RUIFENG POWER GROUP COMPANY LIMITED
瑞豐動力集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2025)

(1) BUSINESS UPDATE ACQUISITION OF EQUITY INTEREST IN THE TARGET COMPANY; AND (2) CHANGE IN USE OF UNUTILISED NET PROCEEDS

THE ACQUISITION

The Board is pleased to announce that on 22 November 2019, the Vendor, the Company and the Target Company entered into the Cooperation Agreement, pursuant to which the Company agreed to acquire or procure a subsidiary of it to acquire, and the Vendor agreed to sell, the Equity Interest for a consideration of EUR5.0 million.

Since all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Cooperation Agreement fall below 5%, the transaction contemplated under the Cooperation Agreement does not constitute a notifiable transaction of the Company and is not subject to the notification, publication or shareholders' approval requirement under Chapter 14 of the Listing Rules.

CHANGE IN USE OF UNUTILISED NET PROCEEDS

The Shares of the Company were listed on the Main Board of the Stock Exchange on 5 January 2018 and the Net Proceeds amounted to approximately RMB264.7 million after deduction of the underwriting commissions and other estimated offering expenses in connection with the Global Offering. As disclosed in the announcement of the Company dated 4 October 2019, as at 30 June 2019, the unutilised Net Proceeds amounted to approximately RMB109.6 million, among which approximately RMB87.1 million were intended to be used to optimise the smart manufacturing processes and approximately RMB22.5 million were intended to be used to purchase equipment and meet other costs related to strengthening cooperation with third-party industry partners in accordance with the designated uses set forth in the section headed "Future Plans and Use of Proceeds" in the

Prospectus.

Having carefully assessed the current business needs of the Group, to facilitate effective allocation of the Group's financial resources and with a view to capturing the favourable investment opportunities, the Board has resolved to change the use of the unutilised Net Proceeds such that approximately RMB38.0 million (equivalent to EUR5 million) of the unutilised Net Proceeds will be put towards the settlement of the Consideration, RMB20.0 million will continue to be used to optimise the smart manufacturing processes, and the remaining RMB40.0 million and approximately RMB11.6 million will be allocated for repayment of short-term borrowings, and supplementing the Group's working capital and general corporate use respectively.

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THE COOPERATION AGREEMENT

Set forth below are the major terms of the Cooperation Agreement:

Date

22 November 2019

Parties

(1) the Vendor;

(2) the Company; and

(3) the Target Company

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons as defined under the Listing Rules.

Subject matter

Pursuant to the Cooperation Agreement, the Company or its designated subsidiary shall acquire, and the Vendor shall sell, the Equity Interest. Upon completion of the Cooperation Agreement, the Group will hold 10.7% of the equity interest in the Target Company and the remaining 89.3% of the equity interest will continue to be held by the Vendor.

Consideration

The Consideration for the Acquisition shall be EUR5.0 million, which the Group shall pay by cash. The Consideration was determined after arm's length negotiations between the Vendor and the Company with reference to (a) the amount of paid-up registered capital of the Target Company to be acquired under the Cooperation Agreement; (b) the net asset value of the Target Company as shown in its latest management accounts; and (c) the future business plan of the Target Company.

The Consideration shall be settled in the following manner:

(1) the first instalment of the Consideration (being EUR3 million) shall be paid to the Vendor within three business days after the date of the Cooperation Agreement; and

(2) the second instalment of the Consideration (being EUR2 million) shall be paid to the Vendor before 31 March 2020.

The payment of the Consideration will be funded by the internal resources of the Group. Please refer to the section headed "Chang in Use of Unutilised Net Proceeds" in this announcement for further details.

Completion

Within 120 business days after the date of the Cooperation Agreement, the Target Company shall arrange for the relevant filing and registration procedures as required under the applicable laws and regulations in respect of the transfer of the Equity Interest to be completed, and obtain a new business license and acknowledgements of receipt of the filings. After completion of the relevant registration procedures, the Target Company shall issue to the Company a certificate of capital contribution and furnish it with the updated register of members. Each party shall provide to the other parties all necessary assistance for the purpose of completion of the transfer of the Equity Interest.

INFORMATION OF THE TARGET GROUP

The Target Company is a limited liability company established under the laws of the PRC on 10 May 2017 with EUR20 million of registered capital. The scope of business of the Target Company primarily includes the design and manufacturing of power systems, braking systems, vehicle spare parts and components, wheelset parts and components, engines and chassis parts and components, and the sale of self-manufactured products and provision of relevant support and services; and the wholesale, import, export and distribution of the above products.

INFORMATION OF THE GROUP

The Group is principally engaged in the design, development, production and sales of cylinder blocks, as well as cylinder heads and certain cylinder block components, to automobile manufacturers and engine manufacturers in China.

INFORMATION OF THE VENDOR

The Vendor is a simplified company limited by shares established under the laws of France. The Vendor and its subsidiaries are principally engaged in the manufacturing and sale of chassis, engines and wheels.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in Annual Report 2018, it is the Group's strategy to continue to explore more cooperation opportunities with existing customers and other business partners, including, among others, actively identifying potential merger and acquisition opportunities and assessing the possibility of establishing joint ventures with other partners, thereby expanding its product mix and strengthening its core competitiveness by grabbing the market opportunities.

Founded in 1962, the Vendor has grown into an international supplier of products including, among others, chassis, engines and wheels. With production sites in the United States of America, Europe and Asia and a team of more than 2,500 employees, the Vendor and its subsidiaries are positioned to deliver solutions for the transportation and industrial machinery sectors. Upon completion of the transfer of the Equity Interest, the Group will be able to embark upon joint exploration and development of casting technology with the Vendor, being a reputable and sizeable business partner of the Group, as co-shareholders of the Target Company and benefit from the synergy created and the improvement of casting technology and the expertise in manufacture of aluminum alloy products gained thereunder. In addition, the business collaboration will also bring further business opportunities to the Group as it is contemplated that the Target Company will engage the Group for further processing of the products produced by it.

The Directors consider that the terms (including the Consideration) and the entering into of the Cooperation Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

LISTING RULE IMPLICATIONS

Since all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Cooperation Agreement fall below 5%, the transaction contemplated under the Cooperation Agreement does not constitute a notifiable transaction of the Company and is not subject to the notification, publication or shareholders' approval requirement under Chapter 14 of the Listing Rules.

CHANGE IN USE OF UNUTILISED NET PROCEEDS

Reference is made to the Prospectus, the announcement of offer price and allotment results of the Company dated 4 January 2018, and the announcement of the Company dated 4 October 2019 containing updates on the use of proceeds.

The Shares of the Company were listed on the Main Board of the Stock Exchange on 5 January 2018 and the Net Proceeds amounted to approximately RMB264.7 million after deduction of the underwriting commissions and other estimated offering expenses in connection with the Global Offering. As disclosed in the announcement of the Company dated 4 October 2019, as at 30 June 2019, the unutilised Net Proceeds amounted to approximately RMB109.6 million, among which approximately RMB87.1 million were intended to be used to optimise the smart manufacturing processes and approximately RMB22.5 million were intended to be used to purchase equipment and meet other costs related to strengthening cooperation with third-party industry partners in accordance with the designated uses set forth in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

In 2018, China's economic growth began to decelerate due to increased volume with an annual GDP growth rate of 6.6%, while the sales trend of the automobile market was also consistent with the slowdown of the economic growth in China after seasonal adjustment. The automobile industry was under greater pressure in 2018 as the further growth of the automobile market was constrained by a number of negative factors. According to the statistics compiled by the China Association of Automobile Manufacturers, approximately 27.8 million and 28.1 million vehicles were produced and sold respectively in China in 2018, representing a year-on-year decrease of approximately 4.2% and 2.8% respectively. The decrease was attributable to the impact of the total phasing out of the preferential tax policy for automobile purchases and various other factors such as the decline in macroeconomic growth rate and the impact of the trade war on consumer confidence.

Stepping into 2019, the ongoing Sino-US trade dispute created tension in the relationship between China and the United States, and the GDP growth rate recorded by China for the first half of the year further decreased to 6.3%. The automobile industry continued to be under greater pressure in 2019 as the further growth of the automobile market remained impeded by a number of negative factors, including the continuous economic slowdown and the impact of the upgrade of the vehicle emission standard from China V standard to China VI standard, leaving the automobile market stuck in the doldrums. According to the statistics compiled by the China Association of Automobile Manufacturers, approximately 12.1 million and 12.3 million vehicles were produced and sold respectively in the first half of 2019, representing a year-on-year decrease of approximately 13.7% and 12.4% respectively.

To optimise the production process and improve operational efficiency, the Group has implemented the smart manufacturing process in production, including the construction of three automated processing lines to produce certain light-weight cylinder block and cylinder head products and the establishment of a "smart factory" network platform. These three automated processing lines began mass production in November 2017. Following the Listing, the Group has completed the design and development of the remaining intelligent manufacturing systems and connected such systems with each other to create a fully integrated smart manufacturing process for the three existing automated processing lines. During 2018, the Group stepped up its financial commitment to the development of flexible and intelligent production lines to enhance market competitiveness and cut production costs. A number of the Group's existing production lines had been transformed into flexible production lines through the research and development by the Group's technical teams, allowing the Group's production process to more flexibly cope with the ever-changing market demand by making adjustments more swiftly and laying a good foundation for reducing capital expenditure in the future. Against the backdrop of the current downturn in the automobile industry in China, the Directors have resolved to reduce the investment in the implementation of the smart manufacturing process.

As regards the Net Proceeds designated for strengthening collaboration with third-party industry partners, such funds have become idle since the originally contemplated business collaboration with the identified business partners has not been pursued due to the changes in circumstances. During 2018 and 2019, the Group has been building new precision casting lines for the aluminum alloy rough cast products, which have commenced operation in 2019. The new precision casting lines have contributed to an increase in the proportion of the cylinder blocks produced by the Group using the rough cast products manufactured by the Group, and enabled the Group to further control the cost and quality of aluminium product production and enhance the competitiveness of its aluminum products and profitability. Given that the Group now possesses precision casting capability for aluminum alloy rough cast products and the prevailing macroeconomic conditions which has resulted in a general decline in demand for cylinder blocks and cylinder heads, the Directors consider it not necessary to expend further financial resources to carry on the strategic partnership with TMS Corporation* (株式會社 TMS コーポレーション) by the establishment of a Sino-foreign joint venture for the manufacture of aluminum alloy cylinder blocks and cylinder heads. On the other hand, the Group had entered into a tri-party agreement with an existing customer and Oerlikon Metco Surface Technology (Shanghai) Co., Ltd. (歐瑞康美科表面技術(上海)有限公司) (being a wholly-owned subsidiary in China of a Swiss technology provider of surface solutions) in August 2016. It was contemplated under the agreement that the Group would produce and provide a specific model of cylinder block to be manufactured and sold to the relevant customer for use in a thermal spray trial to be carried out by the Swiss partner; upon successful completion of the trial, the Group would purchase from the Swiss partner the thermal coating equipment and materials necessary for the mass production of more cylinder block products to be sold to the relevant customer. Owing to a change in business plan, the relevant customer has not proceeded with the thermal spray trial. In the circumstances, no significant progress has been made in the development and adoption of thermal spray technology under the strategic alliance with the Swiss partners. The Directors are of the view that it will be more efficient to use the funds designated for collaboration with the above industry partners for settlement of the Consideration, as the Acquisition will in effect also allow the Group to enter into collaboration with the Vendor as its business partner and hence to improve its casting technology and gain expertise in manufacture of aluminum alloy products.

Having carefully assessed the current business needs of the Group, to facilitate effective allocation of the Group's financial resources and with a view to capturing the favourable investment opportunities, the Board has resolved to change the use of the unutilised Net Proceeds as follows:

Designated use set forth in the prospectus		**Original amount of Net Proceeds allocated**	**Net Proceeds utilised as at the date of this announcement**	**Unutilised Net Proceeds as at the date of this announcement**	**Re-allocation of unutilised Net Proceeds**	**Unutilised Net Proceeds as at the date of this announcement after re-allocation**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Optimisation of the smart manufacturing process	43.3	114,600	27,456	87,144	(67,144)	20,000
Purchase of equipment and other enhancements to strengthen collaboration with third-party industry partners	8.5	22,497	-	22,497	(22,497)	-
Repayment of short-term borrowings	16.3	43,141	43,141	-	40,000	40,000
Construction of new mechanical processing lines and purchase of additional machinery and equipment	15.1	39,964	39,964	-	-	-
Enhancement of research and development capabilities	12.0	31,760	31,760	-	-	-
Working capital and general corporate use	4.8	12,704	12,704	-	11,641	11,641
Settlement of the Consideration	-	-	-	-	38,000	38,000
	100.0	264,666	155,025	109,641	-	109,641

As illustrated above, after the re-allocation, approximately RMB38.0 million (equivalent to EUR5 million) of the unutilised Net Proceeds will be put towards the settlement of the Consideration, RMB20.0 million will continue to be used to optimise the smart manufacturing processes, and the remaining RMB40.0 million and approximately RMB11.6 million will be allocated for repayment of short-term borrowings, and supplementing the Group's working capital and general corporate use respectively.

The above change in use of unutilised Net Proceeds will enable the Group to effectively apply its available funds to meeting its pressing financial obligations, thus reducing the need for external funding. At the same time, the Group can also avoid creating overcapacity while maintaining sufficient funds for optimisation of the smart manufacturing process, and lower the level of short-term borrowings so as to reduce the associated finance costs. In addition, the Group will enjoy a higher degree of flexibility in financial management with enriched financial resources for general corporate use at its disposal. Therefore, the Board is of the view that such a change serves the purpose of achieving effective deployment of the Group's financial resources and optimising its capital structure, and is conducive to the Group's development and in the interests of the Group and the Shareholders as a whole.

DEFINITIONS

Unless the context requires otherwise, the following terms shall have the meanings set forth below in this announcement:

"Acquisition"	the acquisition of the Equity Interest by the Group from the Vendor
"Board"	the board of Directors
"China" or "PRC"	the People's Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Company"	Ruifeng Power Group Company Limited (瑞豐動力集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Consideration"	the consideration payable by the Group to the Vendor for the Acquisition under the Cooperation Agreement
"Cooperation Agreement"	the cooperation agreement dated 22 November 2019 entered into between the Vendor, the Company and the Target Company in respect of the Acquisition
"Director(s)"	the director(s) of the Company
"Equity Interest"	10.7% of the equity interest in the Target Company, representing registered capital of EUR2.14 million
"EUR"	Euro, the lawful currency of the European Union
"Global Offering"	the issue and offer for subscription to the public in Hong Kong and the placing to institutional, professional and other investors of a total of 200,000,000 Shares in connection with the Listing
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 5 January 2018
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Net Proceeds"	the net proceeds from the Global Offering
"Prospectus"	the prospectus of the Company dated 19 December 2017 in connection with the Global Offering
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Saint Jean Automotive System (Changshu) Co., Ltd* (聖讓汽車系統（常熟）有限公司), a limited liability company established under the laws of the PRC
"Vendor"	Saint Jean Industries, a simplified company limited by shares established under the laws of France, which owns the entire equity interest in the Target Company prior to the completion of the Acquisition
"%"	per cent.

** for identification purpose only*

By order of the Board
Ruifeng Power Group Company Limited
Meng Lianzhou
Chairman

Hong Kong, 24 November 2019

As at the date of this announcement, the Board comprises Mr. Meng Lianzhou, Mr. Liu Zhanwen, Mr. Zhang Yuexuan and Mr. Liu Enwang, as executive Directors; and Mr. Wei Anli, Mr. Ren Keqiang and Mr. Yu Chun Kau, as independent non-executive Directors.