

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

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

Stock Code 股份代號: 3348



Interim Report
中期報告 2024

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Jiaan (王家安)
Mr. Zhou Yinbiao (周銀標)
Mr. Dai Xianru (戴賢如)
Mr. Ben Daolin (賁道林)

Independent Non-executive Directors

Ms. Zhang Lanrong (張嵐嶸)
Mr. Ding Zaiguo (丁再國)
Mr. Mak Hing Keung, Thomas (麥興強)

AUDIT COMMITTEE

Mr. Mak Hing Keung, Thomas (麥興強) (Chairman)
Mr. Ding Zaiguo (丁再國)
Ms. Zhang Lanrong (張嵐嶸)

NOMINATION COMMITTEE

Mr. Wang Jiaan (王家安) (Chairman)
Mr. Ding Zaiguo (丁再國)
Mr. Mak Hing Keung, Thomas (麥興強)
Ms. Zhang Lanrong (張嵐嶸)

REMUNERATION COMMITTEE

Mr. Ding Zaiguo (丁再國) (Chairman)
Mr. Dai Xianru (戴賢如)
Ms. Zhang Lanrong (張嵐嶸)

COMPANY SECRETARY

Ms. Chau Hing Ling (周慶齡) (LLM, FCG, HKFCG)

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

Suite #4-210, Governors Square
23 Lime Tree Bay Avenue
PO Box 32311
Grand Cayman KY1-1209
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Benjiaji, Northern Suburb
Haian City
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
P.O. Box 1350, Clifton House
75 Fort Street, Grand Cayman
KY1-1108
Cayman Islands

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISER

Robertsons
57/F, The Center,
99 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

Jiangsu Bank, Haian Branch
No. 1, Changjiang Zhonglu
Haian City, Jiangsu Province
PRC

Bank of China, Haian Branch
No. 18, Changjiang Zhonglu
Haian City, Jiangsu Province
PRC

COMPANY'S WEBSITE

<http://pengfei.com.cn/>

STOCK CODE

3348

HIGHLIGHTS

- Revenue for the six months ended 30 June 2024 was approximately RMB632.7 million, representing a decrease of approximately 25.0% as compared to the corresponding period last year.
- Gross profit for the six months ended 30 June 2024 was approximately RMB120.5 million, representing a decrease of approximately 16.6% as compared to the corresponding period last year.
- Profit before tax for the six months ended 30 June 2024 was approximately RMB38.2 million, representing a decrease of approximately 51.0% as compared to the corresponding period last year.
- Profit and total comprehensive income for the six months ended 30 June 2024 attributable to owners of the Company was approximately RMB32.5 million, representing a decrease of approximately 49.2% as compared to the corresponding period last year.
- Earnings per share attributable to ordinary equity holders of the Company was RMB6.3 cents per share for the six months ended 30 June 2024.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of China PengFei Group Limited (the “**Company**”), I am pleased to present to you the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**” or “**PengFei Group**” or “**we**” or “**our**” or “**us**”) for the six months ended 30 June 2024, together with the comparative figures for the corresponding period ended 30 June 2023.

Since the beginning of this year, amid a complex market environment and significant economic headwinds, PengFei Group has forged ahead with confidence. We have fully tapped into the domestic market and expanded our global footprint, particularly in Central Asia and Africa, striving to inject new vitality into our growth and achieving a dual circulation at home and abroad. For the six months ended 30 June 2024, the Group recorded a revenue of approximately RMB632.7 million and a total profit of approximately RMB32.5 million, representing decreases of 25.0% and 49.2% as compared to the same period last year, respectively.

In 2024, the Group constantly ramped up investments in independent technological innovation, embarking on the research and development of new technologies, new processes, and new equipment such as energy-saving roasting, utilization of resources, and intelligent control systems in the fields of building materials, metallurgy, and environmental protection. Four of our products, including the complete set of efficient energy-saving rotary kiln equipment for lithium mine calcination and the $\Phi 5.0 \times 74\text{m}$ energy-enabled rotary cement kiln, received awards for new technologies and products at the inaugural Jiangsu Province Building Materials Industry event. The PFG180-160 roller press was certified as a national patent-intensive product. The national standard GB/T41333-2022 Technical Requirements for Complete Sets of Equipment for Lime Calcination, which the Company led its drafting, earned the Excellence Award in National Building Materials Machinery Industry Standards.

Heading into the second half of the year, the global economy will evolve in a complex and volatile manner, which, together with the Russian-Ukrainian war and the Israeli-Palestinian conflict, will impose significant impact on the Company's production lines and grinding station EP/EPC business abroad. On the domestic front, the guaranteed delivery of commercial residential projects is expected to contribute incremental demand to the building materials industry. In a time when opportunities and challenges coexist and the scrum between high expectation and insubstantial realistic achievement remains heated, product prices will continue to fluctuate at a low level in the short term. Unwavering in our commitment to annual goals and tasks, PengFei Group is determined to continuously improve across all fronts. We will capture market share and expand reach to consistently enhance our differentiated competitiveness in products, services, and business models. Through export stability, incremental growth, and branding, we aim for deeper potential increments in overseas markets. Prioritizing innovation, ramping up investments, and elevating standards, we are poised to benchmark against world-class enterprises. Our approach to new quality productive forces will be realized by integrating resources, optimizing layouts, and facilitating upgrades. By forestalling risks, upholding the bottom line, and ensuring security, we will advance high-quality development and high-caliber safety in a coordinated manner. All these endeavors are aimed at building us a technology-leading, sustainable, and world-class high-end equipment manufacturer.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the management team and our employees for their hard work and inspirational contributions to the development of the Group. I would also like to thank our shareholders, investors, customers and partners who have always been supporting the development of the Group! With your joint efforts, we will definitely be met with new achievements and glories in our future expedition.

China PengFei Group Limited
Wang Jiaan
Chairman

Jiangsu, China
30 August 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Expansion of customer base

Despite a slowdown in growth and demand in the building materials industry, the Group was able to secure new projects for energy-saving technology transformation for its customers in response to the local government's vigorous promotion of upgrading and transformation of the construction and building materials industry. For the six months ended 30 June 2024, revenue generated from customers in the building materials industry amounted to approximately RMB203.9 million (six months ended 30 June 2023: RMB298.9 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 64.6% and 67.8%, respectively, of our total revenue in the manufacturing of equipment for the six months ended 30 June 2023 and 2024. 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 2024, over 80% of our rotary kilns were used in emerging industries such as laterite nickel ore, new energy lithium batteries, environmental protection sludge, solid and hazardous waste disposal.

The Group also continued its effort to expand its business into potential markets along the "Belt and Road" countries including Uzbekistan and Republic of Burundi. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 6.9% and 20.8%, respectively, of our total revenue for the six months ended 30 June 2023 and 2024. As at 30 June 2024, we had one on-going production line project which is located in "Belt and Road" countries.

Research and Development

To maintain the Group's market position in the rotary kiln and grinding equipment industries and expand the Group's product portfolio and improve the functionality and efficiency of its products, the Group has invested in its research and development capabilities focusing on the metallurgical roasting energy saving and environmentally-friendliness technologies and continued to cooperate with research institutions in the PRC. Currently, the Group is conducting research and development with Tsinghua University on "Key Technology for Efficient Pyrolysis and Clean Utilisation of Low-rank Coal" 《低階煤高效熱解清潔利用關鍵技術》. As at 30 June 2024, the Group had 143 authorised patents, comprising 63 invention patents and 80 utility model patents. There are also 82 patent applications pending approval which primarily relate to manufacture of products in our rotary kiln and grinding equipment system.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

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

Heading into the second half of the year, the global economy is expected to evolve in a complex and volatile manner, which, together with the adverse factors such as the Russian-Ukrainian war and Palestinian-Israeli conflict, will have a significant impact on the Company's oversea production line and grinding station EP/EPC business; in terms of demand in the domestic market, the delivery guarantee of commercial housing projects is expected to contribute incremental demand to the building materials industry. In a time when opportunities and challenges co-exist and the scrum between high expectation and insubstantial realistic achievement remains heated, product prices will continue to fluctuate at a low level in the short term. The Group will unwaveringly pursue its annual targets by continuously promoting improvement in all aspects of work. The Company will seize the market, gain market share and expand opportunities by continuously improving differentiated competitiveness of products, services and business models; we will stabilize exports, increase demand and enhance brand recognition to deeply explore potential demand in overseas markets; we will focus on innovation, increase input, promote enterprise competitiveness while comprehensively benchmarking against industry leaders; we will focus on integration, optimize layout and promote upgrades to develop new quality productive forces; we will also prevent risk, guard the bottom line and ensure safety to coordinate and promote high-quality development and high-level safety, making every effort to build a world-class high-end equipment enterprise group that leads in technology and practices green development.

FINANCIAL REVIEW

Revenue

	Six months ended 30 June				Period-over- Period Change
	2024		2023		
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%	
Manufacturing of equipment	535,964	84.7	829,709	98.4	(35.4)
Installation services	2,305	0.4	13,833	1.6	(83.3)
Construction of production line	94,438	14.9	–	–	100.0
Total	632,707	100.0	843,542	100.0	(25.0)

Our revenue decreased by approximately RMB210.8 million or 25.0% to approximately RMB632.7 million for the six months ended 30 June 2024 from approximately RMB843.5 million for the six months ended 30 June 2023 as a result of the decrease of revenue from our manufacturing of equipment business.

Manufacturing of equipment. Revenue derived from the manufacturing of equipment business decreased by approximately RMB293.7 million or 35.4% to approximately RMB536.0 million for the six months ended 30 June 2024 from approximately RMB829.7 million for the six months ended 30 June 2023. The decrease in revenue derived from manufacturing of equipment business was primarily due to the reduction in sales of grinding equipment system during the six months ended 30 June 2024 as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Installation services. Revenue derived from our installation services business decreased by approximately RMB11.5 million or 83.3% to approximately RMB2.3 million for the six months ended 30 June 2024 from approximately RMB13.8 million for the six months ended 30 June 2023. This decrease was mainly due to the reduction in demand of installation services from customers under our manufacturing of equipment business for the six months ended 30 June 2024.

Construction of production line. Revenue derived from our installation services business was RMB94.4 million for the six months ended 30 June 2024 and there is no revenue for the six months ended 30 June 2023. The increase mainly due to the resumption of our ongoing production line project located in Uzbekistan that has been temporarily on hold during the six months ended 30 June 2023 at the request of such customer until August 2023.

Cost of sales and services

Our cost of sales and services decreased by approximately RMB186.9 million, representing a decrease of 26.7% to approximately RMB512.2 million for the six months ended 30 June 2024 from approximately RMB699.1 million for the six months ended 30 June 2023. Cost of raw materials, being the largest component of our cost of sales and services, decreased by approximately RMB267.8 million during the six months ended 30 June 2024 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 RMB23.9 million or 16.6% to approximately RMB120.5 million for the six months ended 30 June 2024 from approximately RMB144.4 million for the six months ended 30 June 2023. The Group's gross profit margin increase to 19.0% for the six months ended 30 June 2024 as compared to 17.1% for the corresponding period last year.

Other income

Our other income increased significantly by approximately RMB11.0 million or 248.6% to approximately RMB15.4 million for the six months ended 30 June 2024 from approximately RMB4.4 million for the six months ended 30 June 2023 primarily attributable to increased interest income received and government grants during the six months ended 30 June 2024 as compared to the corresponding period last year.

Other gains and losses

Our other gains decreased by approximately RMB4.5 million or 72.5% to approximately RMB1.7 million for the six months ended 30 June 2024 from approximately RMB6.2 million for the six months ended 30 June 2023 mainly due to the decrease in our net foreign exchange gain during the six months ended 30 June 2024 as compared to the corresponding period last year.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB0.9 million or 2.3% to approximately RMB38.2 million for the six months ended 30 June 2024 from approximately RMB39.1 million for the six months ended 30 June 2023 mainly due to decrease in transportation and port expenses incurred during the six months ended 30 June 2024 as compared to the corresponding period last year.

Administrative expenses

Our administrative expenses increased by approximately RMB1.4 million or 6.0% to approximately RMB24.8 million for the six months ended 30 June 2024 from approximately RMB23.4 million for the six months ended 30 June 2023 mainly attributable to higher professional services fee incurred during the six months ended 30 June 2024 as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Research expenditure

Our research expenditure increased by approximately RMB25.7 million or 223.4% to approximately RMB37.3 million for the six months ended 30 June 2024 from approximately RMB11.5 million for the six months ended 30 June 2023 mainly due to an increase in the research and development expenses in relation to equipment focusing on environmental friendly production methods for the purpose of improving the competitiveness of the Group in the related equipment market during the six months ended 30 June 2024 as compared with the corresponding period last year.

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

Impairment loss on trade and other receivables and contract assets decreased by approximately RMB3.8 million or 131.0% to approximately RMB1.0 million for the six months ended 30 June 2024 from approximately RMB2.8 million for the six months ended 30 June 2023 mainly due to the collection of some long aged trade receivables during the six months ended 30 June 2024.

Income tax expenses

Our income tax expenses decreased by approximately RMB8.4 million or 59.6% to approximately RMB5.7 million for the six months ended 30 June 2024 from approximately RMB14.1 million for the six months ended 30 June 2023. Our effective tax rate was 18.1% and 15.0% for the six months ended 30 June 2023 and 2024, respectively. The effective tax rate for the six months ended 30 June 2024 decreased mainly due to the increased extra tax reduction of research expenditure as a result of increase of research expenditure of the Group.

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 decreased by approximately RMB32.6 million or 51.0% to approximately RMB31.3 million for the six months ended 30 June 2024 from approximately RMB63.9 million for the six months ended 30 June 2023.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 30 June 2024 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 RMB393.2 million (31 December 2023: RMB381.6 million) with a current ratio calculated by dividing our current assets over our current liabilities of 126.3% as at 30 June 2024 (31 December 2023: 125.8%).

Inventories decreased by approximately RMB55.4 million or 7% to approximately RMB687.7 million as at 30 June 2024 from approximately RMB743.1 million as at 31 December 2023. Inventory turnover days was 251 days for the six months ended 30 June 2024, representing an increase of 19 days as compared to 232 days for the year ended 31 December 2023. The decrease in inventories was mainly due to a reduction in domestic sales orders received during the six months ended 30 June 2024. The increase in inventory turnover days was mainly due to decrease in our sales during the six months ended 30 June 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade, bills and other receivables decreased by approximately RMB44.9 million or 9.6% to approximately RMB422.3 million as at 30 June 2024 from approximately RMB467.2 million as at 31 December 2023, among which bills receivables decreased by approximately RMB55.4 million or 31.5% to approximately RMB120.3 million as compared with approximately RMB175.7 million as at 31 December 2023. Such change was mainly due to the decreased number of domestic customers who used bank acceptance bills to settle our invoice. In May 2019, the Group, due to the expected delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank, entered into a supplemental agreement with such customer pursuant to which our Group agreed to defer an amount of RMB280 million (the “**Deferred Payment**”) bearing a fixed interest rate of 8.41% per annum secured and guaranteed by such customer. As agreed in the supplemental agreement, the Deferred Payment up to a maximum amount of RMB280 million was agreed to be settled in every three months by 12 installments, which was intended to start from 30 September 2020, but subject to a specific date upon finalisation of negotiation by both parties. During the year ended 31 December 2022, the Group entered into an offsetting agreement with the customer and a subcontractor engaged by the Group for constructing the production line, pursuant to which RMB102,921,000 of the Group’s receivables from the customer and RMB102,921,000 of the Group’s payables to the subcontractor had been offset as agreed by these contractual parties. The production line was completed during the year ended 31 December 2022. As at 30 June 2024 and up to the date of this report, the Group is still in negotiation and had not yet agreed on a commencement date of the repayment. As at 30 June 2024, outstanding balance of approximately RMB115.2 million (net of impairment loss allowance of approximately RMB12.1 million) was included in the Group’s trade receivables. Our trade receivables turnover days was 34 days for the year ended 30 June 2024 (2023: 28 days) representing an increase of 6 days. The increase in trade receivable turnover days during the six months ended 30 June 2024 was primarily due to the decrease in our sales during the six months ended 30 June 2024.

Prepayments to suppliers increased by approximately RMB12.7 million or 15.1% to approximately RMB96.7 million as at 30 June 2024 from approximately RMB84.0 million as at 31 December 2023 primarily due to the increased advance payment made to the suppliers in relation to our construction of production line project.

Contract liabilities increased by approximately RMB57.5 million or 6.9% to approximately RMB895.9 million as at 30 June 2024 from approximately RMB838.4 million as at 31 December 2023. The increase in contract liabilities was mainly due to advance payments received from our customers during the period for the new and on-going contracts obtained.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

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

As at 30 June 2024, the Group had cash and cash equivalents of approximately RMB532.6 million (31 December 2023: approximately RMB378.9 million). A portion of the Group’s bank deposits totaling approximately RMB76.7 million (31 December 2023: approximately RMB51.8 million) were restricted for the issue of bills payables and letter of credit by the Group. The Group’s cash and cash equivalents and restricted bank deposits were mostly denominated in Renminbi, United States dollars, Hong Kong dollars and Euro.

As at 30 June 2024, we had banking facilities of approximately RMB663.5 million, of which approximately RMB91.9 million were utilised. The utilised banking facilities as at 30 June 2024 represented bank guarantee of approximately RMB30.4 million, bank acceptance bill amounted to approximately RMB41.7 million and loans of approximately RMB19.8 million. As at 30 June 2024, our Group had unutilised banking facilities amounted to approximately RMB571.6 million. As at 30 June 2024, the Group had bank borrowings of approximately RMB19.8 million (31 December 2023: RMB55.3 million). Among the approximately RMB19.8 million bank borrowings, approximately RMB19.7 million has an annual interest rate of 3.05%, which has been fully repaid on 21 August 2024. The remaining bank borrowings of approximately RMB0.1 million has an annual interest rate of 3.85%, which is expected to be fully repaid by March 2025.

As at 30 June 2024, 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 173.7% (31 December 2023: 170.3%). The increase in our gearing ratio was mainly due to the reduction in the balance of our equity as at 30 June 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2024, the Group recorded net cash generated from operating activities of approximately RMB150.9 million (six months ended 30 June 2023: RMB38.5 million). Net cash from investing activities for the six months ended 30 June 2024 amounted to approximately RMB38.3 million (six months ended 30 June 2023: RMB129.4 million). Net cash used in financing activities for the six months ended 30 June 2024 amounted to approximately RMB36.7 million (six months ended 30 June 2023: RMB49.4 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, engaged in any currency hedging or had any positions in any derivative financial instruments to hedge our currency risk as management of the Group considers that the foreign exchange risk exposure of the Group is minimal.

Interest rate risk

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

Credit risk

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

Given that 40% of the total trade receivables was due from a construction of production line customer of the Group as at 30 June 2024 (31 December 2023: 45%), 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 2024, 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 2024, the Group did not have any significant contingent liabilities (31 December 2023: Nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2024, the Group's capital expenditure amounted to approximately RMB3.9 million (six months ended 30 June 2023: purchase of and deposit paid for property, plant and equipment and purchase of intangible assets of approximately RMB0.5 million) which was mainly related to the purchase of and deposit policy for property, plant and equipment.

PLEDGE OF ASSETS

As at 30 June 2024, the Group's restricted bank deposits and bills receivables with an aggregated carrying amount of approximately RMB84.5 million (31 December 2023: RMB120.3 million) were pledged to banks for issuing bills payables.

CAPITAL COMMITMENTS

As at 30 June 2024, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB4.7 million (31 December 2023: approximately RMB11.6 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 2024 and up to the date of this report.

EMPLOYEES AND REMUNERATION INFORMATION

As at 30 June 2024, the Group had a total of 894 employees (30 June 2023: 1,102) 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 2024, the Group incurred staff cost (including Directors' remuneration) of approximately RMB57.6 million (six months ended 30 June 2023: approximately RMB66.6 million).

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

On 31 December 2023, the Group invested its available cash-in-hand in wealth management products issued by banks in the PRC as part of the Group's treasury measure for better short-term cash flows management purposes. As at 30 June 2024, the financial assets at FVTPL held by the Group were RMB101.5 million (31 December 2023: RMB103.1 million), representing 4.1% of total assets of the Group. Details of the financial assets at FVTPL held by the Group as at 30 June 2024 are set out as follows:

Financial assets at FVTPL	Subscription date	Interest rate (per annum)	Maturity date	Principal	Changes in	Carrying	Percentage of
				amount of subscription (RMB'000)	fair value for the six months ended 30 June 2024 (RMB'000)	amount as of 30 June 2024 (RMB'000)	total assets of the Group as of 30 June 2024
Bank of JiangSu. JGCK20240021060F 對公人民幣機構性存款 2024年第2期6個月F款 ^(Note 1)	10 January 2024	2.97%	10 July 2024	100,000	1,481	101,481	4.1%

Notes:

- This wealth management product is principal-guaranteed with guaranteed minimum return and redeemable upon the maturity date. The Group received the principal amount and return of this product of RMB101,485,000 on 10 July 2024, being the maturity date, maintained within the target range at the observation time. For the details of this wealth management product, please refer to the announcement of the Company dated 9 January 2024.

On 9 July 2024, China Heavy Equipment Engineering Limited (中國重器工程有限公司), a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company, subscribed for the wealth management product of Class A – HKD – ACC, which is known as "Class A-HKD", Taikang Kaitai Hong Kong Dollar Money Market Fund pursuant to the explanatory memorandum of Taikang Kaitai Hong Kong Dollar Money Market Fund, being a class of unit of the sub-fund of TaiKang Kaitai Funds, an open-ended unit trust established as an umbrella fund pursuant to the trust deed dated 16 April 2014 between the Taikang Asset Management (Hong Kong) Company Limited and BOCI-Prudential Trustee Limited in an amount of HK\$42,000,000 through Huatai Financial Holdings (Hong Kong) Limited. HK\$33,000,000 has been redeemed on 15 July 2024 for the purpose of facilitating the Company's payment obligations of final dividends to its Shareholders as disclosed in the shareholders circular of the Company dated 29 April 2024. For details of the subscription of this wealth management product, please refer to the announcements of the Company dated 9 July 2024 and 15 August 2024.

On 14 August 2024, Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司), a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company, entered into (i) the wealth management product agreement with the Bank of China in relation to the subscription of the wealth management product named Bank of China Linked Structured Deposit CSDVY202412685 (Institutional Customer)* (中國銀行掛鉤型結構性存款 CSDVY202412685 (機構客戶)) in the amount of RMB52,000,000; and (ii) the wealth management product agreement with the Bank of China in relation to the subscription of the wealth management product named Bank of China Linked Structured Deposit CSDVY202412684 (Institutional Customer)* (中國銀行掛鉤型結構性存款 CSDVY202412684 (機構客戶)) in the amount of HK\$48,000,000. For details of the subscription of the two wealth management products, please refer to the announcement of the Company dated 14 August 2024.

Save as disclosed above, the Group had no significant investment held or performed any material acquisition or disposal of subsidiaries, associated companies and joint ventures during the six months ended 30 June 2024 and up to the date of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient prescribed public float of not less than 25% of the issued shares of the Company (the “Shares”) as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the six months ended 30 June 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the principles and code provisions as set out in the corporate governance code (the “Corporate Governance Code”) contained in Appendix C1 to the Listing Rules as its own code on corporate governance. During the six months ended 30 June 2024, the Company has complied with the code provisions set out in Part 2 of the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) as set out in Appendix C3 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the six months ended 30 June 2024.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2024, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) which are (a) recorded in the register required to be kept under section 352 of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the “Model Code”), were as follows:

Long Positions in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding interest
Mr. Wang Jiaan (王家安)	Interest in controlled corporation ^(Note 1)	225,249,438	45.05%

Note:

- (1) Ambon Holding Limited is wholly-owned by Mr. Wang Jiaan (王家安) who is deemed to be interested in the Shares held by Ambon Holding Limited under the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at 30 June 2024, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any Shares or underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to the Model Code.

Directors' Rights to Acquire Shares and Debentures

At any time during the six months ended 30 June 2024 and up to the date of this report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 30 June 2024, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) had interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding interest
Ambon Holding Limited	Beneficial owner ^(Note 1)	225,249,438	45.05%
PF International Group Limited ("PF International")	Beneficial owner ^(Note 2)	133,211,176	26.64%
PF Global Limited ("PF Global")	Beneficial owner ^(Note 3)	49,635,386	9.93%

Notes:

- Ambon Holding Limited is wholly-owned by Mr. Wang Jiaan (王家安) who is deemed to be interested in the Shares held by Ambon Holding Limited under the SFO.
- These Shares are held by PF International, which is owned as to approximately 26.51% by Mr. Zhou Yinbiao (周銀標), 18.55% by Mr. Yu Yangui (于延桂), 16.76% by Mr. Dai Xianru (戴賢如), 13.7% by Mr. Wang Yun (王雲), 9.76% by Mr. Ben Daolin (賁道林), 8.26% by Mr. Chen Lidong (陳黎東) and 6.46% by Mr. Ben Daochun (賁道春).
- These Shares are held by PF Global, which is owned as to approximately 19.2% by Ben Xudong (賁旭東), 32.64% by Chen Yulou (陳玉樓), 21.6% by Cai Tongfu (蔡同富), 1.92% by Liu Chengguan (劉成官), 1.92% by Qian Jiayin (錢加銀), 1.28% by Zhang Doufa (張鬥發), 1.28% by Ding Jialin (丁佳林), 0.64% by Wang Shiqin (王世芹), 0.64% by Ding Qinghai (丁慶海), 0.64% by Cui Hengfu (崔恒富), 0.64% by Jiao Yuanjin (焦遠進), 0.64% by Wang Xiaobo (王小波), 0.64% by Yu Zhongwen (于中文), 0.64% by Lin Xianyue (林先月), 0.64% by Yuan Xiaofei (袁小飛), 1.12% by Zhou Bugao (周步高), 1.12% by Shen Jixiang (沈吉祥), 0.64% by Zhou Yue (周悅), 0.64% by Zhou Kewen (周克穩), 0.64% by Zhou Jin (周錦), 0.48% by Wang Huajun (王華俊), 0.48% by Zhang Gui (張貴), 0.48% by Liu Yaqin (劉亞芹), 0.48% by Ben Zhonglin (賁忠林), 0.64% by Wang Jin (王進), 0.64% by Jiang Xiaoming (蔣曉明), 0.64% by Wu Yijun (吳義軍), 0.48% by Pei Haiqing (裴海青), 0.48% by Cui Xinxin (崔欣欣) (which was inherited from Cui Yegui (崔業貴) on 1 July 2018), 0.48% by Zhou Jianyi (周建益) and 5.6% by Pei Qirong (裴其榮).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at 30 June 2024, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

PURCHASE, SALES OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company (including sale of treasury shares) during the six months ended 30 June 2024. As at 30 June 2024, the Company did not hold any treasury shares.

REVIEW OF UNAUDITED INTERIM RESULTS BY THE AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group’s unaudited interim condensed consolidated financial information for the six months ended 30 June 2024 and this interim report. The Audit Committee is of the view that the unaudited interim condensed financial information for the six months ended 30 June 2024 are in compliance with the applicable accounting standards, the Listing Rules and other legal requirement and that sufficient disclosure has been made.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2024 have not been audited or reviewed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu.

CHANGES IN THE BOARD AND THE DIRECTORS’ INFORMATION

As of the date of this report, there was no change in the Board and the information of Directors of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations pursuant to Rules 13.20, 13.21 and 13.22 of the Listing Rules.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

As of the date of this report, saved as disclosed in this report, the Company does not have any subsequent event after 30 June 2024 which is required to be disclosed.

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

Jiangsu, China
18 August 2024

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Notes	Six months ended 30 June	
		2024	2023
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	4	632,707	843,542
Cost of sales and services		(512,194)	(699,115)
Gross profit		120,513	144,427
Other income	5	15,413	4,421
Other gains and losses	6	1,718	6,246
Selling and distribution expenses		(38,234)	(39,050)
Administrative expenses		(24,630)	(23,366)
Research expenditure		(37,250)	(11,520)
Impairment losses on trade and other receivables and contract assets, net of reversal		974	(2,863)
Finance costs		(297)	(301)
Profit before tax	7	38,207	77,994
Income tax expense	8	(5,720)	(14,105)
Profit and total comprehensive income for the period		32,487	63,889
Profit (loss) and total comprehensive income (expenses) for the period attributable to:			
– Owners of the Company		31,301	63,922
– Non-controlling interests		1,186	(33)
		32,487	63,889
Earnings per share	10		
– Basic (RMB cent)		6.26	12.78
– Diluted (RMB cent)		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	Notes	30 June 2024	31 December 2023
		RMB'000	RMB'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Trade receivables	14	116,227	125,886
Property, plant and equipment	11	380,457	381,746
Investment properties	11	8,009	8,538
Intangible assets		225	262
Right-of-use assets	11	44,458	44,898
Deferred tax assets	13	23,806	25,415
Deposits paid for acquisition of property, plant and equipment		–	13,197
		<u>573,182</u>	<u>599,942</u>
CURRENT ASSETS			
Inventories		687,717	743,078
Trade, bills and other receivables	14	306,092	341,335
Contract assets	12	61,713	74,472
Contract costs		14,275	12,328
Value-added tax recoverable		220	2,872
Prepayments to suppliers		96,721	84,036
Financial assets at FVTPL		101,481	103,090
Term deposits		7,767	68,519
Restricted bank deposits		76,728	51,830
Bank balances and cash		532,613	378,902
		<u>1,885,327</u>	<u>1,860,462</u>
CURRENT LIABILITIES			
Trade, bills and other payables	15	525,139	599,468
Contract liabilities		895,936	838,358
Dividend payable		42,850	–
Tax payable		21,981	40,984
Bank borrowings		3,600	37,361
Deferred income		2,659	2,659
		<u>1,492,165</u>	<u>1,478,830</u>
NET CURRENT ASSETS		<u>393,162</u>	<u>381,632</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>966,344</u>	<u>981,574</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	Notes	<u>30 June 2024</u>	<u>31 December 2023</u>
		RMB'000	RMB'000
		(unaudited)	(audited)
CAPITAL AND RESERVES			
Share capital	16	4,504	4,504
Share premium		30,767	73,617
Reserves		<u>862,907</u>	<u>831,606</u>
Equity attributable to owners of the Company		898,178	909,727
Non-controlling interests		<u>(217)</u>	<u>384</u>
TOTAL EQUITY		<u>897,961</u>	<u>910,111</u>
NON-CURRENT LIABILITY			
Deferred income		47,774	49,104
Bank borrowings		16,191	17,941
Deferred tax liabilities	13	<u>4,418</u>	<u>4,418</u>
		<u>68,383</u>	<u>71,463</u>
		<u>966,344</u>	<u>981,574</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Attributable to owners of the Company							Total
	Paid-in share capital	Share premium	Capital surplus reserve	Other reserve	Retained profits	Subtotal	Non- controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2024 (audited)	4,504	73,617	183,015	2,252	646,339	909,727	384	910,111
Profit (loss) and total comprehensive income (expenses) for the period	-	-	-	-	31,301	31,301	1,186	32,487
Dividends recognised as distribution (note 8)	-	(42,850)	-	-	-	42,850	-	42,850
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1,787)	(1,787)
Transferred to capital surplus reserve	-	-	2,982	-	(2,982)	-	-	-
At 30 June 2024 (unaudited)	4,504	30,767	185,997	2,252	674,658	898,178	(217)	897,961
At 1 January 2023 (audited)	4,504	110,617	163,395	2,252	523,093	803,861	895	804,756
Profit (loss) and total comprehensive income (expenses) for the period	-	-	-	-	63,922	63,922	(33)	63,889
Dividends recognised as distribution (note 8)	-	(37,000)	-	-	-	(37,000)	-	(37,000)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1,147)	(1,147)
At 30 June 2023 (unaudited)	4,504	73,617	163,395	2,252	587,015	830,783	(285)	830,498

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	150,709	(38,519)
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	6	52
Withdrawal of term deposits	60,752	–
Placement of restricted bank deposits	(181,156)	(17,580)
Withdrawal of restricted bank deposits	156,258	45,242
Purchase of and deposits paid for acquisition of property, plant and equipment	(3,285)	(541)
Purchase of intangible assets	(5)	–
Bank interest received	5,881	623
Withdrawal of financial assets at FVTPL	–	101,630
NET CASH FROM INVESTING ACTIVITIES	38,451	129,426
FINANCING ACTIVITIES		
Proceeds from a bank loan raised	100	38,270
Interest paid	(297)	(103)
Repayments of bank borrowings	(34,668)	(87,579)
Repayments of lease liabilities	(19)	(9)
Dividend paid to non-controlling interests	(1,787)	–
NET CASH USED IN FINANCING ACTIVITIES	(36,671)	(49,421)
NET INCREASE IN CASH AND CASH EQUIVALENTS	152,489	41,486
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	378,902	345,681
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	1,222	1,710
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	532,613	388,877

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2023.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendment to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2024, for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 12	Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements

The application of the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

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.

	<u>Six months ended 30 June</u>	
	<u>2024</u>	<u>2023</u>
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sale of equipment, recognised at a point in time	535,964	829,709
Revenue from construction of production line, recognised over time	94,438	–
Installation service, recognised over time	2,305	13,833
	<u>632,707</u>	<u>843,542</u>

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:

	<u>Six months ended 30 June</u>	
	<u>2024</u>	<u>2023</u>
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Mainland China	501,362	728,174
Outside Mainland China		
Including:		
Uzbekistan	94,438	–
Republic of Bangladesh	–	47,124
Republic of Burundi	27,161	45,903
Other countries	9,746	22,341
	<u>632,707</u>	<u>843,542</u>

No segment assets and liabilities information is provided as no such information is regularly provided to the chief operating decision maker of the Group on making decision for resources allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

5. OTHER INCOME

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	5,881	623
Government grants	8,575	2,925
Rental income	707	842
Others	250	31
	15,413	4,421

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Investment gain on financial assets at FVTPL	1,553	2,430
Net foreign exchange gain	646	3,055
Gain (loss) on disposal of property, plant and equipment	(468)	43
Others	(13)	718
	1,718	6,246

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	17,297	17,607
Depreciation of investment properties	529	531
Amortisation of intangible assets	21	18
Depreciation of right-of-use assets	461	444
	18,308	18,600
Capitalised in inventories	(15,116)	(14,957)
Total depreciation and amortisation charged to profit or loss	3,192	3,643
Impairment losses on trade receivables, net of reversal	(2,610)	(957)
Impairment losses on other receivables, net of reversal	251	–
Impairment losses on contract assets, net of reversal	3,333	3,820
	(974)	2,863

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")	4,111	11,194
Deferred tax charge (credit) (Note 13)	1,609	2,911
	<u>5,720</u>	<u>14,105</u>

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

PengFei Holdings Limited is not subject to income tax or capital gain tax under the law of BVI.

No provision of Hong Kong Profit Tax was made in the condensed consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profit Tax during the six months ended 30 June 2023 and 2024.

Jiangsu Pengfei Group Limited* (江蘇鵬飛集團股份有限公司) obtained the renewal of "High Technology Enterprise" certification in 2021, and therefore continued the entitlement of a preferential tax rate of 15% to 3 November 2024.

The other PRC subsidiaries are subjected to PRC EIT rate of 25% during the six months ended 30 June 2023 and 2024.

9. DIVIDENDS

During the current interim period, a final dividend of RMB0.0857 (2023: RMB0.074) per ordinary share in respect of the year ended 31 December 2023 was declared to the owners of the Company. The aggregate amount of the final dividend declared in the current interim period amounted to RMB42,850,000 (2023: RMB37,000,000).

The directors of the Company have determined that no dividend will be declared in respect of the six months ended 30 June 2024.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2024	2023
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share (RMB'000)	<u>31,301</u>	<u>63,922</u>
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	<u>500,000</u>	<u>500,000</u>

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the six months ended 30 June 2023 and 2024.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the current interim period, the Group disposed of certain property, plant and machinery with an aggregate carrying amount of RMB474,000 (2023: RMB9,000) for cash proceeds of RMB6,000 (2023: RMB52,000), resulting in a loss on disposal of RMB468,000 (2023: gain on disposal of RMB43,000).

During the current interim period, the Group acquired property, plant and equipment of RMB16,482,000 (2023: RMB12,589,000).

During the current interim period, no right-of-use assets is acquired or disposed by the Group (2023: nil).

During the current interim period, no investment property is acquired or disposed by the Group (2023: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

12. CONTRACT ASSETS

	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Sale of equipment	67,173	71,427
Installation service	8,751	13,923
	75,924	85,350
Less: Impairment loss allowance for contract assets	(14,211)	(10,878)
	61,713	74,472

13. DEFERRED TAXATION

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

	Accrued expenses	Impairment loss allowance on trade and other receivables and contract assets	Distributable profits of subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023 (audited)	9,113	11,499	–	20,612
(Charge) credit to profit or loss	(1,192)	258	(1,977)	(2,911)
At 30 June 2023 (unaudited)	<u>7,921</u>	<u>11,757</u>	<u>(1,977)</u>	<u>17,701</u>
At 1 January 2024 (audited)	8,833	16,582	(4,418)	20,997
(Charge) credit to profit or loss	(1,845)	236	–	(1,609)
At 30 June 2024 (unaudited)	6,988	16,818	(4,418)	19,388

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

14. TRADE, BILLS AND OTHER RECEIVABLES

	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables	368,295	367,387
Less: Impairment loss allowance for trade receivables	(79,182)	(85,114)
	289,113	282,273
Bills receivables	120,256	175,738
Total trade receivables and bills receivables	409,369	458,011
Other receivables and prepayments		
Other receivables	12,999	8,837
Prepaid expenses	227	398
Loans to independent third parties	800	900
	14,026	10,035
Less: Impairment loss allowance for other receivables	(1,076)	(825)
	12,950	9,210
	422,319	467,221
Analysed as:		
Current	306,092	341,335
Non-current (<i>note i</i>)	116,227	125,886
	422,319	467,221

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

14. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Note (i): As at 30 June 2024, included in the Group's trade receivables was a balance of RMB116,227,000 (31 December 2023: RMB125,886,000) (net of impairment loss allowance of RMB11,767,000 (31 December 2023: RMB11,228,000)) due from a customer in respect of the construction of a production line located in the Republic of Kazakhstan, among which RMB Nil, RMB Nil and RMB116,227,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively (31 December 2023: RMB6,531,000, RMB31,424,000 and RMB89,771,000 were aged 0 to 1 year, 1 to 2 years and over 2 years, respectively). In May 2019, due to the expected delay in settlement from this customer as a result of the prolonged approval procedures from the customer's financing bank, the Group entered into a supplemental agreement with the customer, pursuant to which the Group agreed to defer an estimated amount of RMB280,000,000 (the "Deferred Payment") upon completion of the test run of the production line on or before 31 December 2019. The amount of the Deferred Payment, time period for accrual of interest and repayment schedule are subjected to finalisation between both parties according to the actual outstanding principal and interest upon completion of the production line. Both parties agreed to enter into another finalised Deferred Payment agreement with such details and terms to be fixed (the "Finalised Deferred Payment Agreement").

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

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

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

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

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

	<u>30 June 2024</u>	31 December 2023
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 1 year	82,948	96,482
1 to 2 years	43,217	71,569
Over 2 years	162,948	114,222
	<u>289,113</u>	<u>282,273</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

14. TRADE, BILLS AND OTHER RECEIVABLES (continued)

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

	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	120,225	163,658
181 days to 1 year	31	12,080
	<u>120,256</u>	<u>175,738</u>

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

	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>120,256</u>	<u>175,738</u>

As at 30 June 2024, no bills receivables of the Group (31 December 2023: RMB31,040,000) were pledged to banks for issuing bills payables.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

15. TRADE, BILLS AND OTHER PAYABLES

	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade payables	377,322	414,970
Bills payables	90,621	70,481
Other taxes payables	8,904	9,514
Amounts due to independent third parties	1,004	997
Accrued expense	1,692	3,118
Accrued payroll and welfare	6,649	19,564
Unpaid incremental commission	38,504	39,712
Lease liabilities	1	10
Other payables	442	1,102
	<u>525,139</u>	<u>559,468</u>

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

	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 1 year	300,448	325,607
1 year to 2 years	37,333	65,156
Over 2 years	39,541	24,207
	<u>377,322</u>	<u>414,970</u>

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

Age	<u>30 June 2024</u>	<u>31 December 2023</u>
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>90,621</u>	<u>70,481</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

15. TRADE, BILLS AND OTHER PAYABLES (continued)

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

Age	<u>30 June 2024</u>	31 December 2023
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 180 days	<u>90,621</u>	<u>70,481</u>

16. SHARE CAPITAL

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

17. CAPITAL COMMITMENTS

	<u>30 June 2024</u>	31 December 2023
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>4,720</u>	<u>11,565</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the SIX MONTHS ENDED 30 JUNE 2024

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated statement of financial position approximate to their fair values.

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at 30 June 2024	Fair value as at 31 December 2023	Fair value hierarchy	Valuation technique and key input
	RMB'000	RMB'000		
Financial assets at FVTPL:				
Structured deposits	101,481	103,090	Level 2	Discounted cash flows. Future cash flows are estimated based on expected return of the structured deposits

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

19. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries, bonus and other benefits	745	770
Retirement benefits scheme contributions	29	29
Discretionary performance related bonus	243	260
	1,017	1,059

The remuneration of key management personnel (being Chairman and director of the Company and other key management of the Group), is determined with reference to the performance of individuals and market trends.

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