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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2017	2016	Change
Revenue (RMB'000)	**700,365**	669,894	4.5%
Gross Profit (RMB'000)	**217,400**	193,101	12.6%
Gross Profit Margin	***31.0%***	*28.8%*	*2.2%*
Profit for the year (RMB'000)	**94,798**	93,725	1.1%
Net Profit Margin	***13.5%***	*14.0%*	*-0.5%*
Listing expenses (RMB'000)	**18,188**	3,779	
Basic and diluted earnings per share (RMB cents)	**15.80**	15.62	

ANNUAL RESULTS

The board (the **"Board"**) of directors (the **"Directors"**) of Ruifeng Power Group Company Limited (the **"Company"**) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the **"Group"**) for the year ended 31 December 2017 together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 RMB'000
Revenue	4	**700,365**	669,894
Cost of sales		**(482,965)**	(476,793)
Gross profit	4(b)	**217,400**	193,101
Other income	5	**7,776**	5,056
Selling expenses		**(27,432)**	(25,857)
Administrative expenses		**(75,631)**	(50,270)
Profit from operations		**122,113**	122,030
Finance costs	6(a)	**(12,290)**	(13,064)
Profit before taxation	6	**109,823**	108,966
Income tax	7	**(15,025)**	(15,241)
Profit and total comprehensive income attributable to equity shareholders of the Company for the year		**94,798**	93,725
Earnings per share			
Basic and diluted (RMB cents)	8	**15.80**	15.62

.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 **RMB'000**	2016 RMB'000
Non-current assets			
Property, plant and equipment		**633,288**	550,089
Lease prepayments		**105,732**	108,023
Deferred tax assets		**10,486**	8,618
Unquoted equity investments		**-**	4,000
Total non-current assets		**749,506**	670,730
Current assets			
Inventories		**156,310**	116,173
Trade and other receivables	9	**297,660**	252,046
Cash and cash equivalents		**5,715**	9,553
Total current assets		**459,685**	377,772
Current liabilities			
Trade and other payables	10	**329,606**	280,652
Bank and other loans	11(a)	**112,000**	90,833
Current taxation		**2,621**	2,684
Provision for warranties		**2,471**	2,084
Total current liabilities		**446,698**	376,253
Net current assets		**12,987**	1,519
Total assets less current liabilities		**762,493**	672,249
Non-current liabilities			
Bank and other loans	11(b)	**116,000**	110,000
Deferred income		**61,793**	50,146
Provision for warranties		**2,993**	2,827
Total non-current liabilities		**180,786**	162,973
NET ASSETS		**581,707**	509,276
CAPITAL AND RESERVES			
Share capital		**1**	-
Reserves		**581,706**	509,276
TOTAL EQUITY		**581,707**	509,276

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 2 May 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 January 2018 (the **"Listing Date"**). The Company and its subsidiaries (collectively referred to as the **"Group"**) are principally engaged in the design, manufacture and sale of cylinder blocks and cylinder heads.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (**"IFRSs"**), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (**"IASs"**) and Interpretations issued by the International Accounting Standards Board (the **"IASB"**) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the **"Listing Rules"**). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group.

The Company was incorporated on 2 May 2017. Prior to the incorporation of the Company, the principal business of the Group has been operated under a sole operating subsidiary of the Company, namely Hebei Ruifeng Cylinder Co., Ltd (**"Hebei Ruifeng"**). Pursuant to a group reorganisation to rationalise the corporate structure in preparation of the listing of the Company's share on the Stock Exchange which was completed on 2 August 2017 (the **"Reorganisation"**), the Company became the holding company of companies now comprising the Group. The Reorganisation only involved inserting the Company and other newly formed entities with no substantive operations as holding companies of Hebei Ruifeng and there was no change in the business and operation of Hebei Ruifeng. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition, with Hebei Ruifeng treated as the acquirer for accounting purposes. The consolidated financial statements for the years ended 31 December 2017 and 2016 have been prepared and presented as a continuation of the financial statements of Hebei Ruifeng with the assets and liabilities of Hebei Ruifeng recognised and measured at their historical carrying amounts prior to the Reorganisation.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2014–2016 cycle	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in the manufacture and sale of cylinder blocks and cylinder heads.

(b) Segment reporting

The Group manages its businesses by products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Cylinder blocks: this segment includes primarily the research, development, manufacture and sale of cylinder blocks.

- Cylinder heads: this segment includes primarily the research, development, manufacture and sale of cylinder heads.

- Ancillary cylinder block components: this segment includes primarily the manufacture and sale of ancillary cylinder block components used in cylinder blocks and cylinder heads not covered by the Group's warranty policies.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2017 and 2016. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	2017			
	Cylinder blocks	***Cylinder heads***	***Ancillary cylinder block components***	***Total***
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Revenue from external customers	**577,643**	**92,202**	**30,520**	**700,365**
Reportable segment gross profit	**170,214**	**41,330**	**5,856**	**217,400**

	2016			
	Cylinder blocks	*Cylinder heads*	*Ancillary cylinder block components*	*Total*
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	538,944	90,919	40,031	669,894
Reportable segment gross profit	140,855	40,189	12,057	193,101

(ii) Geographic information

The Group's revenue is substantially generated from the sale of cylinder blocks and cylinder heads to customers in the People's Republic of China (the **"PRC"**). The Group's operating assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

5. OTHER INCOME

	2017	2016
	RMB'000	RMB'000
Government grants (including amortisation of deferred income)	**7,508**	3,982
Interest income	**87**	573
Dividend income from unquoted equity investments	**380**	462
Net loss on disposal of property, plant and equipment	**(540)**	-
Others	**341**	39
	7,776	5,056

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2017	2016
	RMB'000	RMB'000
Interest on bank and other loans	**10,182**	11,569
Bank charges and others	**2,108**	1,495
	12,290	13,064

No borrowing costs have been capitalised for the year ended 31 December 2017 (2016: RMBNil)**.**

(b) Staff costs#

	2017	2016
	RMB'000	RMB'000
Salaries, wages and other benefits	**62,655**	61,766
Contributions to defined contribution retirement plan	**6,075**	5,904
	68,730	67,670

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in a defined contribution retirement benefit plan managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the defined salaries level in the PRC (other than Hong Kong), from the above mentioned retirement plan at their normal retirement age.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items

	2017 RMB'000	2016 RMB'000
Depreciation and amortisation #	**52,449**	47,564
Impairment losses on trade and bills receivables	**84**	600
Operating lease charges in respect of temporary warehouse	**133**	108
Provision for warranties	**3,099**	2,947
Auditors' remuneration		
– annual audit services	**2,000**	20
– services in connection with the initial listing of the Company's shares	**1,260**	600
Research and development costs	**22,028**	20,757
Cost of inventories#	**482,965**	476,793

Cost of inventories includes RMB93,945,000 (2016: RMB89,347,000) relating to staff costs, and depreciation and amortisation, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 RMB'000	2016 RMB'000
Current taxation - PRC Corporate Income Tax		
Provision for the year	**16,893**	16,474
Deferred taxation		
Origination and reversal of temporary differences	**(1,868)**	(1,233)
	15,025	15,241

(b) ***Reconciliation between tax expenses and accounting profits at applicable tax rates:***

	2017 **RMB'000**	2016 RMB'000
Profit before taxation	**109,823**	108,966
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	**27,485**	27,242
Tax effect of non-deductible expenses	**147**	425
Tax concessions (Note (iv))	**(12,672)**	(12,426)
Tax effect of unused tax losses not recognised	**65**	-
Actual tax expense	**15,025**	15,241

Notes:

(i) The Company and a subsidiary of the Group incorporated in the British Virgin Islands (the "BVI") are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(ii) A subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%). The subsidiary has no assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2017 (2016: RMBNil).

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2017 (2016: 25%).

(iv) One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for the years from 2015 to 2017. This subsidiary is in the process of applying for the same preferential tax rate for the calendar years 2018 to 2020. The directors of the Company consider this subsidiary has fulfilled the requirements as set out in the tax regulations, and are of the opinion that the related approval will be obtained in due course and this subsidiary will continue to enjoy the preferential tax rate. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by this subsidiary.

8. BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB94,798,000 (2016: RMB93,725,000) and the weighted average of 600,000,000 ordinary shares in issue during the year ended 31 December 2017 (2016: 600,000,000).

The weighted average number of ordinary shares is calculated as follows:

	2017	2016
Issuance of share upon incorporation	**1**	1
Issuance of shares in May 2017	**9,998**	9,998
Capitalisation issue on 5 January 2018	**599,990,001**	599,990,001
Weighted average number of shares in issue	**600,000,000**	600,000,000

The Company was incorporated on 2 May 2017, and issued and allotted 9,999 shares in May 2017. In order to present a meaningful earnings per share, the above 9,999 shares are regarded as if they have been in issue since 1 January 2016. The capitalisation issue took place on 5 January 2018 is deemed to be completed on 1 January 2016 and the weighted average number of shares in 2017 and 2016 have been adjusted accordingly.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2017 and 2016.

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**207,021**	149,258
Bills receivables	**69,412**	87,922
	276,433	237,180
Prepayments, deposits and other receivables:		
– Prepayments for purchase of inventories	**2,382**	1,951
– Deposits for production performance	**11,420**	10,150
– Prepayments in connection with the initial listing of the Company's shares	**6,550**	1,260
– Others	**875**	1,505
	297,660	252,046

All of the trade and other receivables are expected to be recovered or recognised as expense or in share premium within one year.

(a) Ageing analysis

The ageing analysis of trade and bills receivables, included in trade and other receivables, based on the invoice date and net of allowance for doubtful debts (if any), of the Group is as follows:

	2017	2016
	RMB'000	RMB'000
Less than 1 month	**168,716**	133,796
1 to 3 months	**77,474**	64,713
3 to 6 months	**28,468**	38,249
Over 6 months	**1,775**	422
	276,433	237,180

The Group's customers are mainly automobile and engine manufacturers in the PRC.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	2017	2016
	RMB'000	RMB'000
At 1 January	**-**	-
Impairment losses recognised	**(84)**	(600)
Uncollectible amounts written off	**84**	600
At 31 December	**-**	-

The individually impaired receivables related to customers that were in financial difficulties and management assessed that these receivables are irrecoverable.

(c) Trade and other receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**262,193**	230,801
Less than 1 month past due	**7,351**	2,077
1 to 3 months past due	**5,114**	3,244
3 to 6 months past due	**646**	837
Over 6 months past due	**1,129**	221
	276,433	237,180

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) At 31 December 2017, the carrying amounts of the Group's bills receivable that have been endorsed to the Group's suppliers to settle the Group's payables towards these suppliers but have not been derecognised in the consolidated financial statements were RMB38,817,000 (2016: RMB49,667,000).

10. TRADE AND OTHER PAYABLES

	2017 **RMB'000**	2016 RMB'000
Trade payables	**180,270**	148,494
Payables for construction of property, plant and equipment	**90,200**	92,440
Payables for staff related costs	**19,461**	19,186
Payables for other taxes	**13,060**	6,311
Payables for costs incurred in connection with the initial listing of the Company's shares	**13,708**	4,568
Dividends payables	**-**	1,015
Accrued expenses and other payables	**12,907**	8,638
	329,606	280,652

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The ageing analysis of trade payables, which are included in trade and other payables, based on the invoice date, is as follows:

	2017 **RMB'000**	2016 RMB'000
Less than 1 month	**98,173**	71,787
1 to 3 months	**59,237**	49,082
3 to 6 months	**19,918**	24,765
Over 6 months	**2,942**	2,860
	180,270	148,494

11. BANK AND OTHER LOANS

(a) The Group's short-term bank and other loans comprise:

	2017 **RMB'000**	2016 RMB'000
Short-term bank loans:		
– secured	**60,000**	90,833
Add: current portion of long-term bank and other loans (Note 11(b))	**52,000**	-
	112,000	90,833

(b) The Group's long-term bank and other loans comprise:

	2017 **RMB'000**	2016 RMB'000
Long-term bank loans:		
– secured	**18,000**	-
Loans from third parties:		
– unguaranteed and unsecured	**150,000**	110,000
	168,000	110,000
Less: current portion of long-term bank and other loans(Note 11(a))	**(52,000)**	-
	116,000	110,000

The long-term bank and other loans are repayable as follows:

	2017 RMB'000	2016 RMB'000
After 1 year but within 2 years	**116,000**	50,000
After 2 years but within 5 years	**-**	60,000
	116,000	110,000

(c) At 31 December 2017, the aggregate carrying amount of property, plant and equipment and lease prepayments pledged for the Group's short-term and long-term bank loans is RMB75,184,000 (2016: RMB129,769,000).

(d) Certain of the Group's bank loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2017 none of the covenants relating to financial ratios had been breached (2016: None).

12. CAPITAL, RESERVES AND DISTRIBUTIONS

Distributions/dividends

(i) Distributions payable to equity shareholders of the Company attributable to the previous financial year

	2017 RMB'000	2016 RMB'000
Distributions	**2,368**	1,462

On 6 January 2017 and 10 January 2016, Hebei Ruifeng declared dividends of RMB2,368,000 and RMB1,462,000, respectively, in respect of the years ended 31 December 2016 and 2015 to its then shareholders. These distributions were settled during the year ended 31 December 2017 and prior to the listing of the Company's shares on the Stock Exchange.

(ii) Dividends payable to equity shareholders of the Company attributable to the year

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The automobile industry in China has exhibited strong growth in recent years amid China's rapid economic growth, continuing urbanization and increasing levels of household consumption. According to the data published by China Association of Automobile Manufacturers, in 2017, the production volume of China's passenger and commercial vehicles increased by approximately 1.58% and approximately 13.81% to 24.8 million and 4.2 million respectively.

There has been a general increase in public awareness of air pollution issues in China and the Chinese government has also vigorously promoted energy-saving and emission reduction measures to ensure that air quality has improved. Effective 1 January 2017, all light petrol vehicles and heavy diesel vehicles used for public transportation, environmental sanitation and postal services nationwide are required to meet the China V standard (equivalent to the Euro V standard).

In December 2016, the Ministry of Environmental Protection released the implementation rules of the China VI emission standards. This standard applies to light-duty vehicles powered primarily by gasoline or diesel. The China VI standard will take effect on 1 July 2020. Unlike the previous emission standards adopted in China, which closely follow the European standards, the China VI standard combines best practices from both European and U.S. regulatory requirements in addition to creating its own.

The Board expect the future developmental trends of China's automobile engine spare part industry include the following:

Growing demand for aluminum alloy spare parts: Automobile and engine producers will demand lighter weight cylinder blocks in order to increase fuel efficiency (a 10% reduction in vehicle weight can result in an approximately 6%-8% improvement in fuel economy) and reduce emissions, which will result in aluminum alloy cylinder blocks becoming the mainstream cylinder blocks used for car engines. This trend has already begun in more developed markets. For example, the average amount of aluminum in the spare parts of an vehicle that weighs approximately 1.6 tons was approximately 100kg in 2011 (US:115kg; EU:105kg; Japan:92kg), and this amount grew to approximately 150kg in 2016 (US:160kg; EU:150kg; Japan:135kg). China has been quickly catching up with these developed markets at a fast pace in the past few years. The average amount of aluminum in the spare parts of the same type of vehicles in China increased from approximately 65kg per vehicle in 2011 to approximately 100kg per vehicle in 2016, representing a CAGR of approximately 9.0%. Frost & Sullivan expects a wider use of aluminum in the automobile-related industries and an increasing demand for aluminum alloy automobile engine spare parts in China in the future.

Development of new energy vehicles: In June 2012, the PRC State Council issued the "Notice on Issuing the Planning for the Development of the Energy-Saving and New Energy Automotive Industry (2012-2020)" (關於印發節能與新能源汽車產業發展規劃(2012–2020年)的通知) to leapfrog the current automotive technologies and support the development of the domestic energy-saving and new energy vehicle industry. The Board expect the automobile engine spare part manufacturers are also expected to put more resources into the research and development of spare parts used in new energy vehicles.

Outsourcing of engine spare part and component production: In recent years, there has been an increasing trend of automobile manufacturers in China seeking to outsource the manufacture (including casting and mechanical casting processes) of engine spare parts and components to specialized external producers. By outsourcing, vehicle manufacturers are able to focus more on product design and research and development of their core technologies.

BUSINESS REVIEW

The Group are 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. The Group work closely with the customers to provide a set of high-quality and customized products. The Group conduct manufacturing operations for the major products through a closely-integrated cycle.

The Group primarily manufacture cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufacture cylinder heads as well as certain other structural components of cylinder blocks, primarily including main bearing caps and flywheels. The following table sets forth the revenue and sales volume by segment and major product type for the year ended 31 December 2017 and 2016:

	For the year ended 31 December					
	2017			2016		
	Revenue	**As a percentage of total revenue**	**Sales volume**	Revenue	As a percentage of total revenue	Sales volume
	RMB'000	**%**	**units**	RMB'000	%	units
Cylinder blocks						
Cylinder blocks for passenger vehicles	**264,261**	**37.7**	**356,808**	231,981	34.6	289,678
Cylinder blocks for commercial vehicles	**257,736**	**36.8**	**219,026**	252,533	37.7	204,376
Cylinder blocks for industrial vehicles	**55,646**	**8.0**	**55,171**	54,430	8.2	53,939
Subtotal	**577,643**	**82.5**	**631,005**	538,944	80.5	547,993
Cylinder heads	**92,202**	**13.2**	**152,975**	90,919	13.5	158,768
Ancillary cylinder block components	**30,520**	**4.3**	**2,550,006**	40,031	6.0	4,552,967
Total	**700,365**	**100.0**		669,894	100.0	

Cylinder blocks for passenger vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0-1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. Revenue from sales of cylinder blocks for passenger vehicles increased from approximately 43.0% of our total revenue from cylinder block sales for the year ended 31 December 2016 to approximately 45.7% for the year ended 31 December 2017. Sales volume of cylinder blocks for passenger vehicles increased approximately 23.2% from approximately 290,000 units for the year ended 31 December 2016 to approximately 357,000 units for the year ended 31 December2017. The increase was mainly due to the increase in customer demand and the successful development of new customers and products by the Group.

Cylinder Blocks for Commercial Vehicles

The cylinder blocks for commercial vehicles are normally used in engines of 1.5 liters or above. The cylinder blocks for commercial vehicles are made from grey cast iron alloy. Revenue from sales of cylinder blocks for commercial vehicles decreased from approximately 46.9% of total revenue from sales of cylinder blocks for the year ended 31 December 2016 to approximately 44.6% for the year ended 31 December 2017. Sales volume of cylinder blocks for commercial vehicles increased approximately 7.2% from approximately 204,000 units for the year ended 31 December 2016 to approximately 219,000 units for the year ended 31 December2017. The increase was mainly due to the successful development of the two new products 493 N720 and VM2.5.

Cylinder Blocks for Industrial Vehicles

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. Revenue from sales of cylinder blocks for industrial vehicles decreased from approximately 10.1% of total revenue from sales of cylinder blocks for the year ended 31 December 2016 to approximately 9.6% for the year ended 31 December 2017. Sales volume of cylinder blocks for industrial vehicles increased approximately 2.3% from approximately 54,000 units for the year ended 31 December 2016 to approximately 55,000 units for the year ended 31 December 2017. The increase was mainly due to the consistent increase in the sales volume of the Yuchai series of four-cylinder cylinder block.

Cylinder Heads

The cylinder heads are primarily used in commercial vehicles and often sold together with cylinder blocks, to automobile manufacturers and engine manufacturers in China. Sales volume of cylinder heads decreased approximately 3.6% from approximately 159,000 units for the year ended 31 December 2016 to approximately 153,000 units for the year ended 31 December 2017.

Production Facilities

All of the production facilities of the Group are located in Hengshui City, Hebei Province, the PRC. As at 31 December 2017, the Group owned and operated a total of three precision casting lines and 20 mechanical processing lines (including 16 for cylinder blocks, 2 for cylinder heads and 2 for other ancillary cylinder block components). The following table sets forth the designed production capacity of our precision casting lines for rough cast cylinder blocks, mechanical processing lines for cylinder blocks and mechanical processing lines for cylinder heads during the year ended 31 December 2017 and 2016:

	For the year ended 31 December	
	2017	2016
	units	units
Rough cast cylinder block production	**666,190**	466,793
Cylinder block production	**1,011,637**	698,482
Cylinder heads production	**164,079**	164,716

During the year ended 31 December 2017, the Group invested approximately RMB134.3 million in capital expenditures. 7 new production lines were completed during this year, adding designed production capacity 430,000 units. For the year ending 31 December 2018, the Group planned to increase 3 production lines which are expected to be completed by the end of 2018. After the completion, the Group's designed production capacity will further increase by 160,000 units.

New products and Research and Development

During the year ended 31 December 2017, research and development department of the Group helped successfully develop and produce six new models of cylinder blocks and one new models of cylinder heads for the customers. The Group do not own the intellectual property rights of the cylinder block or cylinder head products which is developed for the customers. But for the self-developed production equipment and processes in relation to the manufacture of cylinder blocks and cylinder heads, as at 31 December 2017, the Group owned 12 patents in the PRC, including 11 utility model patents and one invention patent. For the year ended 31 December 2017, the Group invested in research and development amounting to RMB22.0 million (2016: RMB20.8 million) for product developments and improvement and enhance of production processes.

FINANCIAL REVIEW

Revenue

Revenue increased by 4.5% from RMB669.9 million for the year ended 31 December 2016 to RMB700.4 million for the year ended 31 December 2017. This increase was primarily attributable to an increase in revenue from sales of cylinder blocks and cylinder heads, partially offset by a decrease in revenue from sales of ancillary cylinder block components.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales increased by 7.2% from RMB538.9 million for the year ended 31 December 2016 to RMB577.6 million for the year ended 31 December 2017, primarily attributable to a substantial increase in sales volume from approximately 548,000 units for the year ended 31 December 2016 to approximately 631,000 units for the year ended 31 December 2017 driven by increased customer demand and launch of new products. With regard to product types, revenue from sales of cylinder blocks for passenger vehicles increased by 13.9% as compared with revenue from sales of cylinder blocks for commercial vehicles and industrial vehicles increased by 2.1% and 2.2%, respectively, for the year ended 31 December 2017. Demand on cylinder blocks for passenger vehicles is strong.

Sales of Cylinder Heads

Segment revenue from cylinder head sales slightly increased by 1.4% from RMB90.9 million for the year ended 31 December 2016 to RMB92.2 million for the year ended 31 December 2017. This increase was primarily due to increase in average selling price. The sales volume of cylinder heads decreased from approximately 159,000 units for the year ended 31 December 2016 to approximately 153,000 units in the year ended 31 December 2017, primarily related to decreased sales of our 493 series of cylinder heads, which was consistent with the decreased sales of the same series of cylinder blocks over the years.

Sales of Ancillary Cylinder Block Components

Segment revenue from sales of ancillary cylinder block components decreased by 23.8% from RMB40.0 million for the year ended 31 December 2016 to RMB30.5 million for the year ended 31 December 2017. This decrease was primarily attributable to a decrease in the sales volume of our main bearing cap products.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.6% from RMB193.1 million for the year ended 31 December 2016 to RMB217.4 million for the year ended 31 December 2017. This increase was primarily attributable to enhancement of the overall gross profit margin as well as an increase in gross profit from sales of cylinder blocks and cylinder heads. The gross profit margin increased from 28.8% for the year ended 31 December 2016 to 31.0% for the year ended 31 December 2017. This increase was primarily due to an increase in use of the rough cast products which are produced by the Group. The rough cast products produced by the Group used in production of cylinder blocks and cylinder heads represented 42.6% and 54.0%, respectively, of the total cylinder blocks and cylinder heads we produced for the year ended 31 December 2016 and 2017.

Other Income

Other income increased by 52.9% from RMB5.1 million for the year ended 31 December 2016 to RMB7.8 million for the year ended 31 December 2017. This increase was primarily due to an increase in government grants. During the year ended 31 December 2017, the Group received government subsidies of RMB17.4 million in relation to the expansion of the production facilities and purchase of new production equipment which are recorded as deferred income and amortised over the periods.

Selling Expenses

Selling expenses increased by 5.8% from RMB25.9 million for the year ended 31 December 2016 to RMB27.4 million for the year ended 31 December 2017. The increase was primarily due to (i) an increase in transportation expenses the Group incurred in relation to delivery of products to the customers due to increased sales, (ii) an increase in staff costs related to increased performance bonus of the sales and marketing personnel associated with our increased sales and (iii) an increase in business entertainment expenses the Group incurred in connection with an increasing number of new customers and conducting customer visits.

Administrative Expenses

Administrative expenses increased by 50.3% from RMB50.3 million for the year ended 31 December 2016 to RMB75.6 million for the year ended 31 December 2017, primarily due to (i) expenses the Group incurred in connection with the Listing, and (ii) increased performance bonuses of the management personnel associated with the increased sales and salary incremental. The Group incurred listing expenses of RMB18.2 million and RMB3.8 million for the year ended 31 December 2017 and 2016, respectively.

Finance Costs

Finance costs decreased by 6.1% from RMB13.1 million for the year ended 31 December 2016 to RMB12.3 million for the year ended 31 December 2017, primarily due to a decrease in effective interest rate.

Income Tax Expenses

Income tax expenses decreased by 1.3% from RMB15.2 million for the year ended 31 December 2016 to RMB15.0 million for the year ended 31 December 2017 primarily due to a decrease in taxable income as the one of the major operating subsidiary were granted a tax relief by the local tax authority in the form of an additional deduction of qualified research and development expenses from the taxable income. The effective tax rate remained stable at 14.0% and 13.6% for the year ended 31 December 2016 and 2017, respectively.

Profit for the Year

As a result of the foregoing, the profit for the year increased by 1.1% from RMB93.7 million for the year ended 31 December 2016 to RMB94.8 million for the year ended 31 December 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations primarily through cash generated from operating activities, net proceeds received from the global offering of the Company (**"Global Offering"**) completed in January 2018 and bank and other borrowings. As of 31 December 2017 and 2016, the Group had cash and cash equivalents of RMB5.7 million and RMB9.6 million, respectively.

The Group monitors the cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities, bank and other borrowings. Other than normal bank borrowings that the Group obtain from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

Trade and Bills Receivables

The trade and bills receivables increased by 16.5% from RMB237.2 million as at 31 December 2016 to RMB276.4 million as at 31 December 2017. The trade and bills receivables turnover days increased from 105 days as at 31 December 2016 to 134 days as at 31 December 2017. Such increase was a result of increase in number of new customers with longer credit terms.

Trade Payables

The trade payables increased by 21.4% from RMB148.5 million as at 31 December 2016 to RMB180.3 million as at 31 December 2017. The trade payables turnover days increased from 88 days as at 31 December 2016 to 124 days as at 31 December 2017. Such increase is a result of our efforts to manage our financial conditions during the year.

Bank and Other Loans

The bank and other loans increased from RMB200.8 million as at 31 December 2016 to RMB228.0 million as at 31 December 2017, primarily due to our increased capital needs for the expansion of our production facilities and purchase of new production equipment. As at 31 December 2017, bank and other loans in the amounts of RMB78.0 million (2016: RMB 90.8 million) were secured by buildings and land used rights pledged by the Group.

All bank and other loans as at 31 December 2017 and 2016 were denominated in Renminbi. As at 31 December 2017, the Group had unutilized banking facilities of RMB160.0 million.

Gearing Ratio

The gearing ratio as at December 2016 and 2017 were at 39.4% and 39.2%, which remained stable.

Gearing ratio equals total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing bank and other loans.

Capital Expenditure

As at 31 December 2017, the capital expenditures were RMB134.3 million (2016: RMB212.4 million). The capital expenditure incurred for the year ended 31 December 2017 primarily related to the implementation of our intelligent manufacturing systems, building of new production lines and purchase of additional equipment and machinery used for improvement of our existing production lines. During the year ended 31 December 2017, the Group increased 7 mechanical processing lines (including five for cylinder blocks, one for cylinder heads and one for other ancillary cylinder block components) with designed annual production capacities of 430,000 units.

Capital Commitments

As at 31 December 2017, the Group commitments in respect of property, plant and equipment and land use rights contracted for RMB9.7 million (2016:RMB48.0 million).

Contingent liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees (2016: Nil).

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect the fluctuation of RMB exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group. The Group currently has no hedging policy with respect to the foreign exchange risks, therefore, the Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2017.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2017, the Group had total of 869 employees (2016: 1,073 employees). For the year ended 31 December 2017, the Group incurred total staff costs of approximately RMB68.7 million(2016: RMB67.7 million), representing an increase of approximately 1.6% as compared with those in 2016, which remained stable as the Group increased automation in manufacturing instead of manpower.

The Group believes its success depends on our employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, the Group places a strong emphasis on training our employees. In addition, the Group offers a competitive remuneration package to retain elite employees, includes basic salary and performance-based monthly and annual bonuses, and reviews the package annually according to industry benchmark and financial results as well as the individual performance of employees. The Company has also adopted a share option scheme for the purpose of providing incentives or rewards to selected participants, including full-time employees of the Group, for their contribution to the Group.

USE OF PROCEEDS

On 5 January 2018, the shares of the Company were listed on the Main Board of the Stock Exchange, pursuant to which 200,000,000 shares were issued by the Company at the offering price of HK$1.68 per share, with net proceeds of approximately HK$290.2 million (equivalent to approximately RMB240.5 million), after deducting relevant listing expenses. As of the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the prospectus of the Company dated 19 December 2017.

FUTURE PROSPECTS

The Group aim to strengthen our market position in China's cylinder block and cylinder head markets and to increase our market share by pursuing the following strategies:

Continue to implement intelligent manufacturing to increase operational efficiency

To further optimize our production process and improve the operational efficiency, the Group plan to continue to implement the smart manufacturing process in the production. The Group are currently in the process of designing and developing the remaining intelligent manufacturing systems and connecting such systems with each other to create a fully integrated smart manufacturing process for our three existing automated processing lines. Going forward, we plan to continue to implement our smart manufacturing process by building two additional processing lines which we expect to commence production in 2019 for the manufacture of light-weight cylinder block and cylinder head products.

Continue to increase our production capacity

The Board believe that China's cylinder block market has experienced steady growth over the past few years and is expected to continue to grow at a fast pace in the future. During the year ended 31 December 2017, the Group have expanded the production capacity in response to such increased market demand for the products. To meet the diverse needs and requirements of different customers, the Group are required to make capital expenditures from time to time on purchases of machinery and equipment to adjust our existing production lines or establishment of new production lines to increase production capacity for new contracts the Group secure with customers.

Produce aluminum alloy cylinder blocks and cylinder heads

The Board expect that, with the increasing demand for lighter-weight spare parts for engines which produce lower emissions and yield higher fuel economy, aluminum alloy cylinder blocks and cylinder heads are expected to become mainstream spare parts for engines. The Group will increase our investment in machinery and equipment used in the precision casting lines for aluminum alloy rough cast products in order to manufacture aluminum alloy rough cast cylinder blocks and cylinder heads ourselves. One of the actions is to establish a Sino-foreign joint venture with a Japanese partner.

Pursue strategic alliance with a Swiss technology provider of surface solutions

The Group plan to enter into a strategic partnership with a Swiss-based market leader focused on providing surface solutions to introduce thermal spray coating equipment and technologies in the production of cylinder blocks. Thermal spraying is an industrial coating process considered to be a cost-effective method for enhancing surface properties of automobile engines and spare parts, thereby effectively reducing fuel consumption and vehicle emissions. The Board expect the thermal spray technology is currently applied by a limited number of global automobile manufacturers, such as BMW, Volkswagen and Nissan, and enables such automakers to enjoy better profit margins due to the enhanced performance of engines.

Further enhance our product design and research and development capabilities

The Group believe it is essential for us to continue to strengthen our product design and research and development capabilities in order to further increase the market share in China and to expand our operations to include higher-end products, in particular those used in engines for clean energy vehicles. The Group will focus our research and development efforts on developing high quality products and improving our technologies, including expanding our in-house research and development team as well as strengthening collaboration with universities and research institutions.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, there are no major subsequent events to 31 December 2017 which would materially affect the Group's operating and financial performance as of the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Listing Date and up to the date of this announcement, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintain high standards of corporate governance and protect the interests of its Shareholders in an open manner.

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the **"Code Provisions"**) of the Corporate Governance Code (**"CG Code"**) set out in Appendix 14 to the Listing Rules. Throughout the period since the Listing Date to the date of this announcement, the Company has fully complied with the Code Provisions, except for the following deviations.

Pursuant to code provision A.2.1 of the CG code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, Mr. Meng Lianzhou currently performs the roles of chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Save as disclosed above, the Company strictly complied with the CG Code. The Directors will review our corporate governance policies and compliance with the CG Code each financial year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (**"Model Code"**) as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the period from the Listing Date to the date of this announcement.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

The Board considered that the Company intends to declare dividends starting from the year ending 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on 1 June 2018 (**"AGM"**), the register of members of the Company will be closed from 29 May 2018 to 1 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 28 May 2018, being the business day before the first day of closure of the register of members.

AUDITORS

KPMG was appointed as the auditor for the financial statements of the Group prepared in accordance with the IFRSs for the year ended 31 December 2017. The figures in respect of the Group's financial statements set out in this announcement are consistent with those in the financial statements which have been audited by KPMG. The Company has retained the services of KPMG since the Listing Date. A meeting of the Board to consider the appointment of the Company's auditor for 2018 will be held separately.

ANNUAL GENERAL MEETING

The AGM will be held on 1 June 2018. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

AUDIT COMMITTEE

The audit committee of the Company had reviewed together with the management and external auditor of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the annual results of the Group for the year ended 31 December 2017.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2017 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hbsgt.com and the annual report for the year ended 31 December 2017 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the aforesaid websites of the Stock Exchange and the Company in due course.

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

Beijing, the PRC, 16 March 2018

As of 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.