Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2020

HIGHLIGHTS OF THE ANNUAL RESULTS

- Revenue for the year ended 31 December 2020 was approximately RMB1,574.4 million, an increase of 7.4% as compared to last year.
- Gross profit for the year ended 31 December 2020 was approximately RMB308.6 million, a decrease of approximately 2.3% as compared to last year.
- Profit before tax for the year ended 31 December 2020 was approximately RMB156.1 million, an increase of 60.6% as compared to last year.
- Profit and total comprehensive income for the year ended 31 December 2020 attributable to owners of the Company was approximately RMB131.9 million, an increase of 67.2% as compared to last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB26.39 cents per share for the year ended 31 December 2020.
- The Board recommended to declare the final dividend of RMB0.08 per ordinary share, totalling RMB40.0 million for the year ended 31 December 2020.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 (the "**Annual Results**") with comparative figures for the year ended 31 December 2019. 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 2020

		Year ended 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**1,574,429**	1,465,464
Cost of sales and services		**(1,265,833)**	(1,149,670)
Gross profit		**308,596**	315,794
Other income		**35,953**	3,003
Other gains and losses		**635**	6,405
Selling and distribution expenses		**(80,131)**	(108,892)
Administrative expenses		**(50,764)**	(47,186)
Research expenditure	*4*	**(34,471)**	(46,600)
Impairment losses under expected credit loss model, net of reversal	*4*	**(23,688)**	(8,990)
Listing expenses		**–**	(15,731)
Finance costs		**(4)**	(589)
Profit before tax	*4*	**156,126**	97,214
Income tax expense	*5*	**(24,112)**	(17,309)
Profit and total comprehensive income for the year		**132,014**	79,905
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**131,937**	78,935
– Non-controlling interests		**77**	970
		132,014	79,905
Earnings per share	*7*		
– Basic (RMB cent)		**26.39**	20.18
– Diluted (RMB cent)		**N/A**	20.18

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 31 December 2020

		As at 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Trade receivables	*8*	**278,568**	–
Property, plant and equipment		**213,456**	190,851
Investment properties		**11,720**	12,846
Intangible assets		**27**	70
Right-of-use assets		**47,773**	40,314
Deposits paid for acquisition of property, plant and equipment		**11,538**	9,584
		563,082	253,665
CURRENT ASSETS			
Inventories		**678,673**	690,047
Trade, bills and other receivables	*8*	**441,495**	746,144
Contract assets		**119,301**	54,640
Contract costs		**15,102**	14,990
Value-added tax recoverable		**14,492**	14,017
Prepayments to suppliers		**205,696**	155,527
Term deposits		**150,000**	–
Restricted bank deposits		**17,121**	12,211
Bank balances and cash		**434,795**	486,445
		2,076,675	2,174,021
CURRENT LIABILITIES			
Trade, bills and other payables	*9*	**637,966**	638,418
Contract liabilities		**1,335,502**	1,241,038
Tax payable		**3,164**	455
		1,976,632	1,879,911
NET CURRENT ASSETS		**100,043**	294,110
TOTAL ASSETS LESS CURRENT LIABILITIES		**663,125**	547,775

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
CAPITAL AND RESERVES			
Share capital		**4,504**	4,504
Share premium		**183,617**	208,617
Reserves		**457,287**	325,350
Equity attributable to owners of the Company		**645,408**	538,471
Non-controlling interests		**(17)**	(94)
TOTAL EQUITY		**645,391**	538,377
NON-CURRENT LIABILITY			
Deferred tax liabilities		**17,734**	9,398
		663,125	547,775

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 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 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), 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 directors of the Company.

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 IFRSs

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in the IFRSs and the following amendments to IFRSs issued by the International Accounting Standards Board for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the 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 IFRS Standards and the amendments to IFRSs in the current year 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.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

The directors of the Company anticipate that the application of all these new and 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	
	2020	2019
	RMB'000	*RMB'000*
Sale of equipment, recognised at a point in time	**1,179,486**	961,592
Revenue from construction of production line, recognised over time	**371,650**	482,450
Installation service, recognised over time	**23,293**	21,422
	1,574,429	1,465,464

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	
	2020	2019
	RMB'000	*RMB'000*
Mainland China	**1,168,427**	923,264
Outside Mainland China		
Including: Cote d'lvoire	**196,889**	120,585
Uzbekistan	**125,412**	40,748
Kazakhstan	**49,265**	295,338
Indonesia	**5,934**	19,097
Congo	**–**	37,514
Turkey	**–**	1,804
Other countries	**28,502**	27,114
	1,574,429	1,465,464

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	
	2020	2019
	RMB'000	*RMB'000*
Customer A	**(note)**	295,338
Customer B	**196,889**	(note)

Note: The Group carried out transactions with this customer but the amount of the transaction was less than 10% of revenue for the respective year.

4. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**28,575**	35,359
Depreciation of investment properties	**1,126**	1,155
Amortisation of intangible assets	**43**	179
Depreciation of right-of-use assets	**931**	748
	30,675	37,441
Capitalised in inventories	**(24,743)**	(31,920)
Total depreciation and amortisation charged to profit or loss	**5,932**	5,521
Analysed as:		
Charged in administrative expenses	**4,736**	4,352
Charged in selling and distribution expenses	**185**	32
Charged in research expenditure	**1,011**	1,137
	5,932	5,521
Auditors' remuneration	**2,471**	3,142
Cost of inventories recognised as cost of sales	**1,065,485**	947,370
Directors' remuneration	**1,929**	1,710
Other staff costs		
– Salaries and other benefits	**89,009**	83,391
– Retirement benefit scheme contributions	**13,273**	13,701
– Discretionary performance related bonus	**3,903**	6,299
	106,185	103,391

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Total staff costs	**108,114**	105,101
Capitalised in contract costs	**(6,024)**	(7,826)
Capitalised in inventories	**64,095**	(59,969)
Total staff costs charged to profit or loss	**37,995**	37,306
Analysed as:		
Charged in administrative expenses	**19,492**	21,966
Charged in selling and distribution expenses	**6,646**	6,786
Charged in research expenditure	**11,857**	8,554
	37,995	37,306
Research expenditure		
Staff costs	**11,857**	8,554
Depreciation and amortisation	**1,011**	1,137
Technical consultancy fee	**14,663**	27,302
Materials consumed	**5,660**	6,825
Others	**1,280**	2,782
	34,471	46,600
Gross rental income from investment properties	**1,456**	1,064
Less:		
Direct operating expenses incurred for investment properties that generate rental income during the year	**(1,126)**	(1,155)
	330	(91)
Impairment losses under ECL model, net of reversal		
Trade receivables	**16,472**	7,663
Other receivables	**(8)**	(179)
Contract assets	**7,224**	1,506
	23,688	8,990

5. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")	**15,776**	15,551
Deferred tax charge	**8,336**	1,758
	24,112	17,309

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 2019 and 2020.

Jiangsu Pengfei Group Limited 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 (2019: 15%). The Group is currently in the process of application of the renewal and expects such renewal will be obtained in 2021.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the years ended 31 December 2019 and 2020.

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	
	2020	2019
	RMB'000	*RMB'000*
Profit before tax	**156,126**	97,214
Tax at PRC EIT rate of 15% (2019: 15%)	**23,419**	14,582
Tax effect of expense not deductible for tax purpose	**497**	2,855
Tax effect of deductible temporary differences	**357**	21
Utilisation of deductible temporary differences previously not recognised	**(25)**	(93)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(466)**	(401)
Effect of different tax rates of other subsidiaries	**330**	345
Income tax expense	**24,112**	17,309

6. DIVIDEND

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Dividend for the ordinary Shareholders of the Company	**25,000**	–

During the current year, a final dividend in respect of the year ended 31 December 2019 of HKD0.05472 (equivalent to RMB0.05) per ordinary share (2019: nil), in an aggregate amount of approximately HKD27,360,000 (equivalent to RMB25,000,000), 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 2020 of RMB0.08 per ordinary share, in an aggregate amount of RMB40 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.

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	
	2020	2019
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB' 000)	**131,937**	78,935
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	391,095,890

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the year ended 31 December 2020. In the computation of diluted earnings per share for the year ended 31 December 2019, it did not assume the exercise of the over-allotment options granted, as detailed in the prospectus of the Company dated 31 October 2019, since the exercise price of those options was higher than the average share price of the Company from the date of grant to the end of the exerciseable period.

8. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**390,608**	389,227
Less: Impairment loss allowance for trade receivables	**(34,190)**	(18,881)
	356,418	370,346
Analysed as:		
Current	**77,850**	370,346
Non-current *(Note (i))*	**278,568**	–
Bills receivables	**354,126**	369,642
Total trade receivables and bills receivables	**710,544**	739,988
Other receivables and prepayments		
Other receivables (Note (ii))	**6,114**	5,085
Prepaid expenses	**2,703**	377
Loans to independent third parties (Note (iii))	**800**	800
	9,617	6,262
Less: Impairment loss allowance for other receivables	**(98)**	(106)
	9,519	6,156
	720,063	746,144

Note (i): As at 1 January 2019, the Group's trade receivables amounted to RMB173,678,000 (net of impairment loss allowance of RMB14,271,000) and bills receivables amounted to RMB382,603,000.

As at 31 December 2020, included in the Group's trade receivables was a balance of RMB278,568,000 (net of impairment loss allowance of RMB5,656,000) (2019: RMB278,471,000 (net of impairment loss allowance of 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 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.

The test run of the production line was completed during the year ended 31 December 2019. However, due to the COVID-19 Pandemic outbreak, the production line was still yet to be completed as at 31 December 2020 and up to the date of this announcement, while the Group and the customer were still in negotiation and had not yet entered into the Finalised Deferred Payment Agreement. However, the management of the Group expects the Finalised Deferred Payment Agreement will be able to sign during the year ending 31 December 2021 but is still uncertain to the date when the install repayment will commence. Installment repayment might or might not be commenced during 2021. Accordingly, the carrying amount of the outstanding trade receivables amounting to RMB278,568,000 (net of impairment loss allowance of RMB5,656,000) has been reclassified to non-current assets as at 31 December 2020.

Note (ii): As at 31 December 2020, other receivables mainly included staff advance of RMB3,749,000 (2019: RMB2,915,000) and refundable tender deposits paid to potential customers of RMB1,559,000 (2019: RMB2,167,000). 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 2020, the Group's loans to independent third parties are unsecured, repayable on demand and carry at fixed interests of 4.40% (2019: 4.40%) per annum.

The Group does not grant any credit period to its customers except for one 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 RMB28,727,000 (2019: RMB38,206,000) as at 31 December 2020, 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	
	2020	2019
	RMB'000	*RMB'000*
0 to 1 year	**89,438**	323,531
1 to 2 years	**250,941**	19,716
Over 2 years	**16,039**	27,099
	356,418	370,346

As at 31 December 2020, the Group's trade receivables of RMB356,418,000 (2019: RMB370,346,000) 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	
	2020	2019
	RMB'000	*RMB'000*
0 to 180 days	**324,449**	338,356
181 days to 1 year	**29,677**	31,286
	354,126	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.

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
0 to 180 days	**346,574**	352,505
181 days to 1 year	**7,552**	17,137
	354,126	369,642

As at 31 December 2020, bills receivables of RMB35,000,000 (2019: RMB1,753,000) 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 2019	14,271
Impairment loss allowance recognised	11,083
Impairment loss allowance reversed	(3,420)
Write-off as uncollectible	(3,053)
At 31 December 2019	18,881
Impairment loss allowance recognised	19,876
Impairment loss allowance reversed	(3,404)
Write-off as uncollectible	(1,163)
At 31 December 2020	34,190

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

	12m ECL
	RMB'000
At 1 January 2019	285
Impairment loss allowance recognised	45
Impairment loss allowance reversed	(224)
At 31 December 2019	106
Impairment loss allowance recognised	45
Impairment loss allowance reversed	(53)
At 31 December 2020	98

Included in the balance of impairment loss allowance are individually impaired trade receivables in full with an aggregate balance of RMB18,453,000 (2019: RMB11,324,000) as at 31 December 2020, 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	
	2020	2019
	RMB'000	*RMB'000*
Analysis of trade and other receivables by currency:		
Denominated in United States dollar ("**USD**")	**9,636**	9,717
Denominated in European dollar ("**EUR**")	**81**	75

9. TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables	**533,147**	537,697
Bills payables	**38,983**	28,332
Other taxes payables	**8,837**	8,672
Amounts due to independent third parties *(Note (i))*	**926**	2,046
Accrued expense	**3,254**	5,059
Accrued issue costs and listing expenses	**–**	3,026
Accrued payroll and welfare	**19,535**	20,006
Unpaid incremental commission	**33,042**	33,322
Lease liabilities *(Note (ii))*	**59**	74
Other payables	**183**	184
	637,966	638,418

The credit period on purchases of goods ranges from 0 to 365 days during the years ended 31 December 2019 and 2020 and certain suppliers allow longer credit period on a case-by-case basis.

Notes:

(i) As at 31 December 2020, the amount represented a loan raised from an independent third party, which was unsecured, unguaranteed and carried interests at a fixed rate of 3.00% per annum (2019: 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 of 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	
	2020	2019
	RMB'000	*RMB'000*
0 to 1 year	**498,524**	507,505
1 year to 2 years	**16,958**	13,152
Over 2 years	**17,665**	17,040
	533,147	537,697

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	
	2020	2019
Age	***RMB'000***	*RMB'000*
0 to 180 days	**38,983**	28,332

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	
	2020	2019
Age	***RMB'000***	*RMB'000*
0 to 180 days	**38,983**	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.

Despite the uncertainties caused by the novel coronavirus pneumonia epidemic ("**COVID-19 Pandemic**") outbreak since January 2020 and various COVID-19 Pandemic control lockdown conditions during the early part of 2020 in China, the nation has recorded faster-than-expected economic rebound. Coupled with the availability of vaccines, the Group remains optimistic in the rotary kiln, grinding equipment and their related equipment market. During the year ended 31 December 2020, with the Group's continued endeavours to minimise the impact of the COVID-19 Pandemic control lockdown during 2020, the Group had maintained its operation and financial performance of the Group and had stuck to its business strategies.

Expansion of customer base

The Group continued to expand its customer base by reinforcing the Group's market presence in the building materials industry. During the year ended 31 December 2020, revenue generated from customers in the building material industries amounted to approximately RMB767.5 million (2019: RMB791.0 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 68.2% and 67.0%, respectively, of our total revenue from the manufacturing of equipment business for the year 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 year of 2020, approximately HK$72.4 million of the net proceeds from the share offer (the "**Share Offer**") as described in the prospectus of the Company dated 31 October 2019 (the "**Prospectus**") were used in the purchase of new machinery and the construction of a new production plant for manufacturing rotary kilns that possess the latest roasting and pyrolysis technology.

The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Uzbekistan, Kazakhstan and Ivory Coast (Côte d'Ivoire). Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 31.4% and 24.4%, respectively, of our total revenue for the years 2019 and 2020. During the year of 2020, the Group has participated in the construction of five production line projects, four of which were located in "Belt and Road" countries and as at 31 December 2020, we had three on-going production line projects, all of which are located in "Belt and Road" countries.

Research and Development

To maintain the Group's market position in the rotary kiln and grinding equipment industries and expand the Group's product portfolio and improve the functionality and efficiency of its products, the Group has invested in its research and development capabilities focusing on the energy saving and environmentally-friendliness technologies and continued to cooperate with research institutions in the PRC. 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 of 2020, the Group has continued to participate in the discussion on the setting of 10 national and industry standards, including "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 2020, the Group had 71 authorised patents, comprising 39 invention patents and 32 utility model patents. There are also 26 patent applications pending approval which primarily relate to manufacture of products in our rotary kiln and grinding equipment system.

Outlook

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

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

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

FINANCIAL REVIEW

Revenue

	Year ended 31 December				Year-over-
	2020		2019		Year Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
Manufacturing of equipment	**1,179,486**	**74.9**	961,592	65.6	22.7
Installation services	**23,293**	**1.5**	21,422	1.5	8.7
Construction of production line	**371,650**	**23.6**	482,450	32.9	-23.0
Total	**1,574,429**	**100.0**	1,465,464	100.0	7.4

Our revenue increased by approximately RMB109.0 million or 7.4% from approximately RMB1,465.5 million for the year ended 31 December 2019 to approximately RMB1,574.4 million for the year ended 31 December 2020 as a result of the growth of our revenue generated from manufacturing of equipment business during the year ended 31 December 2020.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by RMB217.9 million or 22.7% from RMB961.6 million for the year ended 31 December 2019 to RMB1,179.5 million for the year ended 31 December 2020. The increase in revenue derived from manufacturing of equipment business was primarily due to growth in our domestic sales during the year ended 31 December 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 increased by RMB1.9 million or 8.7% to approximately RMB23.3 million for the year ended 31 December 2020 from approximately RMB21.4 million for the year ended 31 December 2019. 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 2020.

Construction of production line. Revenue from our construction of production line business decreased by RMB110.8 million or 23.0% to approximately RMB371.7 million for the year ended 31 December 2020 from approximately RMB482.5 million for the year ended 31 December 2019. This decrease was mainly attributable to the 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 RMB116.2 million or 10.1% to approximately RMB1,265.8 million for the year ended 31 December 2020 from approximately RMB1,149.7 million for the year ended 31 December 2019 mainly due to the increase in domestic sales in manufacturing of equipment during the same period. Cost of raw materials, being the largest component in our cost of sales and services increased due to the increased sales in manufacturing of equipment which resulted in an increase of approximately RMB106.0 million in cost of sales and services.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased by RMB7.2 million or 2.3% to approximately RMB308.6 million for the year ended 31 December 2020 from approximately RMB315.8 million for the year ended 31 December 2019. The Group's gross profit margin decreased to 19.6% for the year ended 31 December 2020 from 21.5% for the year ended 31 December 2019.

Other income

Our other income increased by approximately RMB33.0 million or 111.0% to approximately RMB36.0 million for the year ended 31 December 2020 from approximately RMB3.0 million for the year ended 31 December 2019 mainly due to the receipt of Chinese government grants of approximately RMB29.8 million mainly in respect of the Group's technology innovation and development and/or expenses related to listing of the Company.

Other gains and losses

We record other gains of approximately RMB0.6 million for the year ended 31 December 2020, representing a decrease of 90.1% as compared with approximately RMB6.4 million for the year ended 31 December 2019. This was mainly due to the decrease of investment gain on financial assets at FVTPL during the year ended 31 December 2020.

Selling and distribution expenses

Our distribution and selling expenses decreased by RMB28.8 million or 26.5% to approximately RMB80.1 million for the year ended 31 December 2020 from approximately RMB108.9 million for the year ended 31 December 2019 mainly due to the implementation of toll fee exemption in the first half of the year 2020 in the PRC, and the decrease in overseas transportation demand due to the negative impact on business operation of the Group's overseas customers, especially for the construction of production line, from the COVID-19 Pandemic.

Administrative expenses

Our administrative expenses increased by approximately RMB3.6 million or 7.6% to approximately RMB50.8 million for the year ended 31 December 2020 from approximately RMB47.2 million for the year ended 31 December 2019 mainly attributable to the professional fees incurred during the year ended 31 December 2020.

Research expenditure

Our research expenditure decreased by RMB12.1 million or 26.0% to approximately RMB34.5 million for the year ended 31 December 2020 from approximately RMB46.6 million for the year ended 31 December 2019 mainly due to the decrease in technical consulting fees incurred during the year ended 31 December 2020.

Impairment losses under expected loss model, net of reversal

Impairment loss on trade and other receivables and contract assets increased by approximately RMB14.7 million or 163.3% to approximately RMB23.7 million for the year ended 31 December 2020 from approximately RMB9.0 million for the year ended 31 December 2019 mainly due to increase in impairment loss on trade receivables provided for the year ended 31 December 2020 as a result of increased overall credit risk arising from COVID-19 Pandemic.

Income tax expenses

Our income tax expenses increased by RMB6.8 million or 39.3% to approximately RMB24.1 million for the year ended 31 December 2020 from approximately RMB17.3 million for the year ended 31 December 2019. Our effective tax rate was 17.8% and 15.4% for the year ended 31 December 2019 and 2020, respectively. The comparatively higher effective tax rate for the year ended 31 December 2019 was mainly due to the tax effect of non-deductible expenses incurred by the Group.

Profit and total comprehensive income attributable to owners of the Company for the year

As a result of the foregoing, our profit and total comprehensive income attributable to owners of the Company increased by approximately RMB53.0 million or 67.2% to approximately RMB131.9 million for the year ended 31 December 2020 from approximately RMB78.9 million for the year ended 31 December 2019.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 31 December 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 RMB100.0 million (31 December 2019: RMB294.1 million) with a current ratio calculated by dividing our current assets over our current liabilities of 105.1% as at 31 December 2020 (31 December 2019: 115.6%).

Inventories decreased slightly by approximately RMB11.4 million or 1.6% to approximately RMB678.7 million as at 31 December 2020 from approximately RMB690.0 million as at 31 December 2019. Inventory turnover days was 197 days for the year ended 31 December 2020, representing an increase of 21 days as compared to 176 days for the year ended 31 December 2019. The increase in inventory turnover days was mainly because of the increase in average balance of work-in-process during the year ended 31 December 2020.

Trade, bills and other receivables decreased by approximately RMB26.0 million or 3.5% to approximately RMB720.1 million as at 31 December 2020 from approximately RMB746.1 million as at 31 December 2019, among which trade receivables increased slightly by approximately RMB1.4 million or 0.4% to approximately RMB390.6 million as at 31 December 2020 as compared with approximately RMB389.2 million as at 31 December 2019. 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 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, which was intended to start from 30 September 2020, but subject to a specific date upon finalisation of negotiation by both parties. Due to the management of the Group's expectation that the negotiation will be able to finalise during the year ending 31 December 2021 and the uncertainties in the commencement date of such repayments, outstanding trade receivables amounting to approximately RMB278.6 million (net of impairment loss allowance of approximately RMB5.7 million) has been reclassified to non-current assets as at 31 December 2020. Our trade receivables turnover days was 84 days for the year ended 31 December 2020 (2019: 68 days) representing an increase of 16 days. The increase in trade receivable turnover days during the year was primarily due to the increase in average balance of trade receivables during the year ended 31 December 2020.

Prepayments to suppliers increased by approximately RMB50.2 million or 32.3% to approximately RMB205.7 million as at 31 December 2020 from approximately RMB155.5 million as at 31 December 2019 primarily due to the increased advance payment made to the suppliers in relation to the construction of our production lines.

Contract liabilities increased by approximately RMB94.5 million or 7.6% to approximately RMB1,335.5 million as at 31 December 2020 from approximately RMB1,241.0 million as at 31 December 2019. The increase in contract liabilities was mainly due to the advance payments received from our customers during the year for the new and on-going contracts obtained from such customers.

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 2020, the Group had cash and cash equivalents of approximately RMB434.8 million (31 December 2019: approximately RMB486.4 million). A portion of the Group's bank deposits totaling approximately RMB17.1 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, Hong Kong dollars and Euro.

As at 31 December 2020, we had banking facilities of approximately RMB280.0 million, of which approximately RMB168.8 million were utilised, all represented bank guarantee. As at 31 December 2020, our Group had unutilised banking facilities amounted to approximately RMB111.2 million. As at 31 December 2020, the Group did not have any bank borrowings (31 December 2019: Nil).

As at 31 December 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 309.0% (31 December 2019: 350.9%). The decrease in our gearing ratio was mainly due to the increase in our net profit for the year ended 31 December 2020.

During the year ended 31 December 2020, the Group recorded net cash from operating activities of approximately RMB192.6 million (2019: RMB119.8 million). Net cash used in investing activities for the year ended 31 December 2020 amounted to approximately 211.8 million (2019: RMB4.1 million). Net cash used in financing activities for the year ended 31 December 2020 amounted to approximately RMB26.8 million (2019: net cash from financing activities RMB136.2 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, fixed-rate loans to and amounts due to independent third parties, lease liabilities 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 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 78% of the total trade receivables was due from a construction of production line customer of Group as at 31 December 2020 (31 December 2019: 75%), 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 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 31 December 2020, the Group did not have any significant contingent liabilities (31 December 2019: nil).

CAPITAL EXPENDITURES

As at 31 December 2020, the Group's capital expenditures amounted to approximately RMB61.6 million (31 December 2019: approximately RMB25.0 million) which has mainly related to the acquisition of property, plant and equipment, purchase of intangible assets and right-of-use asset.

PLEDGE OF ASSETS

As at 31 December 2020, the Group's restricted bank deposits and bills receivables with an aggregate carrying amount of approximately RMB52.1 million (31 December 2019: RMB14.0 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 2020, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB4.0 million (31 December 2019: approximately RMB19.0 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 2020 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION INFORMATION

As at 31 December 2020, the Group had a total of 1,018 employees (31 December 2019: 949) 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 2020, the Group's incurred staff cost (including Directors' remuneration) of approximately RMB108.1 million (2019: approximately RMB105.1 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.

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, after deduction of the underwriting fees and commissions and estimated expenses of the Company in connection with the Share Offer was approximately HK$150.0 million. During the year ended 31 December 2020, there was no change in the intended use of net proceeds of the Company as previously 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 31 December 2020. All the unused proceeds have been deposited into a bank account maintained by the Group.

	Percentage to total amount	Net proceeds	Utilised amount as at 31 December 2020 (Note 1)	Unutilised amount as at 31 December 2020	Expected timeline for unutilised amount (Note 2)
	%	*HK$ million*	*HK$ million*	*HK$ million*	
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	78.7	118.0	73.1 (Note 3)	44.9	To be fully utilised by the end of 2021
Increasing the productivity and efficiency in manufacturing our products for our rotary kiln and grinding equipment system	7.0	10.5	8.0 (Note 4)	2.5	To be fully utilised by third quarter of 2021
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	0.2 (Note 5)	10.0	To be fully utilised by the end of 2021
Marketing activities	3.5	5.2	2.5	2.7	To be fully utilised by third quarter of 2021
Working capital	4.0	6.1	6.1	–	Fully utilised in 2020
Total	**100.0**	**150.0**	**89.9**	**60.1**	

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$1.1882.*

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

3. *The utilisation of proceeds for purchasing new machinery and constructing a new production plant for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology of the Group has fallen behind the schedule as disclosed in the Prospectus as a result of the late delivery of machinery by our supplier and the unexpected slow progress of construction due to the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by third quarter of 2021.*

4. *The utilisation of proceeds for increasing productivity and efficiency of the Group has fallen behind the schedule as disclosed in the Prospectus as a result of the late delivery of machinery by our supplier due to the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by third quarter of 2021.*

5. *The utilisation of proceeds for research and development of the Group has fallen behind the schedule as disclosed in the Prospectus due to the COVID-19 Pandemic. The unutilised amount in respect of the aforesaid is expected to be fully utilised by third quarter of 2021.*

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

During the year ended 31 December 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 during the year ended 31 December 2020 and up to the date of this announcement.

SUBSEQUENT EVENTS

No material events were undertaken by the Group subsequent to 31 December 2020.

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 2020.

FINAL DIVIDEND

For the year ended 31 December 2020, the Board recommended a final dividend (the "**Final Dividend**") of RMB0.08 (not subject to withholding tax) per ordinary share (2019: RMB0.05 per ordinary share) to shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on Monday, 28 June 2021, totaling RMB40.0 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 Friday, 18 June 2021. 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 30 March 2021, which was HKD1.00 to RMB0.8444, 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 HKD0.09474 and the aggregate amount of which will be paid out of the Company's share premium account. Total dividend payout ratio is 30.3% 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 Tuesday, 20 July 2021.

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 Tuesday, 15 June 2021 to Friday, 18 June 2021, 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 11 June 2021.

For determining entitlement to the Final Dividend, the transfer books and register of members of the Company will be closed from Thursday, 24 June 2021 to Monday, 28 June 2021, 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, 23 June 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code on corporate governance. During the year ended 31 December 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 year ended 31 December 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 adviser agreement entered into between the Company and Essence dated 29 October 2019 in connection with the listing of the Company, none of Essence or its directors, employees or close associates (as defined in the Listing Rules) had any interest in the Group as at 31 December 2020, which is required to be notified to the Company pursuant to Rule 3A.19 of the Listing Rules.

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 2020 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 2020 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 30 March 2021. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance 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 2020 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, 30 March 2021

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.