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 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS OF THE UNAUDITED ANNUAL RESULTS

- Revenue for the year ended 31 December 2019 was approximately RMB1,465.5 million, an increase of 44.2% as compared to last year.

- Gross profit for the year ended 31 December 2019 was approximately RMB315.8 million, an increase of approximately 46.0% as compared to last year.

- Profit before tax for the year ended 31 December 2019 was approximately RMB97.2 million, an increase of 10.7% as compared to last year.

- Profit and total comprehensive income for the year ended 31 December 2019 attributable to owners of the Company was approximately RMB78.9 million, an increase of 8.9% as compared to last year.

- Earnings per share attributable to ordinary equity holders of the Company was RMB20.18 cents per share for the year ended 31 December 2019.

- The Board recommended to declare the final dividend of RMB0.05 (before tax) per ordinary share, totalling RMB25.0 million (before tax) for the year ended 31 December 2019.

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

For the reasons explained below under "Review of Unaudited Annual Results by the Audit Committee", the auditing process for the annual results ("**Annual Results**") of China PengFei Group Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") has not been completed. In the meantime, the board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the unaudited consolidated annual results of the Group for the year ended 31 December 2019 with the audited comparative figures for the year ended 31 December 2018 as follows:

In this 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 2019

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Revenue	*3*	**1,465,464**	1,016,201
Cost of sales and services		**(1,149,670)**	(799,836)
Gross profit		**315,794**	216,365
Other income		**3,003**	27,332
Other gains and losses		**6,405**	8,324
Selling and distribution expenses		**(108,892)**	(74,749)
Administrative expenses		**(47,186)**	(41,557)
Research expenditure		**(46,600)**	(32,377)
Impairment loss on trade and other receivables and contract assets, net of reversal		**(8,990)**	(2,514)
Listing expenses		**(15,731)**	(11,772)
Finance costs		**(589)**	(1,204)
Profit before tax	*4*	**97,214**	87,848
Income tax expense	*5*	**(17,309)**	(14,532)
Profit and total comprehensive income for the year		**79,905**	73,316
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**78,935**	72,506
– Non-controlling interests		**970**	810
		79,905	73,316
Earnings per share	*7*		
– Basic (RMB cent)		**20.18**	19.33
– Diluted (RMB cent)		**20.18**	**N/A**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	As at 31 December **2019** *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**190,851**	212,184
Investment properties		**12,846**	14,001
Intangible assets		**70**	109
Right-of-use assets		**40,314**	40,005
Deposits paid for acquisition of property, plant and equipment		**9,584**	–
		253,665	266,299
CURRENT ASSETS			
Inventories		**690,047**	419,135
Trade, bills and other receivables	*8*	**746,144**	578,403
Contract assets		**54,640**	66,424
Contract costs		**14,990**	12,724
Value-added tax recoverable		**14,017**	3,497
Prepayments to suppliers		**155,527**	92,364
Financial assets at fair value through profit or loss ("FVTPL")		**–**	3,426
Restricted bank deposits		**12,211**	13,597
Bank balances and cash		**486,445**	233,881
		2,174,021	1,423,451
CURRENT LIABILITIES			
Trade, bills and other payables	*9*	**638,418**	668,621
Contract liabilities		**1,241,038**	692,381
Amount due to a related party		**–**	817
Dividends payable		**–**	19,270
Tax payable		**455**	5,114
		1,879,911	1,386,203
NET CURRENT ASSETS		**294,110**	37,248
TOTAL ASSETS LESS CURRENT LIABILITIES		**547,775**	303,547

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
CAPITAL AND RESERVES		
Share capital	**4,504**	51,386
Share premium	**208,617**	–
Reserves	**325,350**	245,585
Equity attributable to owners of the Company	**538,471**	296,971
Non-controlling interests	**(94)**	(1,064)
TOTAL EQUITY	**538,377**	295,907
NON-CURRENT LIABILITY		
Deferred tax liabilities	**9,398**	7,640
	547,775	303,547

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

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, components), construction of production line and provision of installation services.

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

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

For the purpose of preparing and presenting these consolidated financial statements of the Group for the year ended 31 December 2019, the Group has consistently applied IFRSs that are effective for the financial period beginning on 1 January 2019 throughout the years ended 31 December 2018 and 2019.

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[1]
Amendments to IFRS 3	Definition of a Business[2]
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[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The Directors 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	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Sale of equipment, recognised at a point in time	**961,592**	780,410
Revenue from construction of production line, recognised over time	**482,450**	213,806
Installation service, recognised over time	**21,422**	21,985
	1,465,464	1,016,201

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	
		2019	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Mainland China		**923,264**	713,423
Outside Mainland China			
Including:	Kazakhstan	**295,338**	138,531
	Cote d'lvoire	**120,585**	-
	Uzbekistan	**40,748**	9,906
	Congo	**37,514**	-
	Indonesia	**19,097**	-
	Turkey	**1,804**	70,176
	Bangladesh	**–**	27,022
	Other countries	**27,114**	57,143
		1,465,464	1,016,201

Information about major customers

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Customer A	**295,338**	138,531

4. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Depreciation of property, plant and equipment	**35,359**	36,040
Depreciation of investment properties	**1,155**	1,459
Amortisation of intangible assets	**179**	58
Depreciation of right-of-use assets	**748**	682
	37,441	38,239
Capitalised in inventories	**(31,920)**	(30,899)
Total depreciation and amortisation charged to profit or loss	**5,521**	7,340
Analysed as:		
Charged in administrative expenses	**4,352**	6,173
Charged in selling and distribution expenses	**32**	–
Charged in research expenditure	**1,137**	1,167
	5,521	7,340
Cost of inventories recognised as cost of sales	**947,370**	645,112
Directors' remuneration		
– Fees	**37**	–
– Salaries and other benefits	**1,240**	1,191
– Retirement benefit scheme contributions	**80**	119
– Discretionary performance related bonus	**353**	185
	1,710	1,495
Other staff costs		
– Salaries and other benefits	**83,391**	77,917
– Retirement benefit scheme contributions	**13,701**	12,539
– Discretionary performance related bonus	**6,299**	2,940
	103,391	93,396

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total staff costs	**105,101**	94,891
Capitalised in contract costs	**(7,826)**	(9,118)
Capitalised in inventories	**(59,969)**	(53,772)
Total staff costs charged to profit or loss	**37,306**	32,001
Analysed as:		
Charged in administrative expenses	**21,966**	19,169
Charged in selling and distribution expenses	**6,786**	6,651
Charged in research expenditure	**8,554**	6,181
	37,306	32,001
Research expenditure		
Staff cost	**8,554**	6,181
Depreciation and amortisation	**1,137**	1,167
Technical consultancy fee	**27,302**	17,587
Materials consumed	**6,825**	4,492
Others	**2,782**	2,950
	46,600	32,377
Gross rental income from investment properties	**1,064**	1,876
Less:		
Direct operating expenses incurred for investment properties that generate rental income during the year	**(1,155)**	(1,459)
	(91)	417

5. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
PRC Enterprise Income Tax ("**EIT**")	**15,551**	10,443
Deferred tax charge	**1,758**	4,089
	17,309	14,532

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

Pengfei Holdings Limited, a subsidiary of the Company, is not subject to income tax or capital gain tax under the law of British Virgin Islands.

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 2018 and 2019.

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

The other PRC subsidiaries of the Company are subjected to PRC EIT rate of 25% during the years ended 31 December 2018 and 2019.

6. DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Jiangsu Pengfei:		
Dividends declared	**–**	201,854

Prior to the completion of the group reorganisation, Jiangsu Pengfei declared dividend amounted to RMB201,854,000 to its shareholders. The rate of dividend and number of shares ranking for dividend in 2018 are not presented as such information is not considered meaningful having regards to the purpose of these consolidated financial statements. Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of RMB0.05 (before tax) per ordinary share, in an aggregate amount of RMB25 million (before tax), has been proposed by the Directors 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	
	2019	2018
	(Unaudited)	(Audited)
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (*RMB'000*)	**78,935**	72,506
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	**391,095,890**	375,000,000

The number of ordinary shares for the purpose of calculating basic and diluted earnings per share has been determined on the assumption that the group reorganisation and the capitalisation issue of the shares of the Company had been effective on 1 January 2018.

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the year ended 31 December 2018. In the computation of diluted earnings per share for the year ended 31 December 2019, it does not assume the exercise of the over-allotment option granted, as detailed in the prospectus of the Company dated 31 October 2019, since the exercise price of such option 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	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**389,227**	187,949
Less: Impairment loss allowance for trade receivables	**(18,881)**	(14,271)
	370,346	173,678
Bills receivables	**369,642**	382,603
Total trade receivables and bills receivables	**739,988**	556,281
Other receivables and prepayments		
Other receivables	**5,085**	8,578
Prepaid expenses	**377**	818
Loans to independent third parties	**800**	9,249
Deferred issue costs	**–**	3,762
	6,262	22,407
Less: Impairment loss allowance for other receivables	**(106)**	(285)
	6,156	22,122
	746,144	578,403

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	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 1 year	**323,531**	118,377
1 to 2 years	**19,716**	19,606
Over 2 years	**27,099**	35,695
	370,346	173,678

9. TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**537,697**	502,045
Bills payables	**28,332**	93,958
Other taxes payables	**8,672**	9,008
Amounts due to independent third parties	**2,046**	10,556
Accrued expense	**5,059**	196
Accrued issue costs and listing expenses	**3,026**	5,926
Accrued payroll and welfare	**20,006**	13,743
Unpaid incremental commission	**33,322**	32,412
Lease liabilities	**74**	89
Other payables	**184**	688
	638,418	668,621

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 1 year	**507,505**	462,984
1 year to 2 years	**13,152**	24,925
Over 2 years	**17,040**	14,136
	537,697	502,045

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 15 November 2019 raising total net proceeds of approximately HK$150.0 million from the share offer (the "**Share Offer**") as described in the prospectus of the Company dated 31 October 2019, after deduction of underwriting fees and commissions and expenses of the Company in connection with the Share Offer. The successful listing (the "**Listing**") enabled the Company to enter into the international capital market to ensure sufficient capital for future development.

Expansion of customer base

We believe that diversifying our business and relying on a wide spread of customers for revenue generation will be critical for our future sustainability and growth. The Group continued to expand its customer base by reinforcing the Group's market presence in the building materials industry. During the year ended 31 December 2019, revenue generated from customers in the building materials industry amounted to approximately RMB791.0 million (2018: RMB510.2 million).

Apart from serving our customers in the building materials industry, the Group has also expanded its products and services to serve our customers in other industries, mainly metallurgy, chemical and environmental protection industries as a result of our research and development efforts. Revenue generated from our customers of equipment manufacturing in non-building materials industries accounted for approximately 62.4% and 68.2%, respectively, of our total revenue in the manufacturing of equipment for the year 2018 and 2019. 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 2019, approximately HK$13.0 million of the net proceeds from the Share Offer 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 Kazakhstan, Uzbekistan, Ivory Coast (Côte d'Ivoire) and Turkey. Revenue generated from our customers in the "Belt and Road" countries accounted for approximately 26.2% and 31.4%, respectively, of our total revenue for the years 2018 and 2019. Furthermore, most of our customers under our construction of production line business are located in "Belt and Road" countries. During the year ended 31 December 2019, the Group has participated in the construction of five production line projects, four of which were located in "Belt and Road" countries which were on-going production line projects as at 31 December 2019, one of which, being the construction of an active cement production line project in Anhui Province, the PRC was completed.

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. In collaboration with the Institute of Process Engineering of the Chinese Academy of Sciences (中國科學院過程工程研究所), "Research and development of efficient rotary kiln technology for the treatment of co-processing solid waste" (適用於協同處理廢棄物的高效回轉窰技術研究與開發) is being carried out. During the year, the Group has also participated in the discussion on the setting of national standard for "Complete Sets of Equipment Technical Requirements for Lime Calcining" (石灰煅燒成套裝備技術要求). As at 31 December 2019, the Group had 55 authorised patents, of which 31 are invention patents and 42 are 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 higher level of awareness of environmental protection and the PRC government's strong desire to eliminate backward production capacity and excessive capacities in the building materials industry and reducing pollution from cement industry, the Group will continue to expand the Group's products and services to customers in other industries such as metallurgy, chemical and environmental protection industries.

Despite the uncertainties caused by the novel coronavirus pneumonia epidemic (the "**Epidemic**") outbreak in the first quarter of 2020, the Group remains cautiously optimistic in the rotary kiln, grinding equipment and their related equipment market as we believe the impact of the Epidemic outbreak on China's economy and the Group's operation will be temporary. The Group will use its best endeavours to minimise any potential impact on the operation and financial performance of the Group from the Epidemic and stick to its business strategies.

FINANCIAL REVIEW

Revenue

	Year ended 31 December 2019		2018		Year-over-Year Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
	(Unaudited)		(Audited)		
Manufacturing of equipment	**961,592**	**65.6**	780,410	76.8	23.2
Installation services	**21,422**	**1.5**	21,985	2.2	-2.6
Construction of production line	**482,450**	**32.9**	213,806	21.0	125.6
Total	**1,465,464**	**100.0**	1,016,201	100.0	44.2

Our revenue increased by approximately RMB449.3 million or 44.2% from approximately RMB1,016.2 million for the year ended 31 December 2018 to approximately RMB1,465.5 million for the year ended 31 December 2019 as a result of growth of our revenue generated from the construction of production line business and manufacturing of equipment business during the year ended 31 December 2019.

Manufacturing of equipment. Revenue derived from manufacturing of equipment business increased by RMB181.2 million or 23.2% from RMB780.4 million for the year ended 31 December 2018 to RMB961.6 million for the year ended 31 December 2019. The increase in revenue derived from manufacturing of equipment business was primarily due to sales of our products in the rotary kiln system made to a few major customers in mainland China with considerably large revenue contribution during the year ended 31 December 2019 as compared with customers in the same period of 2018.

Installation services. Revenue derived from our installation services business decreased by approximately RMB0.6 million or 2.6% to approximately RMB21.4 million for the year ended 31 December 2019 from approximately RMB22.0 million for the year ended 31 December 2018. This decrease was mainly due to the decreased demand of installation services from customers under our manufacturing of equipment business for the year ended 31 December 2019.

Construction of production line. Revenue from our construction of production line business increased by approximately RMB268.6 million or 125.6% to approximately RMB482.5 million for the year ended 31 December 2019 from approximately RMB213.8 million for the year ended 31 December 2018. This increase was mainly attributable to our production line projects located in Kazakhstan and Ivory Coast (Côte d'Ivoire) which contributed in aggregate a revenue of approximately RMB415.4 million during the year ended 31 December 2019.

Cost of sales and services

Our cost of sales and services increased by approximately RMB349.8 million or 43.7% to approximately RMB1,149.7 million for the year ended 31 December 2019 from approximately RMB799.8 million for the year ended 31 December 2018 mainly due to the increase of our total revenue. Cost of raw materials, being the largest component of our cost of sales and services, increased due to the carrying out of the construction of production lines and enhanced sales of the manufacturing of equipment business which resulted in an increase of approximately RMB290.0 million in cost of sales and services during the year ended 31 December 2019.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by approximately RMB99.4 million or 46.0% to approximately RMB315.8 million for the year ended 31 December 2019 from approximately RMB216.4 million for the year ended 31 December 2018. The Group's gross profit margin remained relatively stable at 21.5% for the year ended 31 December 2019 as compared to 21.3% for the year ended 31 December 2018.

Other income

Our other income decreased by approximately RMB24.3 million or 89.0% to approximately RMB3.0 million for the year ended 31 December 2019 from approximately RMB27.3 million for the year ended 31 December 2018 mainly due to decrease in government subsidies of approximately RMB22.7 million received during the year ended 31 December 2019 as compared with the year ended 31 December 2018.

Other gains and losses

We recorded other gains of approximately RMB6.4 million for the year ended 31 December 2019, representing a decrease of 23.1% as compared with approximately RMB8.3 million for the year ended 31 December 2018. This was mainly due to the change from a net foreign exchange gain of approximately RMB4.7 million recorded in the year of 2018 to a net foreign exchange loss of approximately RMB0.7 million recorded during the year ended 31 December 2019, which was partially offset by the increase in the investment gain on financial assets at FVTPL of approximately RMB3.1 million.

Selling and distribution expenses

Our distribution and selling expenses increased by approximately RMB34.2 million or 45.7% to approximately RMB108.9 million for the year ended 31 December 2019 from approximately RMB74.7 million for the year ended 31 December 2018 mainly due to increased transportation and port expenses incurred by our Group in relation to the product delivery of oversea production lines and sales of equipment to one of our major customers in mainland China during the year ended 31 December 2019.

Administrative expenses

Our administrative expenses increased by approximately RMB5.6 million or 13.5% to approximately RMB47.2 million for the year ended 31 December 2019 from approximately RMB41.6 million for the year ended 31 December 2018 mainly attributable to the increase in annual bonus and professional fees incurred in relation to the Listing in 2019.

Research expenditure

Our research expenditure increased by approximately RMB14.2 million or 43.9% to approximately RMB46.6 million for the year ended 31 December 2019 from approximately RMB32.4 million for the year ended 31 December 2018 mainly due to the increased technical consultancy fee incurred for technical support consultation for the manufacturing of equipment and construction of production line projects during the year ended 31 December 2019.

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

Impairment loss on trade and other receivables and contract assets increased by approximately RMB6.5 million or 257.6% to approximately RMB9.0 million for the year ended 31 December 2019 from approximately RMB2.5 million for the year ended 31 December 2018 mainly due to an increase in impairment loss on trade receivables recognised for the year ended 31 December 2019 and as a result of the increased balance of trade receivables as at 31 December 2019.

Income tax expenses

Our income tax expenses increased by approximately RMB2.8 million or 19.1% to approximately RMB17.3 million for the year ended 31 December 2019 from approximately RMB14.5 million for the year ended 31 December 2018. Our effective tax rate was 16.5% and 17.8% for the year ended 31 December 2018 and 2019, 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 in relation to the Listing during the year.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year attributable to owners of the Company increased by approximately RMB6.4 million or 8.9% to approximately RMB78.9 million for the year ended 31 December 2019 from approximately RMB72.5 million for the year ended 31 December 2018.

WORKING CAPITAL MANAGEMENT

The Group maintained sufficient working capital as at 31 December 2019 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 RMB294.1 million (31 December 2018: RMB37.2 million) with a current ratio calculated by dividing our current assets over our current liabilities of 115.6% (31 December 2018: 102.7%) as at 31 December 2019.

Inventories increased by approximately RMB270.9 million or 64.6% to approximately RMB690.0 million as at 31 December 2019 from approximately RMB419.1 million as at 31 December 2018. Inventory turnover days was 176 days for the year ended 31 December 2019, representing an increase of 24 days as compared to 152 days for the year ended 31 December 2018. The increase in inventories was mainly due to the increased balance of work-in-progress maintained as at 31 December 2019. The increase in inventory turnover days was mainly because of the increase in work-in-progress arising from our ongoing contract liabilities.

Trade, bills and other receivables increased by approximately RMB167.7 million or 29.0% to approximately RMB746.1 million as at 31 December 2019 from approximately RMB578.4 million as at 31 December 2018, among which trade receivables increased by approximately RMB201.3 million or 107.1% to approximately RMB389.2 million as compared with approximately RMB187.9 million as at 31 December 2018. Such change was mainly due to the delay in settlement from one of our production line customers resulting from the prolonged approval procedures of its financing bank. In May 2019, our Group, due to the expected delay in settlement from this customer, entered into a supplemental agreement with such customer pursuant to which our Group agreed to defer an amount of RMB280 million (the "**Deferred Payment**"), being the outstanding payment upon completion of the construction of such production line, carried out a fixed interest rate of 8.41% per annum. The Deferred Payment to the extent of RMB280 million would be settled in every three months by 12 installments starting from 30 June 2020. Any receivable balance, apart from the Deferred Payment, from this customer should be settled as originally scheduled. Our trade receivables turnover days was 68 days (2018: 58 days) for the year ended 31 December 2019 representing an increase of 10 days. The increase in trade receivable turnover days during the year was primarily due to the increased balance of trade receivables as at 31 December 2019 for the reason mentioned above.

Prepayments to suppliers increased by approximately RMB63.2 million or 68.4% to approximately RMB155.5 million as at 31 December 2019 from approximately RMB92.4 million as at 31 December 2018 primarily due to the increased prepayments made to the suppliers for the purchase of raw materials.

Contract liabilities increased by approximately RMB548.6 million or 79.2% to approximately RMB1,241.0 million as at 31 December 2019 from approximately RMB692.4 million as at 31 December 2018. The significant increase in contract liabilities was mainly due to the advance payments received from our customers during the year for new contracts obtained.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB486.4 million (31 December 2018: approximately RMB233.9 million). A portion of the Group's bank deposits totalling approximately RMB12.2 million (31 December 2018: approximately RMB13.6 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 2019, we had banking facilities of approximately RMB560.0 million, of which approximately RMB185.5 million were utilised. The utilised banking facilities as at 31 December 2019 represented bank guarantee of approximately RMB161.5 million and bank acceptance bill amounted to approximately RMB24.0 million. As at 31 December 2019, our Group had unutilised banking facilities amounted to approximately RMB374.5 million. As at 31 December 2019, the Group did not have any bank borrowings (31 December 2018: Nil).

As at 31 December 2019, 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 350.9% (31 December 2018: 469.3%). The decrease in our gearing ratio was mainly due to the increased balance of our equity as at 31 December 2019 arising from the net proceeds from the Share Offer.

During the year ended 31 December 2019, the Group recorded approximately RMB119.8 million (2018: net cash used in operating activities RMB7.9 million) net cash from operating activities. Net cash used in investing activities for the year ended 31 December 2019 amounted to approximately RMB4.1 million (2018: net cash from investing activities RMB320.0 million). Net cash from financing activities for the year ended 31 December 2019 amounted to approximately RMB136.2 million (2018: net cash used in financing activities RMB176.0 million).

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

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

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

Currency risk

The Group's exposure to currency risk relates primarily to the Group's sales to customers outside mainland China which is usually denominated in USD. During the year ended 31 December 2019, approximately 15% (2018: 15%) of the Group's sales is denominated in currencies other than the functional currency of the relevant Group entities making the sale. The Group has not adopted any foreign exchange hedging policy, engaged in any currency hedging or had any positions in any derivative financial instruments to hedge our currency risk as management of the Group considers that the foreign exchange risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

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

Credit risk

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

Given that 75% (31 December 2018: 28%) and 75% (31 December 2018: 42%) of the total trade receivables was due from the Group's largest customer and the five largest customers as at 31 December 2019, 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 2019, 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 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

CAPITAL EXPENDITURE

As at 31 December 2019, the Group's capital expenditure amounted to approximately RMB25.0 million (31 December 2018: approximately RMB19.9 million) which was mainly related to the acquisition of property, plant and equipment, purchase of intangible assets and payments for right-of-use assets.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's restricted bank deposits and bills receivable with an aggregate carrying amount of approximately RMB14.0 million were pledged to banks for issuing bills payables. As at 31 December 2018, the Group's restricted bank deposits, right-of-use assets, buildings and bills receivable with an aggregate carrying amount of approximately RMB93.7 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 2019, the Group's capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately RMB19.0 million (31 December 2018: approximately RMB0.4 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 year ended 31 December 2019 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION INFORMATION

As at 31 December 2019, the Group had a total of 949 employees (31 December 2018: 872) 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 year ended 31 December 2019, the Group incurred staff cost (including Directors' remuneration) of approximately RMB105.1 million (2018: approximately RMB94.9 million).

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

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

USE OF PROCEEDS FROM THE SHARE OFFER

Net proceeds from the Share Offer and the Listing of the Company on the Main Board of the Stock Exchange on 15 November 2019 (the "**Listing Date**"), after deduction of the underwriting fees and commissions and expenses of the Company in connection with the Share Offer was approximately HK$150.0 million. The Group would apply such proceeds in a manner consistent with the intended use of proceeds as disclosed in the prospectus of the Company dated 31 October 2019.

The table below sets forth the utilisation of the net proceeds from the Share Offer and the unused amount as at 31 December 2019. All the unused proceeds have been deposited into a bank account maintained by the Group.

	Percentage to total amount *%*	Net proceeds *HK$ million*	Utilised amount as at 31 December 2019(Note 1) *HK$ million*	Unutilised amount as at 31 December 2019 *HK$ million*	Expected timeline for unutilised amount(Note 2)
Investing in a project for manufacturing rotary kilns possessing the latest roasting and pyrolysis technology	78.7	118.0	13.0	105.0	To be fully utilised during the period from third quarter of 2020 to the end of 2021
Increasing the productivity and efficiency in manufacturing our products for our rotary kiln and grinding equipment system	7.0	10.5	2.8	7.7	To be fully utilised by third quarter of 2020
Research and development of the latest roasting and pyrolysis technology applicable to rotary kilns	6.8	10.2	0	10.2	To be fully utilised during the period from third quarter of 2020 to the end of 2021
Marketing activities	3.5	5.2	0.5	4.7	To be fully utilised by third quarter of 2021
Working capital	4.0	6.1	0	6.1	To be utilised based on actual need
Total	**100.0**	**150.0**	**16.3**	**133.7**	

Note:

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$1.1163.*

2. *For further details of the expected timeline, please refer to the prospectus of the Company dated 31 October 2019.*

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL

During the year ended 31 December 2019 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.

SUBSEQUENT EVENTS

Assessment of the impact of the Epidemic

In early 2020, in response to the public health risks associated with the outbreak of the Epidemic, the government of the PRC has implemented various emergency public health measures and various actions including but not limited to imposing restrictions on the work resumption date after the Chinese New Year holiday and travel restrictions in certain areas of the PRC prohibiting the movement of goods and people between provinces and/or within provinces and cities.

Following the PRC government's guidance and to ensure the health and safety of our employees, the Group's PRC operating subsidiaries and the production plants located in Jiangsu Province, the PRC, only resumed production and work on 10 February 2020 after the Chinese New Year holidays. Due to the suspension or limited transportation services in certain areas within the PRC, certain workers in the affected provinces and municipalities were unable to return to the Group's production plants as planned and the Group also expects delay in the supply of raw materials from its suppliers and the delivery of products to its customers as a result thereof.

With respect to the Group's construction of production line business which consists mainly overseas projects, it is necessary for the Group to send staff, including project managers and engineers, to monitor the progress of the overseas projects as well as provide assistance and training to customers on how to use the Group's products. It is expected that the Group may face difficulty in obtaining relevant visas, such as work visa for our staff should those countries in which our production line projects are located impose travel restrictions against mainland Chinese citizens in order to prevent the spread of the Epidemic.

The aforesaid has led to a temporary drop of the Group's production capacity which has in turn resulted in late delivery of products in the first quarter of 2020. The Group will continue to monitor the situation of the Epidemic, assess and react proactively to its impact on the financial position and operating results of the Group. Up to the date of this announcement, the assessment is still in progress.

OTHER INFORMATION

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Share Offer, 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 2019.

FINAL DIVIDEND

For the year ended 31 December 2019, the Board has recommended the distribution of a final dividend of RMB0.05 (before tax) per ordinary share to shareholders of the Company, totalling RMB25.0 million (before tax), subject to approval by the forthcoming annual general meeting (the "**AGM**") of the Company. Total dividend payout ratio is 31.7% of the profit for the year attributable to the owners of the Company. The aggregate amount shall be paid out of the Company's share premium account. The specific arrangements regarding the final dividend and its distribution and the time and arrangement of the closure of register of members will be announced separately by the Company. If the distribution of final dividend is approved at the AGM, the Company expects to distribute the final dividend within two months after the date of the AGM (expected to be on or before 31 August 2020). The Company shall announce separately the expected dividend payment date.

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. From the Listing Date and up to 31 December 2019, 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 since the Listing Date and up to 31 December 2019.

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, 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 2019, which is required to be notified to the Company pursuant to Rule 3A.19 of the Listing Rules.

REVIEW OF UNAUDITED ANNUAL RESULTS BY THE AUDIT COMMITTEE

Audit work for the Group's Annual Results has not been completed as at the date of this announcement due to the restrictions in parts of China to combat the recent and ongoing outbreak of the Epidemic which has since January 2020 spread nationwide in the PRC and has been spreading globally.

Audit Committee

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

The Audit Committee has reviewed and discussed the unaudited annual results of the Group for the year ended 31 December 2019 and agreed with the accounting treatment adopted and the particulars mentioned in this announcement. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have yet been agreed by the Group's auditors, Deloitte Touche Tohmatsu, Certified Public Accountants of Hong Kong (the "**Auditors**").

FURTHER ANNOUNCEMENT(S)

The Company will issue further announcement(s) in relation to the Annual Results as soon as practicable after they have been agreed by the Auditors and the material differences (if any) as compared with the unaudited annual results contained herein in any event no later than 27 April 2020. In addition, the Company will issue further announcement(s) as and when necessary if there are other material development in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the Auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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/). For the reasons explained above under "Review of Unaudited Annual Results by the Audit Committee" and "Further Announcement(s)", the auditing process for the Annual Results of the Group has not been completed. The annual report of the Company for the year ended 31 December 2019 will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company on or before 15 May 2020.

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

Hong Kong, 31 March 2020

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

* *For identification purpose only*