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 2020

HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 was approximately RMB764.8 million, representing an increase of approximately 10.2% as compared to the corresponding period last year.
- Gross profit for the six months ended 30 June 2020 was approximately RMB128.7 million, representing a decrease of approximately 11.1% as compared to the corresponding period last year.
- Profit before tax for the six months ended 30 June 2020 was approximately RMB56.8 million, representing an increase of approximately 31.3% as compared to the corresponding period last year.
- Profit and total comprehensive income for the six months ended 30 June 2020 attributable to owners of the Company was approximately RMB48.8 million, representing an increase of approximately 35.2% as compared to the corresponding period last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB9.76 cents per share for the six months ended 30 June 2020.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 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 2020

		Six months ended 30 June	
	Notes	**2020**	2019
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**764,764**	693,805
Cost of sales and services		**(636,058)**	(549,034)
Gross profit		**128,706**	144,771
Other income		**14,860**	833
Other gains and losses		**3,517**	3,572
Selling and distribution expenses		**(42,308)**	(57,189)
Administrative expenses		**(25,848)**	(22,145)
Research expenditure		**(10,350)**	(16,639)
Impairment losses on trade and other receivables and contract assets, net of reversal		**(11,732)**	(4,404)
Listing expenses		**–**	(5,217)
Finance costs		**(2)**	(293)
Profit before tax	*5*	**56,843**	43,289
Income tax expense	*6*	**(8,856)**	(7,174)
Profit and total comprehensive income for the period		**47,987**	36,115
Profit (loss) and total comprehensive income (expenses) for the period attributable to:			
– Owners of the Company		**48,775**	36,088
– Non-controlling interests		**(788)**	27
		47,987	36,115
Earnings per share	*8*		
– Basic (RMB cent)		**9.76**	9.62
– Diluted (RMB cent)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**202,556**	190,851
Investment properties		**12,250**	12,846
Intangible assets		**49**	70
Right-of-use assets		**48,235**	40,314
Deposits paid for acquisition of property, plant and equipment		**10,616**	9,584
		273,706	253,665
CURRENT ASSETS			
Inventories		**646,158**	690,047
Trade, bills and other receivables	*9*	**750,742**	746,144
Contract assets		**67,048**	54,640
Contract costs		**15,611**	14,990
Value-added tax recoverable		**124**	14,017
Prepayments to suppliers		**230,126**	155,527
Term deposits over three months		**150,000**	–
Restricted bank deposits		**36,041**	12,211
Bank balances and cash		**417,999**	486,445
		2,313,849	2,174,021
CURRENT LIABILITIES			
Trade, bills and other payables	*10*	**622,657**	638,418
Contract liabilities		**1,365,742**	1,241,038
Dividend payable		**25,000**	–
Tax payable		**4,383**	455
		2,017,782	1,879,911
NET CURRENT ASSETS		**296,067**	294,110
TOTAL ASSETS LESS CURRENT LIABILITIES		**569,773**	547,775

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		**4,504**	4,504
Share premium		**208,617**	208,617
Reserves		**349,125**	325,350
Equity attributable to owners of the Company		**562,246**	538,471
Non-controlling interests		**(882)**	(94)
TOTAL EQUITY		**561,364**	538,377
NON-CURRENT LIABILITY			
Deferred tax liabilities		**8,409**	9,398
		569,773	547,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 of Hong Kong Limited (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 People's Republic of China (the "**PRC**" or "**China**"), 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and 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 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and 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 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRSs and 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	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sale of equipment, recognised at a point in time	**614,745**	472,797
Revenue from construction of production line, recognised over time	**138,728**	209,542
Installation service, recognised over time	**11,291**	11,466
	764,764	693,805

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	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Mainland China	**606,556**	479,054
Outside Mainland China		
Including: Cote d'lvoire	**87,101**	25,225
Uzbekistan	**29,154**	3,909
Republic of Kazakhstan	**22,388**	175,159
Other countries	**19,565**	10,458
	764,764	693,805

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	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**14,799**	17,456
Depreciation of investment properties	**596**	632
Amortisation of intangible assets	**21**	22
Depreciation of right-of-use assets	**468**	338
	15,884	18,448
Capitalised in inventories	**(13,018)**	(15,522)
Total depreciation and amortisation charged to profit or loss	**2,866**	2,926
Impairment losses on trade receivables, net of reversal	**10,815**	3,953
Recognition (reversal) of impairment losses on other receivables, net of (reversal) impairment	**31**	(13)
Impairment losses on contract assets, net of reversal	**886**	464
	11,732	4,404

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("**EIT**")	**9,845**	9,472
Deferred tax credit	**(989)**	(2,298)
	8,856	7,174

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 2019 and 2020.

Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) obtained the renewal of "High Technology Enterprise" certification in 2019, and therefore continued the entitlement of a preferential tax rate of 15% to 31 December 2020.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the six months ended 30 June 2019 and 2020.

7. DIVIDENDS

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

The directors of the Company have determined that no dividend will be declared in respect of the six months ended 30 June 2020.

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	
	2020	2019
	(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)	**48,775**	36,088
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	**500,000**	375,000

The number of ordinary shares for the purpose of calculating basic and diluted earnings per share has been determined on the assumption that the capitalisation issue of the shares of the Company as detailed in the prospectus of the Company dated 31 October 2019 (the "**Prospectus**") had been effective on 1 January 2019.

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the six months ended 30 June 2019 and 2020.

9. TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2020 *RMB'000* (unaudited)	31 December 2019 *RMB'000* (audited)
Trade receivables	**444,754**	389,227
Less: Impairment loss allowance for trade receivables	**(29,696)**	(18,881)
	415,058	370,346
Bills receivables	**327,222**	369,642
Total trade receivables and bills receivables *(note (i))*	**742,280**	739,988
Other receivables and prepayments		
Other receivables	**7,640**	5,085
Prepaid expenses	**159**	377
Loans to independent third parties	**800**	800
	8,599	6,262
Less: Impairment loss allowance for other receivables	**(137)**	(106)
	8,462	6,156
	750,742	746,144

Note (i): As at 30 June 2020, included in the Group's trade receivables was a balance of RMB286,174,000 (31 December 2019: RMB278,471,000) (net of impairment loss allowance of RMB911,000 (31 December 2019: RMB889,000)) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan. In May 2019, due to the expected delay in settlement from this customer as a result of the prolonged approval procedures from the customer's financing bank, the Group entered into a supplemental agreement with the customer, pursuant to which the Group agreed to defer an estimated amount of RMB280,000,000 (the "**Deferred Payment**") upon completion of the test run of the production line on or before 31 December 2019. The amount of the Deferred Payment, time period for accrual of interest and repayment schedule are subjected to finalisation between both parties according to the actual outstanding principal and interest upon completion of the test run of the production line. Both parties agreed to enter into another finalised Deferred Payment agreement with such details and terms to be fixed (the "**Finalised Deferred Payment Agreement**").

The Group had 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 carry a fixed interest rate of 8.41% per annum and settle in every three months by 12 installments starting from 30 June 2020.

The test run of the production line was completed during the year ended 31 December 2019. As at 30 June 2020 and up to the date of this announcement, the Group and the customer have not yet entered into the Finalised Deferred Payment Agreement due to delay in completion of the production line as a result of the 2019 Novel Coronavirus ("**COVID-19**"). The date for first repayment was rescheduled to 30 September 2020 according to a further supplemental agreement entered into on 5 July 2020.

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

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

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 1 year	**363,442**	323,531
1 to 2 years	**26,600**	19,716
Over 2 years	**25,016**	27,099
	415,058	370,346

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 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 180 days	**319,630**	338,356
181 days to 1 year	**7,592**	31,286
	327,222	369,642

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 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 180 days	**320,661**	352,505
181 days to 1 year	**6,561**	17,137
	327,222	369,642

As at 30 June 2020, no bills receivables of the Group (31 December 2019: RMB1,753,000) were pledged to banks for issuing bills payables.

10. TRADE, BILLS AND OTHER PAYABLES

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 RMB'000 (audited)
Trade payables	**478,468**	537,697
Bills payables	**84,178**	28,332
Other taxes payables	**8,959**	8,672
Amounts due to independent third parties	**989**	2,046
Accrued expense	**4,581**	5,059
Accrued issue costs and listing expenses	**–**	3,026
Accrued payroll and welfare	**11,875**	20,006
Unpaid incremental commission	**33,299**	33,322
Lease liabilities	**67**	74
Other payables	**241**	184
	622,657	638,418

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

	30 June 2020 *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 1 year	**444,460**	507,505
1 year to 2 years	**7,541**	13,152
Over 2 years	**26,467**	17,040
	478,468	537,697

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

Age	**30 June 2020** *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 180 days	**84,178**	28,332

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

Age	**30 June 2020** *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
0 to 180 days	**84,178**	28,332

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

Expansion of customer base

We believe that diversifying our business and relying on a wide spread of customers for revenue generation will be critical for our future sustainability and growth. The Group continued to expand its customer base by reinforcing the Group's market presence in the building materials industry. For the six months ended 30 June 2020, revenue generated from customers in the building materials industry amounted to approximately RMB344.9 million (six months ended 30 June 2019: RMB333.1 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 73.9% and 67.0%, respectively, of our total revenue in the manufacturing of equipment for the six months ended 30 June 2019 and 2020. 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 2020, approximately HK$37.7 million of the net proceeds from the Share Offer were used in the purchase of new machinery, the construction of a new production plant for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology and recruitment of technicians and experts. The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Ivory Coast (Côte d'Ivoire), Uzbekistan and the Republic of Kazakhstan. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 29.8% and 18.4%, respectively, of our total revenue for the six months ended 30

June 2019 and 2020. Furthermore, most of our customers under our construction of production line business are located in the "Belt and Road" countries. As at 30 June 2020, the Group has four on-going production line projects and all located in the "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-friendly technologies and continued to cooperate with research institutions in the PRC. In collaboration with the Institute of Process Engineering of the Chinese Academy of Sciences (中國科學院過程工程研究所), "Research and development of efficient rotary kiln technology for the treatment of co-processing solid waste" (適用於協同處理廢棄物的高效回轉窰技術研究與開發) is being carried out. During the six months ended 30 June 2020, the Group continued to participate in the discussion on the setting of national standard for "Complete Sets of Equipment Technical Requirements for Lime Calcining" (石灰煅燒成套裝備技術要求). As at 30 June 2020, the Group had 60 authorised patents, of which 32 are invention patents, and 43 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. From a long-term perspective, in light of the growing demand of rotary kilns, grinding equipment and their related equipment in the overseas market, the Group will continue to make good use of the "Belt and Road" initiatives and actively explore opportunities in relation to construction of production lines located in "Belt and Road" countries and emerging markets where there is a significant demand for building materials as well as production equipment relating to building materials.

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

Despite the contraction of China's economy in the first quarter of 2020 caused by the COVID-19 and taking into account the sign of recovery shown by China's gross domestic product growth in the second quarter of 2020, the Group remains cautiously optimistic in the rotary kiln, grinding equipment and their related equipment market noting that businesses in China have gradually been opening and manufacturing is restarted as factories reopen and workers return from isolation. However, the unpredictable nature of COVID-19 and the effectiveness of measures taken by different countries in containing the impact of COVID-19 continues to bring uncertainties to the global economic outlook for the rest of 2020 and beyond. We expect the progress of our overseas production line projects will be hindered and slowed down as a result of the various measures imposed by the local governments in response to the outbreak of the COVID-19 pandemic where our production line projects are located including countrywide quarantine and travel restrictions which in turn will result in a delay of progress payment from our overseas customers. That said, the Group will assess its business, operational and financial impacts of COVID-19 from time to time and continue to monitor the evolving situation with appropriate measures.

FINANCIAL REVIEW

Revenue

	Six months ended 30 June				Period-over-Period Change
	2020		2019		
	RMB'000	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Unaudited)		
Manufacturing of equipment	**614,745**	**80.4**	472,797	68.1	30.0
Installation services	**11,291**	**1.5**	11,466	1.7	-1.5
Construction of production line	**138,728**	**18.1**	209,542	30.2	-33.8
Total	**764,764**	**100.0**	693,805	100.0	10.2

Our revenue increased by approximately RMB71.0 million or 10.2% to approximately RMB764.8 million for the six months ended 30 June 2020 from approximately RMB693.8 million for the six months ended 30 June 2019 as a result of the increase in revenue derived from our manufacturing of equipment business being partially offset by the decrease in revenue derived from our construction of production line business.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by approximately RMB141.9 million or 30.0% from approximately RMB472.8 million for the six months ended 30 June 2019 to approximately RMB614.7 million for the six months ended 30 June 2020. The increase in revenue derived from manufacturing of equipment business was primarily due to growth in our domestic sales during the six months ended 30 June 2020 as a result of the rapid rebound of demand from our domestic customers following the Chinese government's efforts in advancing the infrastructure investment and our increased focus on domestic sales after the resumption of our business operations in February 2020.

Installation services. Revenue derived from our installation services business decreased by approximately RMB0.2 million or 1.5% to approximately RMB11.3 million for the six months ended 30 June 2020 from approximately RMB11.5 million for the six months ended 30 June 2019. This decrease was mainly due to the decreased demand of installation services from customers under our manufacturing of equipment business for the six months ended 30 June 2020.

Construction of production line. Revenue from our construction of production line business decreased by approximately RMB70.8 million or 33.8% to approximately RMB138.7 million for the six months ended 30 June 2020 from approximately RMB209.5 million for the six months ended 30 June 2019. This decrease was mainly attributable to slowdown of our overseas production line projects due to the COVID-19 pandemic.

Cost of sales and services

Our cost of sales and services increased by approximately RMB87.0 million or 15.9% to approximately RMB636.1 million for the six months ended 30 June 2020 from approximately RMB549.0 million for the six months ended 30 June 2019 mainly due to the increase of sales during the same period. Cost of raw materials, being the largest component of our cost of sales and services, increased by approximately RMB51.6 million during the six months ended 30 June 2020 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 RMB16.1 million or 11.1% to approximately RMB128.7 million for the six months ended 30 June 2020 from approximately RMB144.8 million for the six months ended 30 June 2019. The Group's gross profit margin decreased to 16.8% for the six months ended 30 June 2020 from 20.9% for the corresponding period last year.

Other income

Our other income increased significantly by approximately RMB14.1 million or 1,683.9% to approximately RMB14.9 million for the six months ended 30 June 2020 from approximately RMB0.8 million for the six months ended 30 June 2019 primarily attributable to the receipt of Chinese government grants of approximately RMB11.9 million mainly in respect of the Group's technology innovation and development.

Other gains and losses

Other gains remained relatively stable at approximately RMB3.5 million for the six months ended 30 June 2020 as compared with approximately RMB3.6 million for the six months ended 30 June 2019.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB14.9 million or 26.0% to approximately RMB42.3 million for the six months ended 30 June 2020 from approximately RMB57.2 million for the six months ended 30 June 2019 mainly due to the decrease of the transportation fees resulting from the decrease of the revenue derived from our overseas production line projects.

Administrative expenses

Our administrative expenses increased by approximately RMB3.7 million or 16.7% to approximately RMB25.8 million for the six months ended 30 June 2020 from approximately RMB22.1 million for the six months ended 30 June 2019 mainly attributable to our professional fees incurred during the six months ended 30 June 2020.

Research expenditure

Our research expenditure decreased by approximately RMB6.3 million or 37.8% to approximately RMB10.4 million for the six months ended 30 June 2020 from approximately RMB16.6 million for the six months ended 30 June 2019 mainly due to the decrease in technical consulting fees incurred during the six months ended 30 June 2020.

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

Impairment loss on trade and other receivables and contract assets increased by approximately RMB7.3 million or 166.4% to approximately RMB11.7 million for the six months ended 30 June 2020 from approximately RMB4.4 million for the six months ended 30 June 2019 mainly due to an increase in impairment loss on trade receivables provided for the six months ended 30 June 2020 and as a result of the increased balance of trade receivables as at 30 June 2020.

Income tax expenses

Our income tax expenses increased by approximately RMB1.7 million or 23.4% to approximately RMB8.9 million for the six months ended 30 June 2020 from approximately RMB7.2 million for the six months ended 30 June 2019. Our effective tax rate was 16.6% and 15.6% for the six months ended 30 June 2019 and 2020, respectively. The comparatively higher effective tax rate for the six months ended 30 June 2019 was mainly due to the tax effect of non-deductible expenses incurred by the Group in relation to the Listing during such period.

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 RMB12.7 million or 35.2% to approximately RMB48.8 million for the six months ended 30 June 2020 from approximately RMB36.1 million for the six months ended 30 June 2019.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 30 June 2020 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 RMB296.1 million (31 December 2019: RMB294.1 million) with a current ratio calculated by dividing our current assets over our current liabilities of 114.7% (31 December 2019: 115.6%) as at 30 June 2020.

Inventories decreased by approximately RMB43.9 million or 6.4% to approximately RMB646.2 million as at 30 June 2020 from approximately RMB690.0 million as at 31 December 2019. Inventory turnover days was 189 days for the six months ended 30 June 2020, representing an increase of 13 days as compared to 176 days for the year ended 31 December 2019. The decrease in inventories was mainly due to the decreased balance of work-in-progress maintained as at 30 June 2020. The increase in inventory turnover days was mainly because of the increase in average balance of inventories. Trade, bills and other receivables increased by approximately RMB4.6 million or 0.6% to approximately RMB750.7 million as at 30 June 2020 from approximately RMB746.1 million as at 31 December 2019, among which trade receivables increased by approximately RMB55.6 million or 14.3% to approximately RMB444.8 million as compared with approximately RMB389.2 million as at 31 December 2019. Such change was mainly due to the increase of revenue and the delay of payment from certain customers resulting from COVID-19 pandemic. In May 2019, our 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 allow such customer to defer an 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. As agreed in the supplemental agreement, the Deferred Payment up to the maximum amount of RMB280 million was originally agreed to be settled in every three months by 12 installments starting from 30 June 2020. Any receivable balance, apart from the Deferred Payment, from this customer should be settled as originally scheduled. Due to the delay in completion of the production line project as a result of the COVID-19 pandemic, the date of the first repayment has been rescheduled to 30 September 2020. Our trade receivables turnover days was 92 days (2019: 68 days) for the six months ended 30 June 2020 representing an increase of 24 days. The increase in trade receivable turnover days was primarily due to the extension of payment terms to a customer as mentioned above.

Prepayments to suppliers increased by approximately RMB74.6 million or 48.0% to approximately RMB230.1 million as at 30 June 2020 from approximately RMB155.5 million as at 31 December 2019 primarily due to increased prepayments made to the suppliers for the purchase of raw materials.

Contract liabilities increased by approximately RMB124.7 million or 10.0% to approximately RMB1,365.7 million as at 30 June 2020 from approximately RMB1,241.0 million as at 31 December 2019. The increase in contract liabilities was mainly due to advance payments received from our customers during the six months ended 30 June 2020 for new contracts obtained from domestic customers.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB418.0 million (31 December 2019: approximately RMB486.4 million). A portion of the Group's bank deposits totaling approximately RMB36.0 million (31 December 2019: approximately RMB12.2 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 ("**USD**"), Hong Kong dollars and Euro. As at 30 June 2020, we had banking facilities of approximately RMB560.0 million, of which approximately RMB233.9 million were utilised. The utilised banking facilities as at 30 June 2020 represented bank guarantee of approximately RMB161.7 million and bank acceptance bill amounted to approximately RMB72.2 million. As at 30 June 2020, our Group had unutilised banking facilities amounted to approximately RMB326.1 million. As at 30 June 2020, the Group did not have any bank borrowings (31 December 2019: Nil).

As at 30 June 2020, 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 360.4% (31 December 2019: 350.9%). The increase in our gearing ratio was mainly due to the declaration of dividend during the six months ended 30 June 2020.

During the six months ended 30 June 2020, the Group recorded approximately RMB139.7 million (six months ended 30 June 2019: RMB130.6 million) net cash from operating activities. Net cash used in investing activities for the six months ended 30 June 2020 amounted to approximately RMB207.5 million (six months ended 30 June 2019: RMB117.2 million). Net cash used in financing activities for the six months ended 30 June 2020 amounted to approximately RMB1.8 million (six months ended 30 June 2019: RMB21.1 million).

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

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

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

Currency risk

The Group's exposure to currency risk relates primarily to the Group's sales to customers outside mainland China which is usually denominated in USD. During the six months ended 30 June 2020, approximately 16% (six months ended 30 June 2019: 6%) of the Group's sales is denominated in currencies other than the functional currency of the relevant Group entities making the sale. The Group has not adopted any foreign exchange hedging policy, engaged in any currency hedging or had any positions in any derivative financial instruments to hedge our currency risk as the management of the Group considers that the foreign exchange risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's loans to and amounts due to independent third parties and the floating-rate restricted bank balance and bank balances. The Group currently does not have any interest rate hedging policy. The Group monitors its exposures on an on-going basis and will consider hedging interest rate risk should the need arise.

Credit risk

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

Given that 68.9% (31 December 2019: 75.2%) of the total trade receivables was due from one independent customer of the Group as at 30 June 2020, 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 2020, 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 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2020, the Group's capital expenditure amounted to approximately RMB35.9 million (six months ended 30 June 2019: approximately RMB4.8 million) which was mainly related to the acquisition of property, plant and equipment and upfront payments for right-of-use assets.

PLEDGE OF ASSETS

As at 30 June 2020, the Group's restricted bank deposits with an aggregate carrying amount of approximately RMB36.0 million were pledged to banks for issuing bills payables. As at 31 December 2019, the Group's restricted bank deposits and bills receivable with an aggregate carrying amount of approximately RMB14.0 million were pledged to banks for issuing bills payables.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB16.4 million (31 December 2019: approximately RMB19.0 million).

OFF-BALANCE SHEET TRANSACTIONS

Save for the capital commitments and pledged assets disclosed above, the Group did not enter into any material off-balance sheet transactions or arrangements during the six months ended 30 June 2020 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION INFORMATION

As at 30 June 2020, the Group had a total of 996 employees 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 2020, the Group incurred staff cost (including Directors' remuneration) of approximately RMB44.8 million (six months ended 30 June 2019: approximately RMB44.3 million).

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

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

USE OF PROCEEDS FROM THE SHARE OFFER

Net proceeds from the Share Offer and the Listing of the Company on the Main Board of the Stock Exchange on 15 November 2019 (the "**Listing Date**"), after deduction of the underwriting fees and commissions and expenses of the Company in connection with the Share Offer was approximately HK$150.0 million. The Group would apply such proceeds in a manner consistent with the intended use of proceeds as disclosed in the Prospectus. The table below sets forth the utilisation of the net proceeds from the Share Offer and the unused amount as at 30 June 2020. All the unused proceeds have been deposited into a bank account maintained by the Group.

	Percentage to total amount *%*	Net proceeds *HK$ million*	Utilised amount as at 30 June 2020 (Note 1) *HK$ million*	Unutilised amount as at 30 June 2020 *HK$ million*	Expected timeline for unutilised amount (Note 2)
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	78.7	118.0	37.7	80.3	To be fully utilised during the period from third quarter of 2020 to the end of 2021
Increasing the productivity and efficiency in manufacturing our products for our rotary kiln and grinding equipment system	7.0	10.5	4.6	5.9	To be fully utilised by third quarter of 2020
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	0	10.2	To be fully utilised during the period from third quarter of 2020 to the end of 2021
Marketing activities	3.5	5.2	0.9	4.3	To be fully utilised by third quarter of 2021
Working capital	4.0	6.1	0	6.1	To be utilised based on actual need
	100.0	**150.0**	**43.2**	**106.8**	

Notes:

1. The net proceeds were used by our PRC subsidiaries in RMB. The translation of RMB into Hong Kong dollars have been made at the rate of RMB1. 00 to HK$1.0948.

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

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

During the six months ended 30 June 2020 and up to the date of this announcement, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group does not have other plans for material investments and capital assets.

SUBSEQUENT EVENTS

Assessment of the impact of COVID-19

The outbreak of COVID-19 pandemic and the subsequent quarantine measures as well as travel restrictions imposed by many countries have affected the overseas sales of the Group. In particular, we expect the completion date of our production line projects will be delayed due to the current difficulties in sending staff of the Group as well as our subcontractors to overseas project sites. Based on the currently available information, the Group considers the event would not have material impact to the Group's operation noting the rebound of domestic demand following the Chinese government's efforts in advancing the infrastructure investment and the Group's increased focus on domestic sales. The Group is closely monitoring the latest development and will continue to assess the impact of the COVID-19 pandemic, as well as any government's stimulus in response, on the Group's financial position and operating results from time to time. Up to the date of this announcement, the assessment is still in progress.

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 2020.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own code on corporate governance. During the six months ended 30 June 2020, 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 2020.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Essence Corporate Finance (Hong Kong) Limited ("**Essence**"), the Company's compliance adviser, save for the compliance advisor agreement entered into between the Company and Essence dated 29 October 2019 in connection with the Listing, none of Essence or its directors, employees or close associates (as defined in the Listing Rules) had any interest in the Group as at 30 June 2020, which is required to be notified to the Company pursuant to Rule 3A.19 of the Listing Rule.

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 2020. The Audit Committee is of the view that the unaudited interim condensed consolidated financial information is 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 2020 has 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 2020 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, 13 August 2020

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*