Ivoire	**5,286**	426
	Kazakhstan	**3,233**	51,498
	Brazil	**–**	35,120
	South Korea	**–**	27,238
	Others	**31,557**	54,914
		1,729,530	1,587,414

Information about major customers

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Customer A	**267,403**	–

4. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**34,489**	24,085
Depreciation of investment properties	**1,059**	1,061
Amortisation of intangible assets	**5**	39
Depreciation of right-of-use assets	**956**	935
	36,509	26,120
Capitalised in inventories	**(30,179)**	(20,517)
Total depreciation and amortisation charged to profit or loss	**6,330**	5,603
Analysed as:		
Charged in administrative expenses	**5,192**	4,939
Charged in selling and distribution expenses	**587**	421
Charged in research expenditure	**551**	243
	6,330	5,603
Auditors' remuneration	**1,962**	1,978
Cost of inventories recognised as cost of sales	**1,264,751**	1,210,554
Directors' remuneration	**2,065**	2,100
Other staff costs		
– Salaries and other benefits	**110,154**	108,900
– Retirement benefit scheme contributions	**21,812**	20,475
– Discretionary performance related bonus	**3,639**	3,471
	135,605	132,846

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Total staff costs	**137,670**	134,946
Capitalised in inventories	**(88,232)**	(87,979)
Total staff costs charged to profit or loss	**49,438**	46,967
Analysed as:		
Charged in administrative expenses	**21,657**	21,563
Charged in selling and distribution expenses	**9,626**	8,740
Charged in research expenditure	**18,155**	16,664
	49,438	46,967
Research expenditure		
Staff costs	**18,155**	16,664
Depreciation and amortisation	**551**	243
Technical consultancy fee	**9,334**	5,274
Materials consumed	**7,375**	3,784
Others	**567**	1,609
	35,982	27,574
Gross rental income from investment properties	**1,288**	1,410
Less:		
Direct operating expenses incurred for investment properties that generate rental income during the year	**(1,059)**	(1,061)
	229	349
Impairment losses under ECL model, net of reversal		
Trade receivables	**38,501**	16,815
Other receivables	**706**	(26)
Contract assets	**3,953**	(5,099)
	43,160	11,690

5. INCOME TAX EXPENSE

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")	**33,948**	24,271
Withholding tax of a PRC subsidiary	**8,686**	–
Deferred tax credit	**(4,803)**	(1,695)
	37,831	22,576

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

Pengfei BVI is not subject to income tax or capital gain tax under the law of BVI.

No provision of Hong Kong Profits Tax was made in these consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax during the years ended 31 December 2022 and 2023.

Jiangsu Pengfei obtained the renewal of "High Technology Enterprise" certification in 2021, and was therefore entitled to a preferential tax rate of 15% for a period of 3 years from 2021 to 2023.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the years ended 31 December 2022 and 2023.

Income tax expense for the year can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Profit before tax	**181,334**	144,636
Tax at PRC EIT rate of 15% (2022: 15%) (note)	**27,200**	21,695
Tax effect of expense not deductible for tax purpose	**2,261**	700
Tax effect of deductible temporary differences not recognised	**202**	577
Utilisation of deductible temporary differences previously not recognised	**(70)**	–
Withholding tax of a PRC subsidiary	**8,686**	–
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,370)**	(850)
Effect of different tax rates of other subsidiaries	**922**	454
Income tax expense	**37,831**	22,576

Note: As majority of the profit before tax of the Group was contributed by Jiangsu Pengfei for both years, the PRC EIT rate of Jiangsu Pengfei is used in the income tax reconciliation.

6. DIVIDEND

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Dividend for ordinary shareholders of the Company	**37,000**	33,000

During the current year, a final dividend in respect of the year ended 31 December 2022 of HKD0.084 (equivalent to RMB0.074) per ordinary share (2022: HKD0.08 (equivalent to RMB0.066)), in an aggregate amount of approximately HKD42,200,000 (equivalent to RMB37,000,000) (2022: HKD40,000,000 (equivalent to RMB33,000,000)), has been declared and paid to shareholders of the Company.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of HKD0.0945 (equivalent to RMB0.0857) per ordinary share, in an aggregate amount of HKD47.3 million (equivalent to RMB42.9 million) and the aggregate amount of which will be paid out of the Company's share premium account, has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting of the Company and compliance with the Companies Act of the Caymen Islands.

7. EARNINGS PER SHARE

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

	Year ended 31 December	
	2023	2022
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB'000)	**142,866**	122,220
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	500,000,000

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the years ended 31 December 2023 and 2022.

8. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**367,387**	339,016
Less: Impairment loss allowance for trade receivables	**(85,114)**	(53,825)
	282,273	285,191
Bills receivables	**175,738**	323,205
Total trade receivables and bills receivables	**458,011**	608,396
Other receivables and prepayments		
Other receivables *(note ii)*	**8,837**	6,192
Prepaid expenses	**398**	581
Loan to an independent third party *(note iii)*	**800**	800
	10,035	7,573
Less: Impairment loss allowance for other receivables	**(825)**	(119)
	9,210	7,454
	467,221	615,850
Analysed as:		
Current	**341,335**	479,350
Non-current *(note i)*	**125,886**	136,500
	467,221	615,850

As at 1 January 2022, the Group's trade receivables amounted to RMB372,278,000 (net of impairment loss allowance of RMB39,058,000) and bills receivables amounted to RMB307,092,000.

Note i: As at 31 December 2023, included in the Group's trade receivables was a balance of RMB125,886,000 (net of impairment loss allowance of RMB12,746,000) (2022: RMB136,500,000 (net of impairment loss allowance of RMB11,999,000)) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan, among which nil, RMB30,787,000 and RMB95,099,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively (2022: RMB31,166,000, RMB9,656,000 and RMB95,678,000 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 instalments, 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 in the year ended 31 December 2022. Up to the date of the issuance this announcement, the Group and the customer had not yet entered into the Finalised Deferred Payment Agreement.

Note ii: As at 31 December 2023, other receivables mainly included staff advance of RMB1,777,000 (2022: RMB1,980,000) and refundable tender deposits paid to potential customers of RMB6,159,000 (2022: RMB3,020,000). Staff advance was made to staff solely for business development purpose, which will be charged to profit or loss upon completion of the business development activities. The staff is required to pay back the excess, if any, to the Group immediately after such activities. Refundable tender deposits will be refunded upon completion of the tendering procedure.

Note iii: As at 31 December 2023, the Group's loan to an independent third party was unsecured, repayable on demand and carry at fixed interests of 4.40% (2022: 4.40%) per annum, and the management of the Group expects the settlement of such loan would be made within twelve months after the end of the reporting period.

The Group does not grant any credit period to its customers except for the customer set out in abovementioned note (i). The trade receivable balances at the end of each reporting period included the outstanding retention monies from its customers amounting to RMB79,997,000 (2022: RMB67,679,000) as at 31 December 2023, of which the conditions to entitlement of consideration had been reached and became unconditional.

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
0 to 1 year	**96,482**	122,134
1 to 2 years	**71,569**	48,350
Over 2 years	**114,222**	114,707
	282,273	285,191

As at 31 December 2023, the Group's trade receivables of RMB282,273,000 (2022: RMB285,191,000) which are past due is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high. The management of the Group considered that the trade receivables became defaulted when these trade receivables had been past due over 2 years with no settlement within 1 year.

The following is an aged analysis of bills receivables presented based on the issue dates of bills receivables.

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
0 to 180 days	**163,658**	232,053
181 days to 1 year	**12,080**	91,152
	175,738	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.

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
0 to 180 days	**175,738**	319,948
181 days to 1 year	**–**	3,257
	175,738	323,205

As at 31 December 2023, bills receivables of RMB31,040,000 (2022: RMB28,971,000) were pledged to banks for issuing bills payables.

Movements of impairment loss allowance on trade and other receivables

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

	Lifetime ECL
	RMB'000
At 1 January 2022	39,058
Impairment loss allowance recognised	24,003
Impairment loss allowance reversed	(7,188)
Write-off as uncollectible	(2,048)
At 31 December 2022	53,825
Impairment loss allowance recognised	44,284
Impairment loss allowance reversed	(5,783)
Write-off as uncollectible	(7,212)
At 31 December 2023	**85,114**

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

	12m ECL
	RMB'000
At 1 January 2022	145
Impairment loss allowance recognised	45
Impairment loss allowance reversed	(71)
At 31 December 2022	119
Impairment loss allowance recognised	747
Impairment loss allowance reversed	(41)
At 31 December 2023	**825**

Included in the balance of impairment loss allowance are individually impaired trade receivables in full with an aggregate balance of RMB52,110,000 (2022: RMB27,233,000) as at 31 December 2023, with reference to the historical experience of these receivables, these receivables may not be recoverable. The Group does not hold any collateral over these balances.

The Group's trade and other receivables that are denominated in currency other than the functional currency of the Group are set out below:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Analysis of trade and other receivables by currency:		
Denominated in United States dollar ("**USD**")	**33,811**	14,197
Denominated in European dollar ("**EUR**")	**20,939**	75

9. TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade payables	**414,970**	681,146
Bills payables	**70,481**	3,551
Other taxes payables	**9,514**	9,186
Amount due to an independent third party *(note i)*	**997**	983
Accrued expense	**3,118**	2,657
Accrued payroll and welfare	**19,564**	21,327
Unpaid incremental commission	**39,712**	39,238
Lease liabilities *(note ii)*	**10**	27
Other payables	**1,102**	117
	559,468	758,232

The credit period on purchases of goods ranges from 0 to 365 days during the years ended 31 December 2022 and 2023 and certain suppliers allow longer credit period on a case-by-case basis.

Notes:

(i) As at 31 December 2023, the amount represented a loan of HKD1,100,000 (equivalent to RMB997,000) raised from an independent third party, which was unsecured, unguaranteed and carried interests at a fixed rate of 3.00% per annum (2022: 3.00%). Such loan was repayable on demand.

(ii) The Group's lease liabilities at the end of each reporting period was arising from the lease of a piece of land for administrative purpose which was located in Haian City, Jiangsu Province, the PRC. The lease term will be expired in October 2024, with a fixed annual lease payment of RMB19,000. These lease liabilities were unsecured and unguaranteed.

Lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate of 4.90% per annum. The Group does not face a significant liquidity risk with regard to its lease liabilities, of which is monitored within the Group's treasury function.

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
0 to 1 year	**325,607**	640,158
1 year to 2 years	**65,156**	17,110
Over 2 years	**24,207**	23,878
	414,970	681,146

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

	As at 31 December	
Age	**2023**	2022
	RMB'000	*RMB'000*
0 to 180 days	**70,481**	3,551

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

	As at 31 December	
Age	**2023**	2022
	RMB'000	*RMB'000*
0 to 180 days	**70,481**	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

The Group continued to expand its customer base by reinforcing the Group's market presence in the building materials industry. During the year ended 31 December 2023, revenue generated from customers in the building material industries amounted to approximately RMB730.0 million (2022: RMB573.1 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 70.2% and 59.1%, respectively, of our total revenue in the manufacturing of equipment for the year 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 year of 2023, in our equipment manufacturing in non-building material industries, almost half 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 Kenya, Ghana and Vietnam. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 10.9% and 21.2%, respectively, of our total revenue for the years 2022 and 2023. During the year, the Group has participated in the construction of one production line project which was located in "Belt and Road" countries and such project was ongoing as at 31 December 2023.

Research and Development

To maintain the Group's market position in the rotary kiln and grinding equipment industries and expand the Group's product portfolio and improve the functionality and efficiency of its products, the Group has invested in its research and development capabilities focusing on the energy saving and environmentally-friendliness technologies and continued to cooperate with research institutions in the PRC. Currently, the Group is conducting research and development with Tsinghua University on "Key Technology for Efficient Pyrolysis and Clean Utilisation of Low-rank Coal" (《低階煤高效熱解清潔利用關鍵技術》). During the year ended 31 December 2023, the Group has continued to participate in the discussion on the setting of 6 national and industry standards, including the drafting of a national standard named "Complete Sets of Equipment Technical Requirements for Lime Calcining" (石灰煅燒成套裝備技術要求). As at 31 December 2023, the Group had 140 authorised patents, comprising 65 are invention patents and 75 utility model patents. There are also 86 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. The development of cement production capacity is uneven around the world, and the economic growth of certain developing countries is relatively faster, with heavy demand for cement due to lower infrastructure level. Demand from overseas market is overall positive in 2024, the Company has launched new projects in Kenya, Morocco and other African countries. Market opportunities keep emerging in Turkey and Iraq in Middle East. There are construction demands from Vietnam, Malaysia, and Myanmar in Southeast Asia, and Kyrgyzstan and Uzbekistan in Central Asia, bringing new opportunities to the international development of the Company.

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.

We believe that we can achieve stable and sustainable performance despite the challenging environment and create long-term value for shareholders. The national economy is expected to improve in 2024, and the Directors will continue to closely monitor the settlement payment and financial position of our customers in 2024 to ensure prompt action against any recoverability issue for our trade receivables.

FINANCIAL REVIEW

Revenue

	Year ended 31 December				Year-over-Year Change
	2023		2022		
	RMB'000	*%*	*RMB'000*	*%*	*%*
Manufacturing of equipment	**1,661,171**	**96.0**	1,424,583	89.7	+16.6
Installation services	**28,714**	**2.3**	19,081	1.2	+50.5
Construction of production line	**39,645**	**1.7**	143,750	9.1	-72.4
Total	**1,729,530**	**100.0**	1,587,414	100.0	+9.0

Our revenue increased by approximately RMB142.1 million or 9.0% to approximately RMB1,729.5 million for the year ended 31 December 2023 from approximately RMB1,587.4 million for the year ended 31 December 2022 as a result of the growth of our revenue generated from manufacturing of equipment business offset by decrease in revenue from our construction of production line business.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by approximately RMB236.6 million or 16.6% to approximately RMB1,661.2 million for the year ended 31 December 2023 from RMB1,424.6 million for the year ended 31 December 2022. The increase in revenue derived from manufacturing of equipment business was primarily due to the expansion of our manufacturing of equipment business in building material industry with revenue increased from approximately RMB424.0 million for the year ended 31 December 2022 to approximately 679.9 million for the year ended 31 December 2023.

Installation services. Revenue derived from our installation services business increased by approximately RMB9.6 million or 50.5% to approximately RMB28.7 million for the year ended 31 December 2023 from approximately RMB19.1 million for the year ended 31 December 2022. This increase was mainly due to the increased demand of installation services from customers under our manufacturing of equipment business for the year ended 31 December 2023.

Construction of production line. Revenue from our construction of production line business decreased by RMB104.1 million or 72.4% to approximately RMB39.6 million for the year ended 31 December 2023 from approximately RMB143.8 million for the year ended 31 December 2022. This decrease was mainly attributable to the decrease of revenue from our construction of production line projects located in Uzbekistan.

Cost of sales and services

Our cost of sales and services increased by approximately RMB56.1 million or 4.3% to approximately RMB1,355.0 million for the year ended 31 December 2023 from approximately RMB1,298.9 million for the year ended 31 December 2022 mainly due to increase of sales during the same period. Cost of raw materials, being the largest component of our cost of sales and services sub-contracting cost by approximately RMB46 million in cost of sales and services.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately RMB86.0 million or 29.8% to approximately RMB374.6 million for the year ended 31 December 2023 from approximately RMB288.5 million for the year ended 31 December 2022. The Group's gross profit margin increased to 21.7% for the year ended 31 December 2023 from 18.2% for the year ended 31 December 2022.

Other income

Our other income increased by approximately RMB8.4 million or 86.1% to approximately RMB18.1 million for the year ended 31 December 2023 from approximately RMB9.7 million for the year ended 31 December 2022 mainly due to the receipt of Chinese government grants of approximately RMB13.4 million mainly in connection with enterprise development support and innovation capability incentives.

Other gains and losses

We record other gains of approximately RMB21.7 million for the year ended 31 December 2023, representing an increase of 28.0% as compared with approximately RMB17.0 million for the year ended 31 December 2022. This was mainly due to the increase in net foreign exchange gain from approximately RMB11.0 million for the year ended 31 December 2022 to approxiamtely RMB17.01 million for the year ended 31 December 2023.

Selling and distribution expenses

Our distribution and selling expenses increased by approximately RMB7.2 million or 8.7% to approximately RMB90.5 million for the year ended 31 December 2023 from approximately RMB83.3 million for the year ended 31 December 2022 mainly due to the higher transportation costs incurred by the Group with the increase of sales.

Administrative expenses

Our administrative expenses increased by approximately RMB14.8 million or 31.0% to approximately RMB62.8 million for the year ended 31 December 2023 from approximately RMB47.9 million for the year ended 31 December 2022. The comparatively higher administrative expenses for the year ended 31 December 2023 was mainly attributable to the higher professional services fee incurred during that year

Research expenditure

Our research expenditure increased by approximately RMB8.4 million or 30.5% to approximately RMB36.0 million for the year ended 31 December 2023 from approximately RMB27.6 million for the year ended 31 December 2022 mainly due to the increased staff costs and materials consumed for our research activities during the year ended 31 December 2023 as compared with last year.

Impairment loss under expected credit loss model, net of reversal

Impairment loss on trade and other receivables and contract assets increased by approximately RMB31.5 million or 36.9% to approximately RMB43.2 million for the year ended 31 December 2023 from approximately RMB11.7 million for the year ended 31 December 2022 mainly due to an increase in impairment loss on trade receivables provided for the year ended 31 December 2023. The increase in impairment loss on trade receivables provided for the year ended 31 December 2023 was mainly due to the increment of long aged trade receivables during the year ended 31 December 2023.

Income tax expenses

Our income tax expenses increased by approximately RMB15.3 million or 67.6% to approximately RMB37.8 million for the year ended 31 December 2023 from approximately RMB22.6 million for the year ended 31 December 2022. Our effective tax rate was 15.6% and 20.9% for each of the years ended 31 December 2022 and 2023, respectively. The comparatively higher effective tax rate for the year ended 31 December 2023 was mainly due to the withholding tax of approximately RMB8.7 million incurred by a subsidiary of our Company incorporated in the PRC regarding its distributable earnings.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income increased by approximately RMB21.4 million or 38.4% to approximately RMB143.5 million for the year ended 31 December 2023 from approximately RMB122.2 million for the year ended 31 December 2022.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 31 December 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 RMB381.6 million (31 December 2022: RMB138.8 million) with a current ratio calculated by dividing our current assets over our current liabilities of 125.8% (31 December 2022: 106.5%) as at 31 December 2023.

Inventories decreased slightly by approximately RMB259.7 million or 25.9% to approximately RMB743.1 million as at 31 December 2023 from approximately RMB1,002.8 million as at 31 December 2022. Inventory turnover days was 232 days for the year ended 31 December 2023, representing a decrease of 25 days as compared to 257 days for the year ended 31 December 2022. The decrease in inventory turnover days was mainly due to decrease of average balance of inventories.

Trade, bills and other receivables decreased by approximately RMB148.6 million or 24.1% to approximately RMB467.2 million as at 31 December 2023 from approximately RMB615.9 million as at 31 December 2022, among which trade receivables increased slightly by approximately RMB28.4 million or 8.4% to approximately RMB367.4 million as compared with approximately RMB339.0 million as at 31 December 2022. 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 that such customer to defer the outstanding payment upon completion of such production line project up to a maximum 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 starting 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. Up to the date of the issuance this announcement, the Group and the customer had not yet entered into the Finalised Deferred Payment Agreement. As at 31 December 2023, outstanding balance of approximately RMB126.0 million (net of impairment loss allowance of approximately RMB13 million) was included in the Group's trade receivables. Subsequent to 31 December 2023, repayment of approximately RMB3.53 million was made by such customer. Our trade receivables turnover days was 57 days (2022: 76 days) for the year ended 31 December 2023 representing an decrease of 17 days. The decrease in trade receivable turnover days during the year was primarily due to customer settlement as a result of the Group's efforts in payment collection.

Prepayments to suppliers decreased by approximately RMB55.4 million or 39.7% to approximately RMB84.3 million as at 31 December 2023 from approximately RMB139.5 million as at 31 December 2022 primarily due to decreased prepayments made to the suppliers for the purchase of raw materials.

Contract liabilities decreased by approximately RMB419.4 million or 33.3% to approximately RMB838.4 million as at 31 December 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 and decrease of upfront payment from new contracts.

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 31 December 2023, the Group had cash and cash equivalents of approximately RMB378.9 million (31 December 2022: approximately RMB345.7 million). A portion of the Group's bank deposits totaling approximately RMB51.8 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 31 December 2023, we had banking facilities of approximately RMB663.5 million, of which approximately RMB102.6 million were utilised. The utilised banking facilities as at 31 December 2023 represented bank guarantee of approximately RMB60.5 million and bank acceptance bill amounted to RMB22.3 million. As at 31 December 2023, our Group had unutilised banking facilities amounted to approximately RMB560.9 million. As at 31 December 2023, the Group had bank borrowings of approximately RMB55.3 million (31 December 2022: approximately RMB105.4 million).

As at 31 December 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 170.4% (31 December 2022: 273.5%). The decrease in our gearing ratio was mainly due to the decrease in our total liabilities as at 31 December 2023 as compared to 31 December 2022.

During the year ended 31 December 2023, the Group recorded net cash from operating activities of approximately RMB46.4 million (2022: RMB44.0 million). Net cash from in investing activities for the year ended 31 December 2023 amounted to approximately RMB74.1 million (2022: net cash used in investing activities amounted to RMB167.8 million). Net cash used in financing activities for the year ended 31 December 2023 amounted to approximately RMB88.1 million (2022: net cash from financing activities amounted to RMB72.3 million).

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

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

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

Currency risk

The Group's exposure to currency risk relates primarily to the Group's sales to customers outside mainland China which is usually denominated in USD. 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 term deposits, loans to and amounts due to independent third parties, lease liabilities and the restricted bank balance and bank balances. The Group currently does not have any interest rate hedging policy. The Group monitors its exposures on an on-going basis and will consider hedging interest rate risk should the need arise.

Credit risk

Credit risk is the risk 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, term deposits, restricted bank deposits and bank balances.

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

CAPITAL EXPENDITURES

As at 31 December 2023, the Group's capital expenditures amounted to approximately RMB25.1 million (31 December 2022: approximately RMB110.8 million) which has mainly related to the acquisition of property, plant and equipment.

PLEDGE OF ASSETS

As at 31 December 2023, the Group's restricted bank deposits and bills receivables and term deposits with an aggregate carrying amount of approximately RMB151.4 million (31 December 2022: RMB143.1 million) were pledged to banks for obtaining line of credit, securing the Group's banking facilities or issuing bills payables.

CAPITAL COMMITMENTS

As at 31 December 2023, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB11.6 million (31 December 2022: approximately RMB1.8 million).

OFF-BALANCE SHEET TRANSACTIONS

Save for the capital commitment and pledged assets disclosed above, the Group did not enter into any material off-balance sheet transactions or arrangements during the year ended 31 December 2023 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION INFORMATION

As at 31 December 2023, the Group had a total of 1,092 employees (31 December 2022: 1,100) including staff from administrative, finance, sales, supply, technical, quality control, and production departments.

Remuneration packages of our employees usually comprise, among other things, salaries, contribution to pension schemes and allowances. We regularly review and determine the remuneration and compensation package of our employees by reference to, among other things, their performance, qualifications, respective responsibilities and market levels of salaries paid by comparable companies. For the year ended 31 December 2023, the Group's incurred staff cost (including Directors' remuneration) of approximately RMB137.7 million (2022: approximately RMB134.9 million).

The Group provide 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

During the year ended 31 December 2023, the Group has invested its available cash-in-hand in wealth management products issued by banks in the PRC as part of the Group's treasury measure for better short-term cash flows management purposes. As at 31 December 2023, the financial assets at FVTPL held by the Group were approximately RMB103.1 million (31 December 2022: RMB200.0 million), representing 4.2% of total assets of the Group. Details of the financial assets at FVTPL held by the Group as at 31 December 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 year ended 31 December 2023** *(RMB'000)*	**Carrying amount as of 31 December 2023** *(RMB'000)*	**Percentage of total assets of the Group as of 31 December 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	2,288	52,278	2.1%
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	802	50,812	2.1%

Notes:

1. This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon 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. The principal amount and return of this product had been received by the Group on its maturity date as stated above. 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 principal amount and return of this product had been received by the Group on its maturity date as stated above. 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 year ended 31 December 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 during the year ended 31 December 2023 and up to the date of this announcement.

SUBSEQUENT EVENTS

Save as disclosed in this announcement, no material events were undertaken by the Group subsequent to 31 December 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 year ended 31 December 2023.

FINAL DIVIDEND

For the year ended 31 December 2023, the Board recommended a final dividend (the "**Final Dividend**") of RMB0.0857 (not subject to withholding tax) per ordinary share (2022: RMB0.074 per ordinary share) to shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on Tuesday, 2 July 2024, totaling approximately RMB42.9 million (not subject to withholding tax), subject to approval by the Shareholders at the forthcoming annual general meeting of the Company (the "**AGM**") to be held on Thursday, 6 June 2024. The Final Dividend will be declared in RMB and paid in Hong Kong dollars ("**HKD**") by applying the middle rate of HKD to RMB announced by the Bank of China on 28 March 2024, which was HKD1.00 to RMB0.90685, as the applicable exchange rate for calculation of the Final Dividend. Subject to Shareholders' approval at the AGM, the Final Dividend payable for each ordinary share shall be HKD0.0945 and the aggregate amount of which will be paid out of the Company's share premium account. Total dividend payout ratio is 30% of the profit for the year attributable to the owners of the Company. The proposed Final Dividend is expected to be distributed to Shareholders on or around Thursday, 18 July 2024.

CLOSURE OF THE REGISTER OF MEMBERS

For determining eligibility to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, 3 June 2024 to Thursday, 6 June 2024, both days inclusive, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 31 May 2024.

For determining entitlement to the Final Dividend, the transfer books and register of members of the Company will be closed from Thursday, 27 June 2024 to Tuesday, 2 July 2024, both days inclusive, during which period no transfers of shares of the Company will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at the abovementioned address not later than 4:30 p.m. on Wednesday, 26 June 2024.

PROPOSED ADOPTION OF THE AMENDED AND RESTATED MEMORANDUM AND ARTICLES

Following the Consultation Conclusions on Proposals to Expand the Paperless Listing Regime and Other Rule Amendments published by the Stock Exchange in June 2023, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") have been amended with effect from 31 December 2023 such that, among others, that any "corporate communication" (as defined under the Listing Rules) must, to the extent permitted under all applicable laws and regulations, be satisfied by the listed issuer by (i) sending or otherwise making available the corporate communication to the relevant holders of its securities using electronic means or (ii) making the corporate communication available on its website and the Stock Exchange's website. Listed issuers must make any necessary amendments to their constitutional documents no later than the first annual general meeting following 31 December 2023 to facilitate their compliance with such requirements. In view of that, the Board proposes to amend the Memorandum and Articles of Association (the "**Proposed Amendments**") in order to facilitate the Company's compliance with the said electronic communication requirements.

The Proposed Amendments and adoption of the Amended and Restated Memorandum and Articles are subject to the approval of the Shareholders by way of passing a special resolution to be proposed at the AGM. A circular of the AGM containing, among other things, details of the Proposed Amendments and adoption of the Amended and Restated Memorandum and Articles, together with a notice of the AGM, will be despatched to the Shareholders in due course.

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 C1 to the Listing Rules as its own code on corporate governance. During the year ended 31 December 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 C3 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 year ended 31 December 2023.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company established 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 independent non-executive Directors, 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 and discussed the audited consolidated financial statements and Annual Results of the Group and the accounting principles and policies adopted by the Group for the year ended 31 December 2023 and agreed with the accounting treatment adopted and the particulars mentioned in this announcement.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board of Directors on 28 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL 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 annual report of the Company for the year ended 31 December 2023 will be dispatched to the Shareholders 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

Hong Kong, 28 March 2024

As of the date of this announcement, the board of directors of the Company comprises Mr. WANG Jiaan, 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.