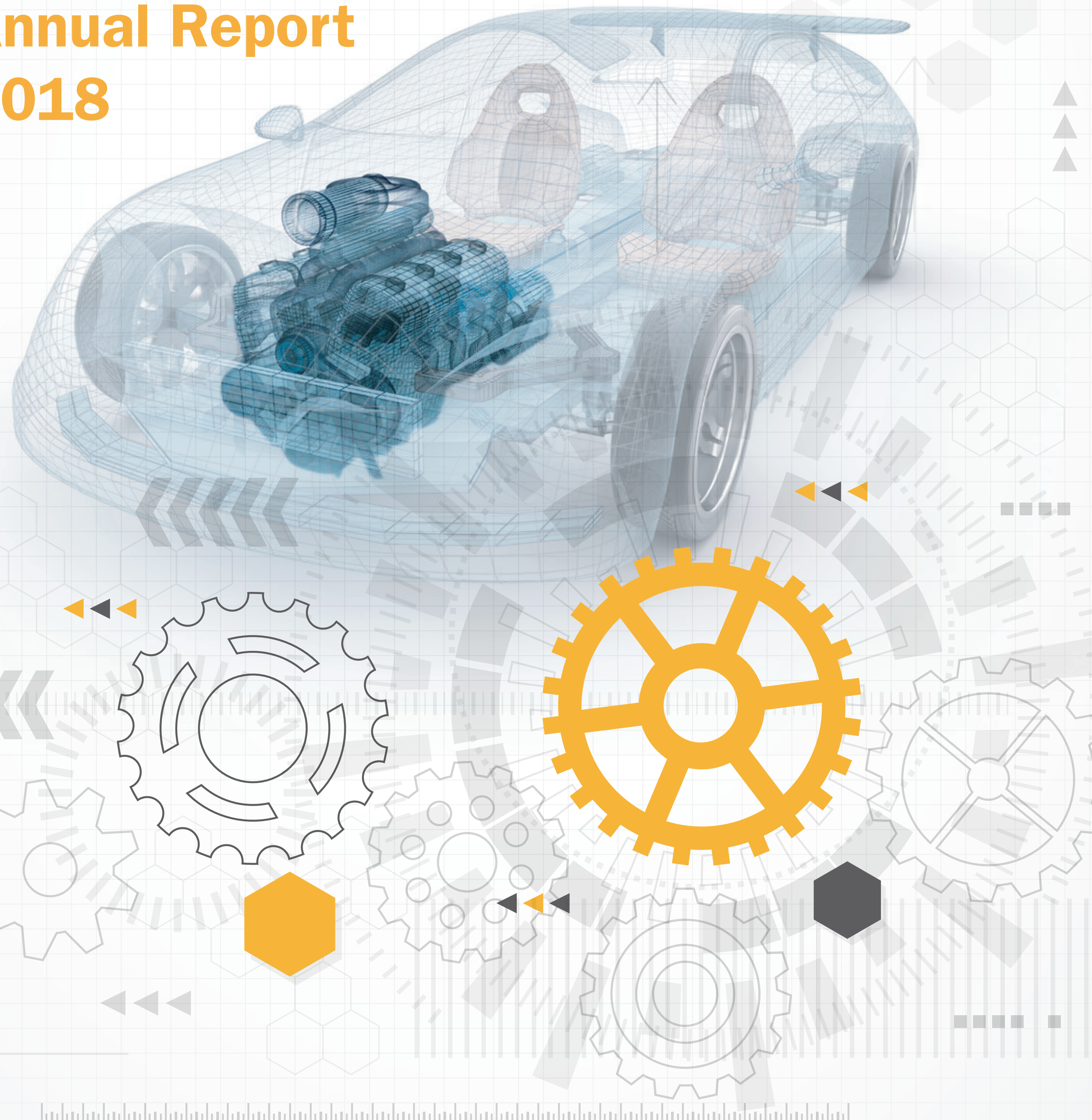
Ruifeng Power Group Company Limited
瑞豐動力集團有限公司

(Incorporated in Cayman Islands with limited liability)
Stock code : 2025

Annual Report 2018



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Corporate Information

DIRECTORS

Executive Directors

Mr. Meng Lianzhou
(Chairman and Chief Executive Officer)
Mr. Liu Zhanwen
Mr. Zhang Yuexuan
Mr. Liu Enwang

Independent Non-Executive Directors

Mr. Wei Anli
Mr. Ren Keqiang
Mr. Yu Chun Kau

AUDIT COMMITTEE

Mr. Yu Chun Kau *(Chairman)*
Mr. Wei Anli
Mr. Ren Keqiang

NOMINATION COMMITTEE

Mr. Wei Anli *(Chairman)*
Mr. Meng Lianzhou
Mr. Yu Chun Kau

REMUNERATION COMMITTEE

Mr. Ren Keqiang *(Chairman)*
Mr. Meng Lianzhou
Mr. Yu Chun Kau

COMPANY SECRETARY

Mr. Wong Ka Wai

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)
Mr. Meng Lianzhou
Mr. Wong Ka Wai

LEGAL ADVISOR

As to Hong Kong Law:
Chiu & Partners
40/F, Jardine House,
1 Connaught Place
Central
Hong Kong

AUDITOR

KPMG

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

China Construction Bank Shenzhou Branch
Industrial and Commercial Bank of China
Shenzhou Branch

REGISTERED OFFICE

Cricket Square,
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN PRC

Middle of East Taishan Road
Shenzhou
Hebei Province
PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 619A, 6/F, Block B
New Mandarin Plaza
14 Science Museum Road
Tsim Sha Tsui
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

2025

WEBSITE

www.hbsgt.com

Company Overview

Ruifeng Power Group Company Limited (the "Company" and, together with its subsidiaries, the "Group") is a specialized manufacturer of cylinder blocks, a major structure in automobile engines, based in Shenzhou, Hebei, the PRC.

Production of cylinder blocks in China has historically been split between internal production by manufacturers of automobiles and automobile engines and external outsourcing to specialized producers of automobile engine spare parts. The large-scale of our operations and significant production capacity allow us to secure the use of our products by some of the leading automobile manufacturers in China such as Jiangling Motors, Beiqi Foton Motor, Jiangxi Isuzu, JAC Motors and Great Wall Motors. During the year ended 31 December 2018, we owned and operated a total of three precision casting lines and 14 mechanical processing lines (including 10 for cylinder blocks, 2 for cylinder heads and 2 for other ancillary cylinder block components.

THE MAIN PRODUCTS ARE:

Cylinder Block – A main structure of the automobile engine in which combustion of fuel takes place. It provides space for the required number of cylinders along with the associated surrounding structures, including coolant passages, intake and exhaust passages and crankcases. As a central component of an automobile engine, defect acceptance levels for cylinder blocks need to be very low as it directly affects the engine performance, life and other important indicators.

Cylinder Head – A major component of the engine which sits on top of the cylinder block and provides space for passages that feed air and fuel into a cylinder and allow the exhaust to escape. A cylinder head has to withstand high pressure and high temperatures while retaining its shape and form to seal the cylinder block via the head gasket.

Ancillary Cylinder Block Components – including main bearing cap and flywheel. Main bearing caps are used in piston engines to secure the crankshaft against the cylinder block. Our main bearing caps help prevent the forces created by the piston and transmitted to the crankshaft by forcing the crank to convert the reciprocating movement into rotation. A flywheel is designed to keep the crankshaft in the cylinder block turning smoothly during the periods when no power is being applied. Our flywheels are easy to install and highly resistant to rust and corrosion.

We believe that our following competitive strengths can bring our customers the most economical and reliable products:

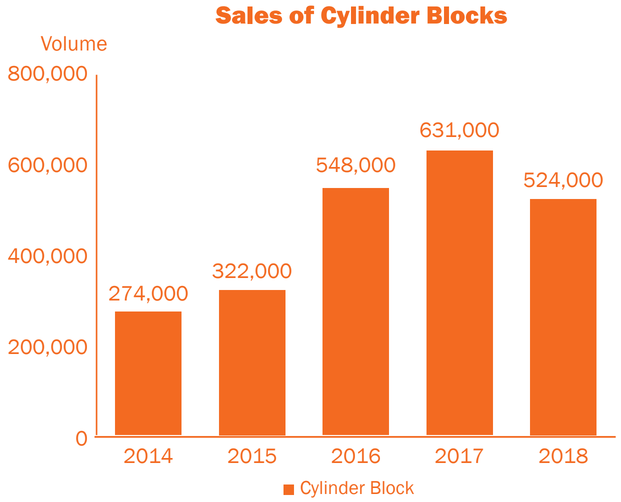
– The specialized manufacturer of cylinder blocks and an established producer of cylinder heads in China

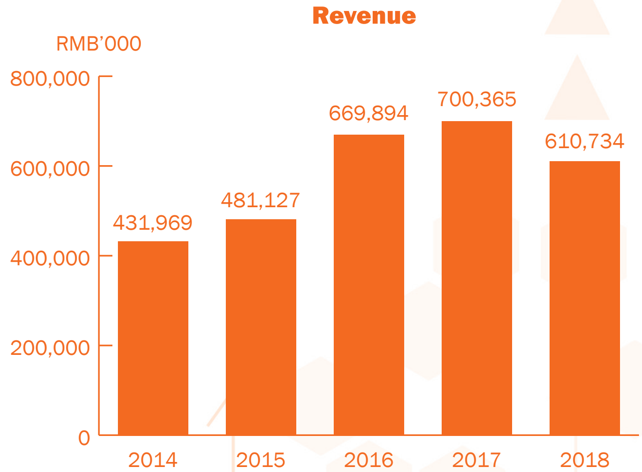
– A high level of flexibility in production facilities and process to meet the specific needs of different customers

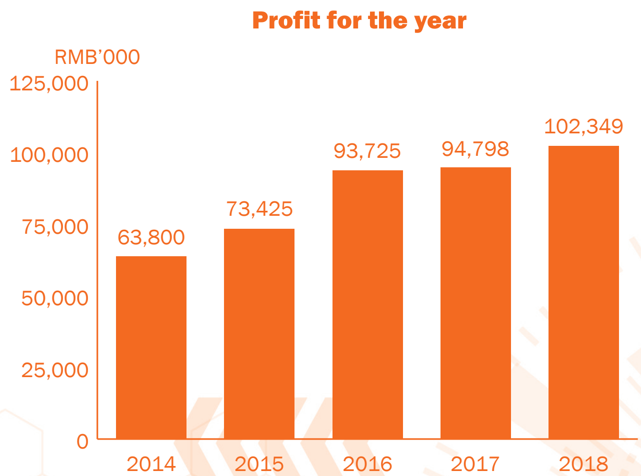
– Continuous optimization and innovation of production process and technologies

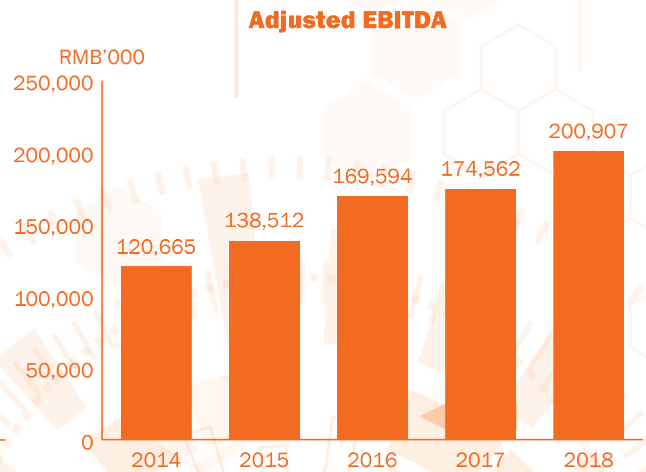
– Strong design and research and development capabilities

Year ended 31 December	2018	2017	2016	2015	2014
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue (RMB'000)	**610,734**	700,365	669,894	481,127	431,969
Gross profit (RMB'000)	**190,051**	217,400	193,101	159,581	139,520
Gross profit margin	**31.1%**	31.0%	28.8%	33.2%	32.3%
Profit for the year (RMB'000)	**102,349**	94,798	93,725	73,425	63,800
Net profit margin	**16.8%**	13.5%	14.0%	15.3%	14.8%
Basic and diluted earnings per share (RMB)	**0.13**	0.16	0.16	–	–









Financial Summary

As at 31 December	2018	2017	2016	2015	2014
Major Items of Consolidated Statement of Financial Position					
Non-current assets (RMB'000)	**770,444**	749,506	670,730	505,399	430,704
Current assets (RMB'000)	**637,939**	459,685	377,772	280,489	245,405
Current liabilities (RMB'000)	**438,612**	446,698	376,253	323,572	284,150
Net current assets/(liabilities) (RMB'000)	**199,327**	12,987	1,519	(43,083)	(38,745)
Non-current liabilities (RMB'000)	**63,607**	180,786	162,973	45,303	48,371
Net assets (RMB'000)	**906,164**	581,707	509,276	417,013	343,588
Gearing ratio (Note 2)	**23.1%**	39.2%	39.4%	37.2%	42.0%

Notes

(1) The results and summary of assets and liabilities for the years ended 31 December 2014, 2015 and 2016 which were extracted from the prospectus of the Company dated 19 December 2017 (the "Prospectus").

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

Chairman's Statement

Dear Shareholders,

On behalf of the board ("Board") of directors ("Directors") of Ruifeng Power Group Company Limited (the "Company" or "Ruifeng Power"), I am going to present to the shareholders the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the twelve months ended 31 December 2018 ("2018" or the "Year"). During the Year, the Group continued to proactively collaborate with various major automobile manufacturers on the development of more products, to improve its production lines and to enhance its own overall competitiveness on an ongoing basis.

2018 presented both opportunities and challenges for the Company. On the one hand, the Company successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 January 2018. The Company's first move in the capital market was a great booster for its plans over the next five years. The proceeds amounting to HK$336.0 million raised in the open market provided the Company with more abundant funds for carrying out development, so as to improve its existing production lines and to look for potential acquisition or cooperation opportunities to enable it to grow in a more diverse way.

Although the Company, as a newcomer to the capital market, was hit by the volatility in the stock market in the first year of listing, we continued to improve our own overall competitiveness and strived for more returns for our shareholders. To reward our shareholders for their support and trust, the Company declared a dividend of HK$6.85 cents per share in the 2018 interim results.

On the other hand, in 2018, China's automobile market, where we have a presence, was extremely challenging as the further growth of the automobile market was hit by a number of negative factors such as pre-expenditure due to the adjustment of the preferential tax policy for automobile purchases, tightened environmental control initiatives, early implementation of the China VI (Phase a) emission standards for lightweight vehicles and Sino-US trade conflicts, resulting in the first negative growth in the automobile market in 2018 since 1990.

To counter these challenges in the market, the Group enhanced its strength as a top priority to cope with shifting events by sticking to a fundamental principle so as not to be afraid of any challenges. During the Year, the Group stepped up financial commitment to lightweight products as well as flexible and intelligent production lines to enhance market competitiveness and cut production costs. In terms of lightweight products, we were constantly in contact and collaboration with our customers to keep track of the latest market moves and customer needs. During the Year, we developed 12 products in cooperation with automobile manufacturers, which were expected to commence production by 2020. In terms of flexible and intelligent production lines, the Group's existing 4 production lines were transformed into flexible production lines through the research and development by our own technical teams. These flexible production lines will make the Group's production more flexible to cope with the ever-changing market demand by making production adjustments more swiftly, thus laying a good foundation for reducing capital expenditure in the future.

Chairman's Statement

Although China's automobile market was extremely challenging in 2018, it remains to be the world's most competitive and the fastest-growing market as it is maturing gradually. Driven by new energy and intelligent technologies, the automobile industry is undergoing unprecedented changes as well. According to the report published by China Association of Automobile Manufacturers, new energy vehicles in China's automobile market in 2019 is expected to grow by 33%. The Group will continue to explore more cooperation opportunities with existing customers and other business partners, including that the Group will actively identify potential merger and acquisition opportunities, strengthen the development of new products with customers, assess the possibility of establishing joint ventures with other partners, and gradually develop support measures for new energy vehicles, thereby expanding its product mix and strengthening its core competitiveness by grabbing the market opportunities.

Finally, on behalf of the Board, I would like to sincerely show our appreciation to all the staff for their outstanding contributions to the development of the Group. We would also like to thank the shareholders, our customers and partners for their great support. The Group will continue its efforts to achieve its annual business objectives for 2019 and maximize benefits and returns for shareholders and other stakeholders.

Meng Lianzhou
Chairman

Shenzhou, the PRC
22 March 2019

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Meng Lianzhou (孟連周), aged 58, is the executive Director, chief executive officer and chairman of the Group who is responsible for the overall strategic development and business development of the Group. Mr. Meng was appointed as a Director on 2 May 2017 and re-designated as an executive Director on 10 August 2017. Mr. Meng is also a director of Hebei Ruifeng Cylinder Block Company Limited* (河北瑞豐動力缸體有限公司) ("Hebei Ruifeng"), an indirect wholly-owned subsidiary of the Company. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Meng is one of the founders of the Group and one of the controlling shareholders of the Company (the "Controlling Shareholders"). Mr. Meng graduated from Hebei Radio and TV University (河北廣播電視大學) with a certificate in corporate management in July 1988. Mr. Meng joined Hebei Cylinder Block Factory* (河北省內燃機缸體廠) ("Hebei Cylinder Block Factory") in March 1995 as a tooling workshop operator and had held various positions including power workshop director and the director of the finance division. He was promoted to be the plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002 and our chairman since October 2003. Mr. Meng was named a "Model Worker in Hebei Province" (河北省職工勞動模範) by Hebei Municipal Government and Hebei Federation of Trade Unions of Shenzhou City (河北省人民政府、河北省總工會) in 2009. Furthermore, Mr. Meng has also held offices as the vice president of the Union of Returned Overseas Chinese in Hengshui City* (衡水市歸國華僑聯合會) since 2012 and the vice president of the Industry and Commerce Union in Hengshui City* (衡水市工商業聯合會) since 2016. Mr. Meng is a director of Dragon Rise Ventures Limited ("Dragon Rise"), one of the Controlling Shareholders. Mr. Meng's interest in the shares of the Company ("Shares") and its associated corporations as at 31 December 2018 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

Mr. Liu Zhanwen (劉占穩), aged 66, is the executive Director who is responsible for the overall business operation of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Liu is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a sales department officer until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Liu has been a director of the Group since June 2002 and had held various positions including assistant of general manager, deputy general manager and sales manager in the Group. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2018 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

Biographical Details of Directors and Senior Management

Mr. Zhang Yuexuan (張躍選), aged 70, is the executive Director who is responsible for the overall product research and development of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Zhang is also a director of Hebei Ruifeng. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Zhang is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a processing line director and was later promoted to be the vice plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Zhang has been a director of the Group since June 2002. From October 2003 until the dissolution of Hebei Ruifeng Internal Combustion Engine Cylinder Block Company Limited* (河北瑞豐內燃機缸體有限公司) ("Hebei Ruifeng Engine") in December 2009, he had held various positions in Hebei Ruifeng Engine including vice chairman, deputy general manager and general manager. He was the deputy general manager of Hebei Ruifeng from March 2016 to February 2017. Since February 2017, he has been the executive general manager of Hebei Ruifeng, mainly responsible for the product research and development. Mr. Zhang is a director of Dragon Rise. Mr. Zhang's interest in the shares of the Company and its associated corporations as at 31 December 2018 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures"

Mr. Liu Enwang (劉恩旺), aged 57, is the executive Director who is responsible for the overall financial management of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He is one of the founders of the Group and one of our Controlling Shareholders. Mr. Liu graduated from School of Agriculture and Mechanization, Hengshui* (衡水地區農業機械化學校) (currently known as Hengshui Industrial School* (衡水工業學校)) with a major in machinery maintenance in May 1981. Mr. Liu joined Hebei Cylinder Block Factory in March 1995 as an accountant and was later promoted to be the deputy section manager in July 1995 and the section manager in May 1997, until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002. He had been the financial director of Hebei Ruifeng Engine from October 2003 to July 2007. Since August 2007, he has been the financial director and deputy general manager of Hebei Ruifeng, mainly responsible for financial management. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2018 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wei Anli (魏安力), aged 66, is our independent non-executive Director. Mr. Wei was appointed as an independent non-executive Director on 11 December 2017. Mr. Wei graduated from Jilin University of Technology (吉林工業大學) (currently known as Jilin University) with a certificate in automotive engineering (internal combustion engine) in March 1980. From January 1980 to June 1982, Mr. Wei was the technician in the Standards Department of the Technology Bureau, Ministry of Agriculture and Machinery* (農機部科技局標準處). From July 1982 to September 1986, he was employed as the assistant engineer in the quality technology department of Agriculture and Machinery Administration, Ministry of Machinery* (機械部農機總局質量工藝處). From October 1986 to October 1988, he was the engineer in the technology department of the Agricultural Equipment Division, Machinery Committee* (機械委農業裝備司科技處). Mr. Wei was the engineer from November 1988 to December 1990 in the technology department, Engineering and Agricultural Machinery Division, Ministry of Machinery and Electronics* (機械電子部工程農機司科技處). He was the engineer and deputy director from December 1990 to May 1992 in the internal combustion engine department of the Engineering and Agricultural Machinery Division, Ministry of Machinery* (機械部工程農機司內燃機處). From May 1990 to October 1997, Mr. Wei had held various positions including engineer, deputy director, director, senior engineer in the Office of Internal Combustion Engine Industry Planning, the State Council* (國務院內燃機大行業規劃辦公室). From August 1997 until present, Mr. Wei has been working in China Internal Combustion Engine Industry Association* (中國內燃機工業協會) and has held various positions including chairman consultant, secretary-general and deputy secretary-general. He has been the duty secretary-general since July 2008 and is mainly responsible for the research on industry-related matters including industry structure, internal combustion engine products development and industry- related policies and regulations. Mr. Wei is currently an independent director of Tianrun Crankshaft Co., Ltd. (天潤曲軸股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 002283), Shandong Binzhou Bohai Piston Co., Ltd. (山東濱州渤海活塞股份有限公司) (listed on the Shanghai Stock Exchange: stock code: 600960) and Henan Province Xixia Automobile Water Pump Co., Ltd. (河南省西峽汽車水泵股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 002536). Mr. Wei also served as an independent director of Kangyue Technology Co., Ltd. (康躍科技股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 300391) from August 2010 to August 2016 and Zhejiang Dehong Automotive Electronic & Electrical Co., Ltd. (浙江德宏汽車電子電器股份有限公司) (listed on the Shanghai Stock Exchange: stock code: 603701) from December 2010 to December 2016.

Mr. Ren Keqiang (任克強), aged 45, is our independent non-executive Director. He was appointed as an independent non-executive Director on 11 December 2017. Mr. Ren graduated from High School of Longkou Mining Bureau, Longkou City, Yantai City, Shandong Province* (山東省煙台市龍口市龍口礦務局高中) (currently known as Longkou School, Longkou City* (龍口市龍礦學校)) in July 1992. He has over 13 years of experience in the investment and management field. From October 1995 to November 2014, Mr. Ren held various positions at Langfang Huari Furniture Co., Ltd.* (廊坊華日家具股份有限公司), a company principally engaged in the sale and manufacturing of furniture in the PRC: he was the purchasing officer and deputy manager of the purchasing department from October 1995 to June 1997; the officer manger from July 1997 to October 2003; the investment manager from October 2003 to December 2011; and the general manager of office furniture division and the assistant of the chairman from January 2012 to November 2014. From January 2015 until present, Mr. Ren is the managing director of Shenzhen Ren Intelligent Investment Co., Ltd* (深圳仁智慧投資有限公司), a company principally engaged in equity investment and secondary stock market investment, and is mainly responsible for investment, assets management and mergers.

Mr. Yu Chun Kau (余振球), aged 46, is our independent non-executive Director. Mr. Yu was appointed as an independent non-executive Director on 11 December 2017. Mr. Yu has over 20 years of experience in finance and management. Mr. Yu graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in May 1994. He obtained a master's degree in corporate governance from The Open University of Hong Kong in June 2005. Mr. Yu is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators respectively and is registered as a Certified Public Accountant (Practising) with Hong Kong Institute of Certified Public Accountants. Mr. Yu is also a senior international finance manager of International Financial Management Association. From August 1994 to July 2002, Mr. Yu was employed as the audit manager of KPMG. From July 2002 to November 2003, Mr. Yu was the Financial controller of First Dragoncom Agro-Strategy Holdings Ltd. (listed on the Main Board of the Stock Exchange: stock code: 875) (currently known as China Finance Investment Holdings Limited). From December 2003 to June 2006, Mr. Yu was the Assistant director of Kerry Beverages Limited. From June 2006 to February 2008, Mr. Yu was the Chief financial officer of Brigantine Group. From February 2008 to June 2010, Mr. Yu was the Executive director, chief financial officer and company secretary of China Risun Coal Chemicals Group Limited (listed on the Main Board of the Stock Exchange: stock code: 1907) (currently known as China Risun Group Limited). From June 2010 to December 2012, Mr. Yu was the Executive director, chief financial officer and company secretary of Sitoy Group Holdings Limited (listed on the Main Board of the Stock Exchange: stock code: 1023). From September 2013 to December 2016, Mr. Yu was the Vice president, chief financial officer and company secretary of Cosmo Lady (China) Holdings Company Limited (listed on the Main Board of the Stock Exchange: stock code: 2298).

SENIOR MANAGEMENT

Mr. Wei Xilai (位喜來), aged 34, is the secretary to chairman who is responsible for the overall administration work of the Group. Mr. Wei joined the Group as an office clerk in 6 September 2006 and was promoted to be the secretary to chairman in February 2012. Mr. Wei graduated from Central Radio and Television University* (中央廣播電視大學) (currently known as The Open University of China* (國家開放大學)) with a diploma in Chinese linguistics and literatures in July 2011.

Mr. Xie Fei (謝飛), aged 44, is the executive deputy general manager who is responsible for the overall management of business operations of the Group. Mr. Xie graduated from Shenxian No. 2 Senior Vocational and Technical Secondary School* (深縣第二高級職業技術中學) in May 1994. Mr. Xie joined Hebei Cylinder Block Factory in March 1995 as a tooling workshop worker until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. He joined the Group in October 2003 as a workshop supervisor. Mr. Xie was the production officer of Hebei Ruifeng Engine from May 2006 to July 2006, the vice plant manager of Hebei Ruifeng Engine from July 2006 to August 2007, the deputy minister of production of Hebei Ruifeng Engine from August 2007 to December 2009, the deputy minister of production of Hebei Ruifeng from December 2009 to May 2011, the production minister of Hebei Ruifeng from May 2011 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the executive deputy general manager of the Group.

Biographical Details of Directors and Senior Management

Mr. Wen Qingwei (文清威), aged 47, is the deputy general manager who is responsible for the overall product development and quality control of the Group. Mr. Wen graduated from Hengshui Vocational and Technical College of Hebei Province* (河北省衡水勞動技工學院) (currently known as Hengshui Senior Technical School of Hebei Province* (河北省衡水高級技工學校)) with a technician diploma in July 1992. Mr. Wen joined Hebei Cylinder Block Factory as a tooling workshop worker in July 1995 and was later promoted to be the trainee deputy technology manager in September 2001, until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. Mr. Wen joined the Group in October 2003 as a trainee deputy technology manager. He was the quality control manager of Hebei Ruifeng Engine from August 2005 to December 2009, the quality control manager of Hebei Ruifeng from December 2009 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the deputy general manager of the Group.

Mr. Wong Ka Wai (王加威), aged 39, is the chief financial officer and company secretary of the Group. He was appointed as our chief financial officer and company secretary in 1 May 2017. He is responsible for overseeing the Group's financial and banking management and company secretarial work. Mr. Wong graduated from the City University of Hong Kong with a bachelor of business administration in accountancy in November 2001 and is currently a member of the Association of Chartered Certified Accountants. Mr. Wong has also obtained a bachelor of laws from the University of London in August 2007.Prior to joining the Group, Mr. Wong has over 10 years of experience in the tax and accounting field. From September 2001 to May 2004 and from April 2005 to July 2006, Mr. Wong was employed as the tax consultant of KPMG. From July 2006 to January 2008, Mr. Wong was the senior accountant in the tax department of Ernest & Young and was subsequently transferred to the tax department of the Shanghai office as manager until May 2010. From November 2010 to September 2011, he was the manager of BASF East Asia Regional Headquarters Limited, a chemical company principally engaged in chemicals, glues, and electronic chemicals. From November 2011 to December 2012, Mr. Wong was employed as a manager of the individual tax business unit in PricewaterhouseCoopers. From January 2013 to March 2017, Mr. Wong was a chairman of Jai Dam Distribution (Hong Kong) Co. Ltd, a company principally engaged in distributorship of a European fashion and jewellery brand, and was responsible for business development and management of a French jewellery brand in China region. From February 2017 to June 2017, Mr. Wong was an independent non-executive director of Green International Holdings Limited (listed on the Main Board of the Stock Exchange: stock code: 2700). Mr. Wong is an independent non-executive director of Jujiang Construction Group Co., Ltd. (listed on the Main Board of the Stock Exchange: stock code: 1459) since August 2015.

COMPANY SECRETARY

The company secretary is Mr. Wong Ka Wai. He is employed by us on a full-time basis. Please refer to his biographical details in the sub-section headed "Senior Management" above.

Management Discussion and Analysis

INDUSTRY OVERVIEW

Looking back in 2018, China recorded an annual GDP growth rate of 6.6%. China's economic growth began to decelerate due to increased volume, while the sales trend of the automobile market was also consistent with the slowdown of 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 China Association of Automobile Manufacturers' statistics, approximately 27.8 million and approximately 28.1 million of vehicles were produced and sold respectively in China in 2018, a decrease of approximately 4.2% and approximately 2.8% year-on-year respectively. Out of vehicles, a total of approximately 10.0 million China's branded passenger vehicles were sold, a decrease of approximately 8.0% year-over-year, accounting for approximately 42.1% of the total passenger vehicle sales. Market share decreased by approximately 1.8% over the same period of the previous year partly because of the impact of the total phasing out of the preferential tax policy for automobile purchases and partly because of various factors such as the decline in macroeconomic growth rate and the impact of the trade war on consumer confidence. In terms of new energy vehicles, approximately 1.27 million and 1.26 million of new energy vehicles were produced and sold in 2018 respectively, an increase of 59.9% and 61.7% respectively over the same period of the previous year.

China's automobile industry has entered a stage of high quality development from a stage of rapid growth. Competition in the industry is anticipated to become intense, and companies must excel other competitors with high quality. Moreover, the details of "Measures for the Parallel Administration of Credit Points for Average Fuel Consumption and New Energy Vehicles of Passenger Vehicle Enterprises" (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法), published by the Ministry of Industry and Information Technology of the PRC, officially came into force on 1 April 2018. Under the pressure of the duo credit-point policy, mainstream automobile companies are accelerating the launch of new energy vehicles. Moreover, China VI (Phase a), a transitional phase of the China VI Emission Standard, will come into force in July 2019, which means gasoline and diesel vehicles will be subject to new restrictions. As a result of this, cylinder block products are going to be transformed and upgraded in the future, with new products replacing existing products in order to meet the environmental and light weighting requirements for automobiles, resulting in rapid growth in the cylinder block industry. In addition, the Ministry of Finance of the PRC officially announced that since 1 July 2018, the import tariffs on finished vehicles and spare parts have ushered in major adjustments. The finished vehicle tax rate reduced from 25% to 15%, and the auto spare parts tax rate also reduced to 6%. These adjustments will bring new challenges and opportunities for Chinese car companies and auto spare parts manufacturers.

During the year ended 31 December 2018, despite the continuous introduction of new policies in the automobile market and the challenges of electric vehicles for traditional vehicles, the Group still adheres to customer-oriented and technology-oriented strategies, continuously improving its comprehensive competitiveness and providing high-quality services for traditional car companies. At the same time, the Group is gradually developing support measures for new energy vehicles while accurately grasping market trends, and improving production efficiency through internal technological transformation.

BUSINESS REVIEW

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

The Group primarily manufactures cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufactures 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 2018 and 2017:

	For the year ended 31 December					
	2018			2017		
	Revenue RMB'000	As a percentage of total revenue %	Sales volume units	Revenue RMB'000	As a percentage of total revenue %	Sales volume units
Cylinder blocks						
Cylinder blocks for passenger vehicles	155,438	25.5	217,023	264,261	37.7	356,808
Cylinder blocks for commercial vehicles	285,238	46.7	249,725	257,736	36.8	219,026
Cylinder blocks for industrial vehicles	61,178	10.0	56,805	55,646	8.0	55,171
Subtotal	501,854	82.2	523,553	577,643	82.5	631,005
Cylinder heads	73,745	12.1	127,095	92,202	13.2	152,975
Ancillary cylinder block components	35,135	5.7	2,794,656	30,520	4.3	2,550,006
Total	610,734	100.0		700,365	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 decreased from approximately 37.7% of our total revenue from cylinder block sales for the year ended 31 December 2017 to approximately 25.5% for the year ended 31 December 2018. Sales volume of cylinder blocks for passenger vehicles decreased approximately 39.2% from approximately 357,000 units for the year ended 31 December 2017 to approximately 217,000 units for the year ended 31 December 2018. The decrease was mainly due to decrease in demands from our customers which used its production capacity to produce the products instead of outsourcing purchase and the Group reduced to supply the products to several customers which are over our credit limits and aged over 180 days. The Group expected the sales volume in 2019 will be recovered as the Group will launch new products of aluminum alloy cylinder blocks in the first half of 2019. It will stimulate the sales volume of cylinder blocks for passenger vehicle.

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 increased from approximately 36.8% of total revenue from sales of cylinder blocks for the year ended 31 December 2017 to approximately 46.7% for the year ended 31 December 2018. Sales volume of cylinder blocks for commercial vehicles increased approximately 14.2% from approximately 219,000 units for the year ended 31 December 2017 to approximately 250,000 units for the year ended 31 December 2018. The increase was mainly due to the successful development of the three new products 4D30, 493N720 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 increased from approximately 8.0% of total revenue from sales of cylinder blocks for the year ended 31 December 2017 to approximately 10.0% for the year ended 31 December 2018. Sales volume of cylinder blocks for industrial vehicles increased approximately 3.6% from approximately 55,000 units for the year ended 31 December 2017 to approximately 57,000 units for the year ended 31 December 2018. 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 17.0% from approximately 153,000 units for the year ended 31 December 2017 to approximately 127,000 units for the year ended 31 December 2018. Such decrease was as a result of decrease in demand on 493 series of cylinder heads. The Group expected the sales volume in 2019 will be recovered as the Group will launch new products in the first half of 2019. It will stimulate the sales volume of cylinder heads.

Production Facilities

All production facilities of the Group are located in Shenzhou City, Hebei Province, the PRC. As at 31 December 2018, we owned and operated a total of 3 precision casting lines and 14 mechanical processing lines (including 10 for cylinder blocks, 2 for cylinder heads and 2 for other ancillary cylinder block components).

Mechanical Processing Lines

During the Year, the Group further stepped up the setup and renovation of production lines. With the efforts of the technical team, the Group successfully transformed 4 existing mechanical processing lines into flexible production lines by itself, thus substantially enhancing production flexibility. Therefore, the Group was able to provide services, communicate with customers, understand their needs and design concepts, and produce prototypes during the customer product R&D phase, which gave the Group greater superiority in competing for new products. Moreover, to cater for customer demand for new products, the Group was setting up 4 cylinder block and 2 cylinder head mechanical processing lines during the year ended 31 December 2018, which are scheduled for mass production by 2020.

Precision Casting Lines

The Group realizes that cost advantages will be an essential factor in the industry competition, in addition to technological advantages. Cost advantages and quality are assured by reinforcing the precision casting production lines on an ongoing basis. During the year ended 31 December 2018, the Group's investment in the precision casting production lines amounted to RMB12.9 million, which included a low-pressure aluminum casting line, a gravity casting line and a mold self-making promotion project. The low-pressure aluminum casting line and the gravity casting line are applied to new energy light weighting as well as design and production of high-quality castings, and are suitable for making aluminum cylinder block products. The production line is expected to be officially put into operation in 2019 and will help the Group to further control the cost and quality of the production of aluminum products and strengthen the competitiveness of the Group in aluminum products. Moreover, the Group plans to make all of its product molds by itself from 2019 by carrying out the mold self-making project, so as to shorten the mold development cycle and reduce the costs of development and procurement of molds.

During the year ended 31 December 2018, the Group's production of rough products used in the production of cylinder blocks accounted for 72.0% of the Group's total cylinder block production, a significant increase from 54.0% for the same period of the previous year, which indicated that the Group's casting capacity was recognized by customers because they favour the Group's ability to provide the one-stop casting and processing of products. With synergy benefits, the Group will be able to control costs more effectively and raise market competitiveness.

New Products and Research and Development

The implementation of "Measures for the Parallel Administration of Credit Points for Average Fuel Consumption and New Energy Vehicles of Passenger Vehicle Enterprises" (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法) by the Ministry of Industry and Information Technology of the PRC will accelerate the development of pure electric vehicles and plug-in hybrid electric vehicles in the industry. The Group has taken countermeasures in this aspect by launching three cylinder blocks, i.e. 4D30, 493N720 and VM2.5, for commercial vehicles from 2017, which meet the new China VI emission standards. To further keep track of the trend of lightweight vehicles in the automobile industry, the Group has invested in rough aluminum casting production lines for future production of lightweight cylinder blocks and cylinder heads. The Group is currently carrying out research and development on 23 products to meet future demand.

Management Discussion and Analysis

FUTURE PROSPECTS

Looking ahead, according to China's automobile market forecast report published by China Association of Automobile Manufacturers, sales volume of China's automobile market is expected to grow steadily in 2019, with the sales volume of new energy vehicles growing by approximately 33%. Despite this steady growth forecast, the long-term cooperation between the Group and its customers as well as the new demand for the Group's products from the market fuelled by new product development will help the Group pick up sales revenue in 2019. Moreover, due to decelerated market growth, some Chinese automakers are gradually stepping up their outsourcing procurement to save costs. The Group will benefit from this as a conventional energy auto parts supplier.

The Group will continue to strengthen internal control, step up casting and production technology through lean production and management and increase production efficiency with flexible production so as to increase operating efficiency of the Group on an ongoing basis for creating profits.

Moreover, the development of new energy vehicles is the development direction of the global automobile industry. The Group will continue to seek to develop the new energy vehicle business and explore the possibility of developing accessories for pure electric vehicles, including the identification of companies suitable for it to invest in or of partners for joint development to seize market opportunities.

FINANCIAL REVIEW

Revenue

Revenue decreased by 12.8% from RMB700.4 million for the year ended 31 December 2017 to RMB610.7 million for the year ended 31 December 2018. This decrease was primarily attributable to a decrease in revenue from sales of cylinder blocks and cylinder heads, partially offset by an increase in revenue from sales of ancillary cylinder block components.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales decreased by 13.1% from RMB577.6 million for the year ended 31 December 2017 to RMB501.9 million for the year ended 31 December 2018, primarily attributable to a decrease in sales volume from approximately 631,000 units for the year ended 31 December 2017 to approximately 524,000 units for the year ended 31 December 2018 driven by decreased customer demand and credit control of the Group which offset by launch of new products. With regard to product types, revenue from sales of cylinder blocks for passenger vehicles decreased by 41.2% as compared with revenue from sales of cylinder blocks for commercial vehicles and industrial vehicles increased by 10.7% and 9.9%, respectively, for the year ended 31 December 2018.

Sales of Cylinder Heads

Segment revenue from cylinder head sales decreased by 20.0% from RMB92.2 million for the year ended 31 December 2017 to RMB73.7 million for the year ended 31 December 2018. This decrease was primarily due to decrease in demand from our customers. The sales volume of cylinder heads decreased from approximately 153,000 units for the year ended 31 December 2017 to approximately 127,000 units in the year ended 31 December 2018, 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 during the year.

Sales of Ancillary Cylinder Block Components

Segment revenue from sales of ancillary cylinder block components increased by 15.1% from RMB30.5 million for the year ended 31 December 2017 to RMB35.1 million for the year ended 31 December 2018. This increase was primarily attributable to an increase in the sales volume of our main bearing cap products.

Gross Profit and Gross Profit Margin

Gross profit decreased by 12.6% from RMB217.4 million for the year ended 31 December 2017 to RMB190.1 million for the year ended 31 December 2018. This decrease was in line with decrease in revenue. The gross profit margin remained stable at 31.0% and 31.1% for the year ended 31 December 2017 and 2018, respectively.

Other Income

Other income increased by 437.4% from RMB7.8 million for the year ended 31 December 2017 to RMB41.8 million for the year ended 31 December 2018. This increase was primarily due to an increase in government grants income. During the year ended 31 December 2018, the Group received government subsidies of RMB40.6 million in relation to the contribution of the Group in regional technological innovation, industrial transformation and upgrading and successful listing. The government subsidies relates 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 decreased by 20.4% from RMB27.4 million for the year ended 31 December 2017 to RMB21.8 million for the year ended 31 December 2018. The decrease was primarily due to (i) a decrease in transportation expenses the Group incurred in relation to delivery of products to the customers due to decreased sales, (ii) a decrease in products warranty provision during the year because the Group enhanced its quality control procedures as well as products quality and (iii) a decrease in business entertainment expenses during the year due to the costs control.

Administrative Expenses

Administrative expenses decreased by 1.5% from RMB75.6 million for the year ended 31 December 2017 to RMB74.5 million for the year ended 31 December 2018, primarily due to a decrease in listing and professional fee of RMB7.7 million to RMB11.7 million for the year ended 31 December 2018 as the Company was listed on the Main Board of the Stock Exchange in early January 2018, which partially offsetting by (i) an increase in staff costs of RMB6.5 million to RMB17.4 million for the year ended 31 December 2018 in relation to increase in number of management personnel and performance bonuses; and (ii) an increase in depreciation of RMB1.3 million to RMB4.9 million for the year ended 31 December 2018.

Finance Costs

Finance costs decreased by 11.4% from RMB12.3 million for the year ended 31 December 2017 to RMB10.9 million for the year ended 31 December 2018, primarily due to a decrease in bank service fee.

Income Tax Expenses

Income tax expenses increased by 48.2% from RMB15.0 million for the year ended 31 December 2017 to RMB22.3 million for the year ended 31 December 2018 primarily due to the withholding tax of RMB4.8 million in connection with the retained profits to be distributed by a subsidiary of the Group for the year ended 31 December 2018 (31 December 2017: Nil). As a result, the effective tax rate increased from 13.7% for the year ended 31 December 2017 to 17.9% for the year ended 31 December 2018.

Profit for the Year

As a result of the foregoing, the profit for the year increased by 8.0% from RMB94.8 million for the year ended 31 December 2017 to RMB102.3 million for the year ended 31 December 2018. The net profit margin increased from 13.5% for the year ended 31 December 2017 to 16.8% for the year ended 31 December 2018, such increase was primarily due to an increase in government grant income.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operates 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 2018 and 2017, the Group had cash and cash equivalents of RMB170.0 million and RMB5.7 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 obtains 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 6.3% from RMB276.4 million as at 31 December 2017 to RMB293.8 million as at 31 December 2018. The trade and bills receivables turnover days increased from 136 days as at 31 December 2017 to 168 days as at 31 December 2018. Such an increase was a result of late settlements made by certain customers. The Group will strengthen customer credit risk management to guard against the increase in impairment loss on trade and receivables. The impairment losses on trade and bills receivables for the years ended 31 December 2018 and 2017 were RMB0.7 million and Nil, respectively.

Trade Payables

The trade payables decreased by 42.4% from RMB180.3 million as at 31 December 2017 to RMB103.8 million as at 31 December 2018, such decrease was due to decrease in the purchases and to control the inventory level. The trade payables turnover days were stable at around 122 days as at 31 December 2017 and 2018.

Bank and Other Loans

The bank and other loans decreased from RMB228.0 million as at 31 December 2017 to RMB209.4 million as at 31 December 2018, primarily due to the Group had sufficient operating capital after the listing. As at 31 December 2018, bank and other loans in the amounts of RMB149.4 million (2017: RMB78.0 million) were secured by property, plant and equipment, lease prepayments and trade receivables pledged by the Group, which the aggregate carrying amount of such assets was RMB140.2 million (31 December 2017: RMB75.2 million).

All bank and other loans as at 31 December 2018 and 31 December 2017 were denominated in Renminbi at fixed or floating interest rate. The following table sets forth the amount of indebtedness of the Group as at the date indicated:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	**127,000**	60,000
After 1 year but within 2 years	**–**	26,000
	127,000	86,000
Other loans		
Within 1 year	**82,400**	52,000
After 1 year but within 2 years	**–**	90,000
	82,400	142,000
Total borrowings	**209,400**	228,000

Gearing Ratio

The gearing ratio decreased from 39.2% as at 31 December 2017 to 23.1% as at 31 December 2018, such decrease was a result of an increase of equity after the Listing and decrease in bank and other loans.

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

For the year ended 31 December 2018, the capital expenditures was RMB87.0 million (2017: RMB134.3 million). The capital expenditure incurred for the year ended 31 December 2018 primarily related to the implementation of our intelligent manufacturing systems, building of new mechanical processing lines for the new products and new precision casting lines for the aluminum alloy rough cast products, purchase of additional equipment and machinery used for improvement of the existing production lines and purchase of land.

Capital Commitments

As at 31 December 2018, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted for RMB6.8 million (2017: RMB9.7 million).

Contingent liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees (2017: 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, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars. 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 from Listing date till 31 December 2018.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2018, the Group had total of 861 employees (2017: 869 employees). For the year ended 31 December 2018, the Group incurred total staff costs of approximately RMB69.0 million (2017: RMB68.7 million), which remained stable.

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 competitive remuneration package to retain elite employees, includes basic salary and performance-based monthly and annual bonuses, and review 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 NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of Stock Exchange on 5 January 2018 (the "Listing Date"). The net proceeds from the Company's issue of new shares in the Global Offering amounted to approximately RMB264.7 million, which are intended to be applied in compliance with the intended use of proceeds set out in the section headed "Future Plans and Use of Proceeds" contained in the prospectus of the Company dated 19 December 2017 (the"Prospectus").

During the period from Listing Date and up to 31 December 2018, the Group has applied the net proceeds as follows:

	%	Budgeted amount as set out in the Prospectus RMB'000	Actual usage up to 31 December 2018 RMB'000	Remaining balance as at 31 December 2018 RMB'000
Usage				
– Optimize the smart manufacturing processes	43.3	114,600	16,711	97,889
– Purchase equipment and other enhancements to strengthen cooperation with third-party industry partners	8.5	22,497	–	22,497
– Repay a portion of short-term borrowings	16.3	43,141	43,141	–
– New machining lines and equipment and equipment	15.1	39,964	27,745	12,219
– Strengthen the research and development capabilities	12.0	31,760	26,916	4,844
– Working capital and general corporate use	4.8	12,704	12,704	–
Total	100.0	264,666	127,217	137,449

As at 31 December 2018, the unused balance of the proceeds from the Global Offering of approximately RMB137.4 million was placed into short-term demand or time deposits in banks.

As of the date of this report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this report, there are no major subsequent events to 31 December 2018 which would materially affect the Group's operating and financial performance as of the date of this report.

Directors' Report

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 May 2017 under the Companies Law of the Cayman Islands. The Company acts as an investment holding company. The principal activities of the Group are design, manufacture and sale of cylinder blocks and cylinder heads.

Further discussion and analysis of these activities for the year ended 31 December 2018 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 14 to 23 of this annual report.

KEY RISKS AND UNCERTAINTIES

The main activities of the Group include production and sales of cylinder blocks and cylinder heads. It is exposed to a variety of main risks including operational, financial and market risks. Details of the above main risks as below:

OPERATIONAL RISKS

The top five customers of the Group, which primarily include large automobile manufacturers and engine producers located in China, accounted for approximately 69.3%, of the revenue for the year ended 31 December 2018. For the year ended 31 December 2018, the largest customer of the Group accounted for approximately 24.7% of the revenue. The largest customer for the year ended 31 December 2018 was an automobile manufacturer. The loss of a small number of our large customers, or the decrease in sales with one or more of these customers, could have a significant adverse impact on our financial results.

FINANCIAL RISKS

The major financial risks faced by the Group are interest risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks, the financial risk management risk management objectives and policies are set out in the note 23 to the consolidated financial statement.

MARKET RISKS

The Group operate in a market characterized by evolving industry standards, frequent new product launches and updates, rapidly-developing technologies, and changing customer demands and expectations. The continuing popularity of our products depends in significant part on our ability to adapt to these rapidly-changing technologies and industry standards as well as our ability to continually innovate in response to evolving customer demands and expectations and intense market competition. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business and operating results.

The Group has put in place a set of internal control and risk management protocols to address various operational, financial and market risks. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board of Directors has the general power to manage the operations and the overall risks of the Company and is responsible for considering, reviewing and approving any significant business decision involving material risk exposures. After due consideration, our Directors are of the view that our current risk management measures are adequate and effective.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest and five largest customers for the year ended 31 December 2018 accounted for approximately 24.7% (2017: 22.0%) and 69.3% (31 December 2017: 62.3%), respectively, of the Group's total revenue from sales operations.

The aggregate purchases attributable to the Group's largest and five largest suppliers for the year ended 31 December 2018 accounted for approximately 17.3% (2017: 19.0%) and 34.3%, respectively (31 December 2017: 46.0%).

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Further discussion of the key relationship with employees, customers and suppliers is set out in the section head "Environment, Social and Governance Report" on pages 47 to 56 of this annual report.

INTERIM DIVIDEND AND FINAL DIVIDEND

An interim dividend of HK$6.85 cents per share (2017: Nil) was paid on 19 October 2018. The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") to allow shareholders of the Company (the "Shareholders") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to our discretion, taking into consideration the criteria described below. The remaining net profits will be used for Group's development and operations. This dividend policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties.

Approval and Payment Procedures

Details of the procedures have been set out in Articles 133 to 142 of the Company's Articles of Association posted on the website of the Company.

Review and Monitor of this Policy

The form, frequency and amount of dividend payment by the Company are subject to any restrictions under the Cayman Islands laws and the Company's Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time, and this dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 22 to the financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2018, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") will be held on 31 May 2019. 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.

CLOSURE OF REGISTER OF MEMBERS

For determining the shareholders' entitlement to attend and vote at the AGM to be held on 31 May 2019, the register of members of the Company will be closed from 28 May 2019 to 31 May 2019, 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 AGM, 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 27 May 2019, being the business day before the first day of closure of the register of members.

ENVIRONMENTAL PROTECTION

The Company and the Group uphold the concept of sustainable development, focus attention on the design of research and development, operation environment, social and governance risks, strive to achieve sustainable growth.

The Company considers the staff, shareholders and potential investors, government authorities, and suppliers as the key stakeholders, and values highly the expectations and opinions of the stakeholders on us with respect to environment, society and governance. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an environmental, social and governance report has been published.

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the section headed "Environment, Social and Governance Report" on pages 47 to 56 in this annual report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on us. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

DISTRIBUTABILITY OF RESERVES

As at 31 December 2018, reserves available for distribution of the Company amounted to RMB149.7 million.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2018 and up to the date of this annual report, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

Directors' Report

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were as follows:

Executive Directors

Mr. Meng Lianzhou *(Chairman)*
Mr. Liu Zhanwen
Mr. Zhang Yuexuan
Mr. Liu Enwang

Independent Non-Executive Directors

Mr. Wei Anli
Mr. Ren Keqiang
Mr. Yu Chun Kau

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors, and Senior Management" on pages 9 to 13 in this annual report.

In accordance with Articles 84 of the Articles, Mr. Zhang Yuexuan, Mr. Wei Anli and Mr. Yu Chun Kau will retire at the AGM of the Company to be held on 31 May 2019 and, being eligible, will offer themselves for re-election at the AGM.

SERVICE CONTRACTS WITH DIRECTORS

Each of our executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 11 December 2017.The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 11 December 2017 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2018.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors of the Company and five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements. The emoluments of the Directors and the salaries of the senior management are determined with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of the Group.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2018.

DIRECTORS' COMPETING INTERESTS

None of the Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the Group's business.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of corporate governance practice adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock

Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Name of Group member	Capacity/Nature of interest	Number and class of securities	Approximate percentage of shareholding
			(Note 1)	
Meng Lianzhou ("Mr. LZ Meng") *(Note 2)*	Our Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	5,044 shares of US$1.00 each (L)	50.46%
Liu Zhanwen ("Mr. ZW Liu") *(Note 2)*	Our Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	1,432 shares of US$1.00 each (L)	14.32%
Zhang Yuexuan ("Mr. YX Zhang") *(Note 2)*	Our Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	2,235 shares of US$1.00 each (L)	22.36%
Liu Enwang ("Mr. EW Liu") *(Note 2)*	Our Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	1,286 shares of US$1.00 each (L)	12.86%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares.

(2) These 411,042,000 Shares are held by Dragon Rise, the issued shares of which are owned as to approximately 50.46% by Mr. Meng Lianzhou, approximately 14.32% by Mr. ZW Liu, approximately 22.36% by Mr. YX Zhang and approximately 12.86% by Mr. EW Liu respectively. On 28 August 2017, Mr. Meng Lianzhou, Mr. YX Zhang, Mr. EW Liu and Mr. ZW Liu entered into a concert party agreement to, among others, confirm their acting-in-concert agreement. Under the SFO, each of Mr. Meng Lianzhou, Mr. YX Zhang, Mr. EW Liu and Mr. ZW Liu is taken to be interested in the Shares beneficially owned by Dragon Rise.

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the interests and short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of SFO and based on the information available were as follows:

Name of Shareholders	Capacity/Nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Dragon Rise	Beneficial owner	411,042,000 Share (L)	51.38%
Ms. Zhao Jingmei ("Ms. Zhao") *(Note 2)*	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Meng Dongdong (孟冬冬) *(Note 3)*	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Xiao Zhiru (肖智茹) *(Note 4)*	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Wang Sujuan (王素娟) *(Note 5)*	Interest of spouse	411,042,000 Share (L)	51.38%
Radiant Path Holding Limited ("Radiant Path")	Beneficial owner	67,868,000 Share (L)	8.48%
Mr. Wang Shiying ("Mr. Wang") *(Note 6)*	Interest of controlled corporation	67,868,000 Share (L)	8.48%
Ms. Yin Shujuan ("Ms. Yin") *(Note 7)*	Interest of spouse	67,868,000 Share (L)	8.48%
Great Ally Enterprises Limited ("Great Ally")	Beneficial owner	46,864,000 Share (L)	5.86%
Mr. Zhang Zhanbiao ("Mr. ZB Zhang") *(Note 8)*	Interest of controlled corporation	46,864,000 Share (L)	5.86%
Ms. Zhu Yunchuan (朱雲川) *(Note 9)*	Interest of spouse	46,864,000 Share (L)	5.86%
Rosy Raise Limited ("Rosy Raise")	Beneficial owner	46,864,000 Share (L)	5.86%
Ms. Liu Meiling ("Ms. ML Liu") *(Note 10)*	Interest of controlled corporation	46,864,000 Share (L)	5.86%
Mr. Li Xunye (李訓業) *(Note 11)*	Interest of spouse	46,864,000 Share (L)	5.86%

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) Ms. Zhao is the spouse of Mr. Meng Lianzhou. Under the SFO, she is taken to be interested in the Shares in which Mr. Meng Lianzhou is interested.

(3) Ms. Meng Dongdong (孟冬冬) is the spouse of Mr. ZW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. ZW Liu is interested.

(4) Ms. Xiao Zhiru (肖智茹) is the spouse of Mr. YX Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. YX Zhang is interested.

(5) Ms. Wang Sujuan (王素娟) is the spouse of Mr. EW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. EW Liu is interested.

(6) These 67,868,000 Shares are beneficially owned by Radiant Path, which is wholly-owned by Mr. Wang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Radiant Path.

(7) Ms. Yin is the spouse of Mr. Wang. Under the SFO, she is taken to be interested in the Shares in which Mr. Wang is interested.

(8) These 46,864,000 Shares are beneficially owned by Great Ally, which is wholly-owned by Mr. ZB Zhang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Great Ally.

(9) Ms. Zhu Yunchuan (朱雲川) is the spouse of Mr. ZB Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. ZB Zhang is interested.

(10) These 46,864,000 Shares are beneficially owned by Rosy Raise, which is wholly-owned by Ms. ML Liu. Under the SFO, she is taken to be interested in the Shares beneficially owned by Rosy Raise.

(11) Mr. Li Xunye (李訓業) is the spouse of Ms. ML Liu. Under the SFO, he is taken to be interested in the Shares in which Ms. ML Liu is interested.

Save as disclosed above, as at 31 December 2018, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures" above, no person had interest or short position in the Shares or underlying Shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2018, other than the Share Option Scheme as set out in the paragraph headed "Share Option Scheme" below, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year ended 31 December 2018.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 11 December 2017. The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group's operations. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "General Scheme Limit"). As at the date of this Directors' Report, the total number of Shares available for issue under the Share Option Scheme was 80,000,000 Shares, representing 10% of the issued share capital of the Company. The Company may renew the General Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

No share options have been granted, exercised or cancelled by the Company under the Share Option Scheme since its adoption and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date (i.e. 16 April 2019) prior to the issue of the annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

INDEMNITY OF DIRECTORS

Under the Articles of Association of the Company, a permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout this year, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. During the year ended 31 December 2018, no claims were made against the Directors.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 25 to the financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2018 or at any time during the year ended 31 December 2018.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the consolidated financial statements, no Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2018.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 18 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 to 6 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2018, the Group acquired additional property, plant and equipment of approximately RMB74.1 million. Details of the movements are set out in note 11 to the financial statements.

RETIREMENT BENEFIT PLAN

The Group participates in defined contribution retirement benefit plan managed by the PRC local government authorities for the Group's eligible employees in the PRC. Particulars of these retirement plans are set out in note 6 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 25 to the financial statements. None of the related party transactions disclosed in note 25 to the financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2018. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Dragon Rise, Mr. LZ Meng, Mr. ZW Liu, Mr. YX Zhang and Mr. EW Liu (the "Covenantors") in respect of the compliance with the terms of the non-compete undertaking (the "Non-compete Undertaking"), entered into between the Covenantors and the Company as set out in the section headed "Relationship with our Controlling Shareholders – Non-compete Undertaking" of the Prospectus for the year ended 31 December 2018. Each of the Covenantors has confirmed and declared that he/it had strictly complied with the Non-compete Undertaking without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Covenantors for the year ended 31 December 2018.

AUDITORS

The Company appointed KPMG as auditors of the Company for the year ended 31 December 2018. KPMG will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for the re-appointment of KPMG as auditor of the Company for the year ending 31 December 2019 will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Ruifeng Power Group Company Limited
Meng Lianzhou
Chairman

Shenzhou, the PRC, 22 March 2019

Corporate Governance Report

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 year ended 31 December 2018 and up to the date of this annual report, 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 our Company to make and implement decisions promptly and effectively. Our 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. Our Directors will review our corporate governance policies and compliance with the CG Code each financial year.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), and the nomination committee (the "Nomination Committee") (each a "Board Committee" and collectively the "Board Committees"), to oversee different areas of the Company's affairs. As of the date of this annual report, the composition of the Board is as follows:

Executive Directors:	Mr. Meng Lianzhou *(Chairman and Chief Executive Officer)* Mr. Liu Zhanwen Mr. Zhang Yuexuan Mr. Liu Enwang
Independent Non-executive Directors:	Mr. Wei Anli Mr. Ren Keqiang Mr. Yu Chun Kau

Their biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 9 to 13 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

Each of our executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 11 December 2017.The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 11 December 2017 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other.

There is no financial, business or other material/relevant relationships among members of the Board.

The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of our Directors has entered into a service contract with the Company.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with reasonable care, skill and diligence, in pursuit of the development of the Company. Each of the newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

During the year ended 31 December 2018, the Hong Kong legal advisers of the Company had organized training session for the Directors explaining notifiable transactions under the Listing Rules. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

Name of Director	Types of training Attending in-house training organized by professional organizations	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Meng Lianzhou	✓	✓
Mr. Liu Zhanwen	✓	✓
Mr. Zhang Yuexuan	✓	✓
Mr. Liu Enwang	✓	✓
Independent Non-executive Directors		
Mr. Ren Keqiang	✓	✓
Mr. Yu Chun Kau	✓	✓
Mr. Wei Anli	✓	✓

Independence of Independent Non-Executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

Board Committees

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, Nomination Committee and the Remuneration Committee are respectively available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Company has established an audit committee on 11 December 2017 with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company.

At present, our audit committee comprises Mr. Ren Keqiang, Mr. Yu Chun Kau and Mr. Wei Anli, all being independent non-executive Directors. Mr. Yu Chun Kau is the chairman of our audit committee.

During the year, the Audit Committee held two meetings. The Audit Committee has reviewed, among other things, the financial statements of the Company for the six months ended 30 June 2018 and the year ended 31 December 2018, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditors.

Remuneration Committee

The Company has established a remuneration committee on 11 December 2017 with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and review performance based remuneration.

At present, our remuneration committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Ren Keqiang and Mr. Yu Chun Kau. Mr. Ren Keqiang is the chairman of our remuneration committee.

During the year, the Remuneration Committee held one meeting. The Remuneration Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in note 8 to the consolidated financial statements.

The biographies of the senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report. The remuneration of the senior management by band for the year ended 31 December 2018 is as follows:

Remuneration band (RMB)	Number of individuals
0 – 1,000,000	3
1,000,000 – 1,500,000	–
1,500,000	–

Nomination Committee

The Company has established a nomination committee (the "NC") on 11 December 2017 with written terms of reference in compliance with Code A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Directors; to identify individuals suitably qualified as potential Board members and to select or make recommendations to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors.

At present, our nomination committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Yu Chun Kau and Mr. Wei Anli. Mr. Wei Anli is the chairman of the nomination committee.

During the year, the Nomination Committee held one meeting. The Nomination Committee has reviewed the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

1. Selection Criteria

(a) The NC is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.

(b) In assessing the suitability of a proposed candidate, the NC may make reference to certain criteria such as the Company's need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in automobile, automobile engine and automobile engine spare part industry and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

(c) Where necessary, the NC should seek independent professional advice to access a wider range of potential candidates.

(d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.

(e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

2. Nomination Procedures

The secretary of the NC shall invite nominations of candidates from Board members if any, for consideration by the NC. The NC may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 87 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

3. Review and Monitor of this Policy

(a) The NC shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.

(b) The NC shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.

(c) The NC shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors

The attendance record of each of the current Directors at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below. The Directors did not authorize any alternate Director to attend Board or Board Committee meetings.

	Attendance/Number of Meetings			
Name of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Board
Mr. Meng Lianzhou	2/2	1/1	1/1	4/4
Mr. Liu Zhanwen	2/2	1/1	1/1	4/4
Mr. Zhang Yuexuan	2/2	1/1	1/1	4/4
Mr. Liu Enwang	2/2	1/1	1/1	4/4
Mr. Ren Keqiang	2/2	1/1	1/1	4/4
Mr. Yu Chun Kau	2/2	1/1	1/1	4/4
Mr. Wei Anli	2/2	1/1	1/1	4/4

Board Meetings

Meetings of the Board of Directors shall be held regularly at least four times each year and shall be convened by the chairman of the Board of Directors. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Questions arising at any meetings of the Board of Directors shall be determined by a majority of votes. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote.

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") on 11 December 2017. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

- at least 1/3 of the members of the Board shall be independent non-executive directors;
- at least one of the independent non-executive directors of the Board shall have obtained accounting or relevant financial management professional qualifications; and
- at least 50% of the members of the Board shall have 7 years or more of experience in the industry he is specialised in, and in case of independent non-executive director, the independence requirements set out in the Listing Rules (as amended for time to time).

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 year ended 31 December 2018 and up to the date of this report.

COMPANY SECRETARY

Mr. Wong Ka Wai was appointed as the Company Secretary on 28 February 2017. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr. Wong has taken no less than 15 hours of relevant professional training in 2018.

All Directors have access to the advices and services of Mr. Wong on corporate governance and board procedures.

The biographical details of Mr Wong are set out under the section headed "Biographical Details of Directors and Senior Management".

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of KPMG, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal controls and risk management

The Board have put in place a set of internal control and risk management protocols to address various operational, financial, legal and market risks identified in relation to our operations, including but not limited to procurement and sales management, inventory management, research and development management, credit risk, liquidity risk, foreign exchange risk, human resources risk management, and various other financial and operational control and monitoring procedures. Our risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. Our Board of Directors has the general power to manage our operations and the is responsible for the risk management and internal control systems and reviewing their effectiveness. After due consideration, our Directors are of the view that our current risk management and internal control systems are adequate and effective.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial, legal and market risks for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Board reviews the risk management and internal controls annually.

Also, the Company has an internal audit function to carry out the analysis and independent appraisal of the effectiveness of the Group's risk management, internal control systems and perform an internal audit procedure which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2018. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness of the risk management and internal control systems and the internal audit function for the year ended 31 December 2018.

The Directors will continue to review the need for setting up an internal audit function should the need arise.

External Auditor

KPMG has been appointed as the external auditor of the Company, The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2018, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB2.8 million. The fees paid and payable to KPMG for the reporting for the year ended 31 December 2018 accountant service in relation to the listing of the Company on the Main Board of the Stock Exchange was approximately RMB0.6 million.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Extraordinary general meetings may be convened by directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to Room 619A, 6/F, Block B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company by mail to Room 619A, 6/F, Block B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.hbsgt.com.

Constitutional Documents

Conditionally adopted by a special resolution dated 11 December 2017, the Articles of Association were adopted with effect from the Listing Date. During the year ended 31 December 2018, no change has been made to the Company's memorandum and articles of association after the Listing Date.

The Articles of Association are available on the websites of the Stock Exchange and the Company.

Environment, Social and Governance Report

Introduction

The Group is committed to upholding a high quality of corporate social responsibilities ("CSR") and issued this environmental, social and governance report pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. During the year ended 31 December 2018 (the "Reporting Period"), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The report provides details of the Company's policies and practices in three aspects namely working environment, environmental protection, and community involvement for the year ended 31 December 2018.

This report covered the overall environmental and social performance of all major subsidiaries of the Group which are set out in note 13 to the financial statements during the year ended 31 December 2018.

WORKING ENVIRONMENT

Employees

The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and management are reasonable and competitive in the market and the Group believes that its long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, the Group provides regular training to our employees. Besides these, the Group has made detailed regulations in its employee manual with respect to dismissal, working hours, vacations and other aspects.

The Group mainly recruits through recruitment fairs and on-campus recruitment. As at 31 December 2018, we had a total of 861 employees. The following table sets forth the number and breakdown of our full-time employees by function as at 31 December 2018:

	Number of employees
Directors and senior management	10
Research and development	25
Production	635
Procurement	19
Sales and marketing	30
Quality control	65
Finance	8
Administration and logistics	69
Total	861

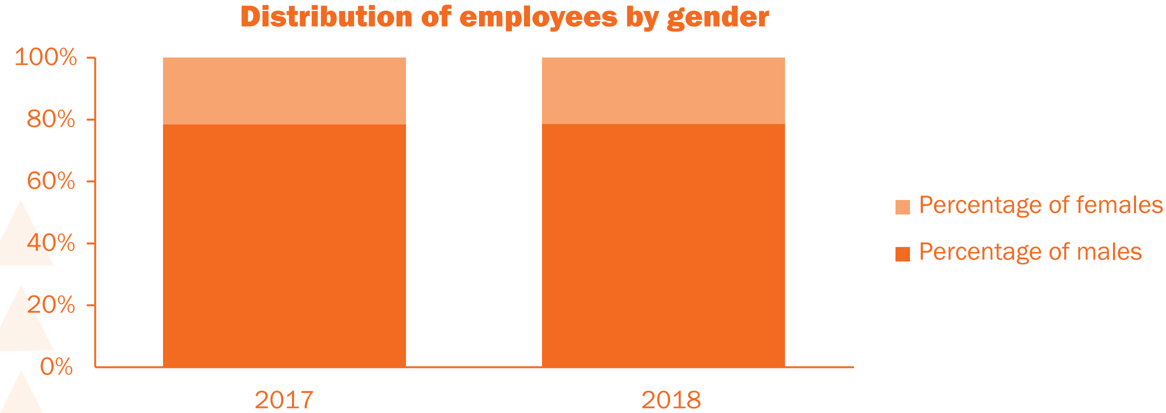
Fair recruitment

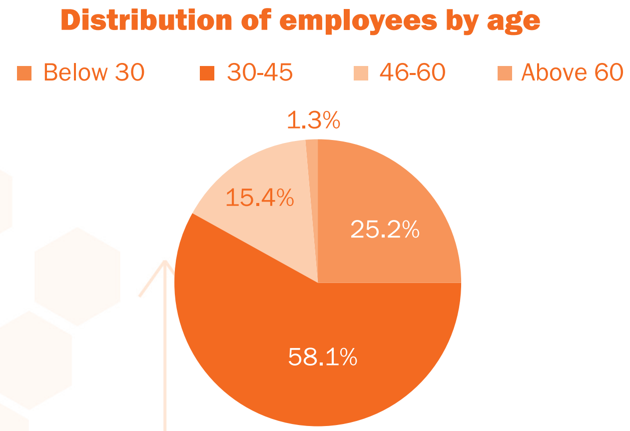
The Group recruits staff based on a fair, open and impartial principle to ensure the recruitment and selection process is objective and consistent. The Group only takes into account an individual's competence, regardless of the age (no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment opportunities to all candidates.

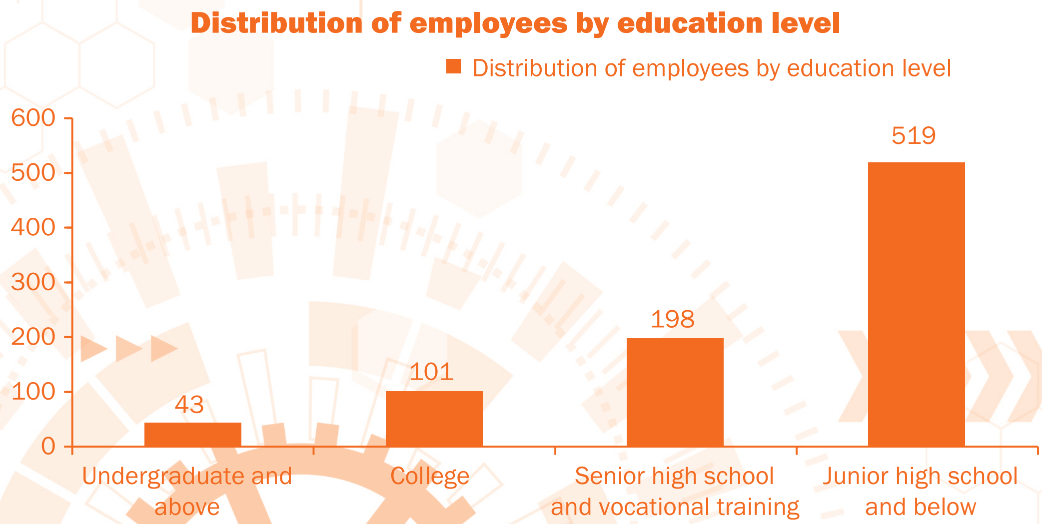
Employment

The Group stringently complies with all national and local laws, such as the Labor Law, Labor Contract Law and Employment Promotion Law of the People's Republic of China. The Group legally abides by labour laws and regulations. The use of child labour and forced-labour workers are strictly prohibited.

Employment statistics by gender, age and education level

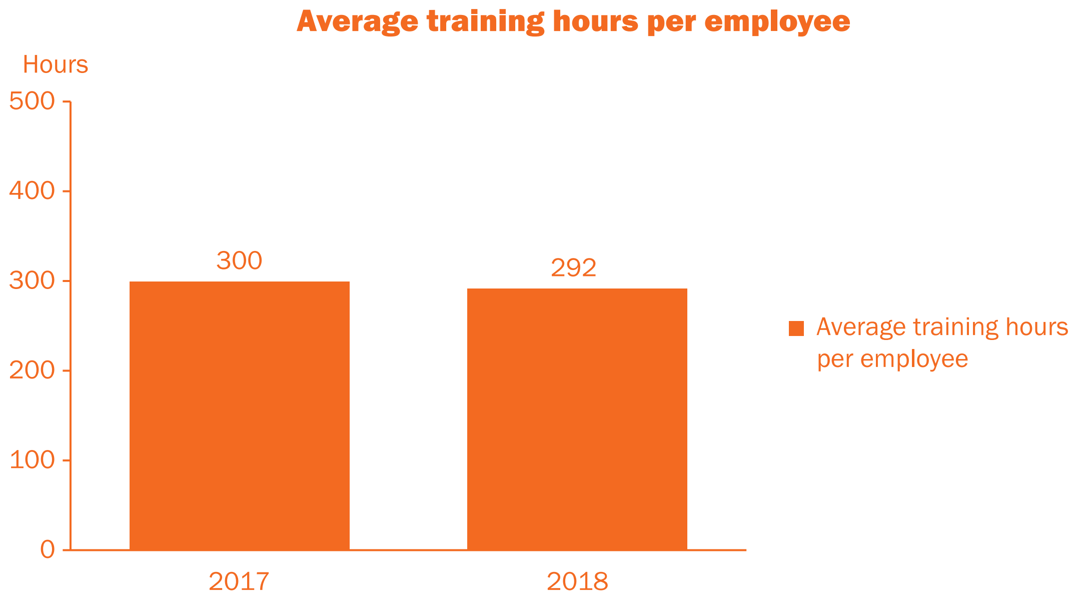






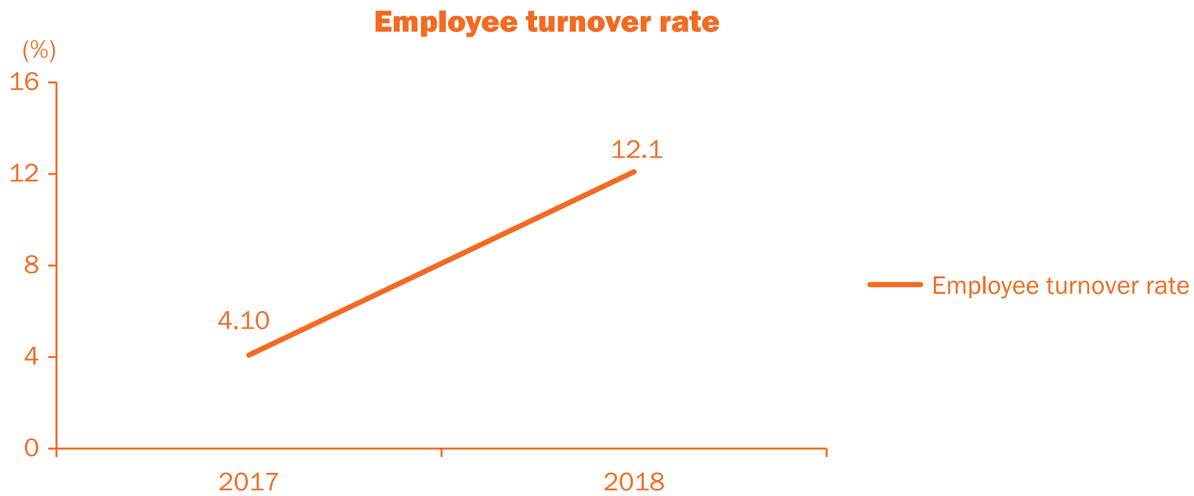
Training

The Group believes our 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. Prior to commencement of work, new employees must attend mandatory pre-employment training sessions. In addition, the Group also invited professional trainers from third-party research institutions to provide our employees regular training on professional knowledge, technical skills and production safety.



Benefits

The remuneration of our employees includes basic salary and performance-based monthly and annual bonuses. The Group makes contributions for our employees in relation to the mandatory social security funds, including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC. During the Reporting Period, the Group failed to make full contributions to the social insurance scheme for some of our employees. The Group also failed to register our housing provident fund account and did not make full contributions to the housing provident fund for some of our employees as required by PRC laws and regulations.



For the year ended 31 December 2018, the employee turnover rate increased significantly to 12.1%, mainly due to the greater mobility of the production staff of the Group affecting the employee turnover rate. During the year, the total number of employees of the Group remained stable. The Group therefore believes that the significant increase of the employee turnover rate does not affect the Group's operations and daily operations.

OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

The Group is subject to various production safety rules and regulations in the PRC.

The Group has implemented various safety guidelines and operating procedures for our production process to ensure safe operation of our production facilities and to prevent injuries. The Group conducts regular and thorough worksite inspection to eliminate potential hazards in our work environment. The Group also provides mandatory safety training to all new employees prior to commencement of work. Furthermore, the Group provides our employees with occupational safety education and training to enhance their awareness of safety issues from time to time.

The Group has not experienced any material accident in our production nor received any claims for personal or property damages during the year, and our PRC Legal Advisor has confirmed that the Group is in compliance in all material respects with applicable laws relating to labor safety matters in the PRC during the Reporting Period.

Data Protection and Privacy Policies

All employees are prohibited from disclosing any confidential information under the Group's confidentiality policy. Data including project-related information and other sensitive information is subject to access control to ensure its security and prevent any abuse or misuse.

Intellectual Property

As at 31 December 2018, the Group had 12 patents in the PRC, including 11 utility model patents and 1 invention patent, 2 registered PRC trademarks and 2 registered Hong Kong trademarks. The Group is also the registered owner of one domain name.

Bribery, corruption and other misconduct

The Group's employee handbook regulates our employees' conduct with respect to conflicts of interest, bribery, corruption and other misconduct. The Group provides regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. An effective whistle blowing policy is also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace. During the Reporting Period, there were no non-compliances involving bribery and corruption related laws and regulations.

ENVIRONMENTAL PROTECTION

Although our production process does not cause any material adverse impact to the environment, the Group is committed to minimizing any potential adverse impact on the environment which may be resulted from our business operations. The Group has put in place various dust cleansing and collection devices at all key stages of production operations to minimize dust generation. The Group has also developed a cutting fluid disposal device which recycles and reuses the hazardous cutting fluid generated during our production process to ensure clean disposal of such industrial liquid waste. In addition, the Group has adopted a self-developed lost foam casting process which is considered more environmentally-friendly and cost-effective to produce a portion of our rough cast cylinder block products. The Group obtained two utility model patents from the SIPO for the aforementioned cutting fluid disposal device and the lost foam casting process in October 2016 and July 2017, respectively. The Group believes these measures effectively reduce the negative environmental impact of the hazardous materials the Group produces while satisfying our sustainable production needs.

Energy Conservation and Emission Reduction

Reducing energy consumption and improving energy efficiency are keys to slowing down global climate change, and therefore the Group strives to improve its energy saving performance on operation.

Wastes Control

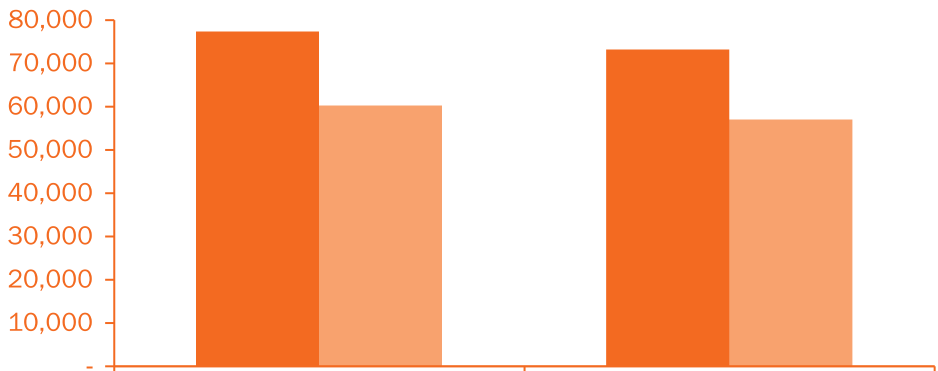
The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, consisting of various chemicals and wastes, such as oil residue and hazardous cutting fluid used in the manufacture of products. For hazardous substance, the Group primarily cooperated with qualified units to collect and handle these hazardous waste. The Group actively reduces the use of such hazardous chemicals, as a result, such wastes decrease from approximately 2.12 tonnes for 31 December 2017 to approximately 1.91 tonnes for 31 December 2018.

Power Consumption Control

The headquarters and other offices of the Group all adhere to the principle of energy conservation and environmental protection to reduce the power consumption. Each office of the Group use of energy-efficient lighting and has formulated a guideline on the use of airconditioners, where heaters are allowed in winter only when the temperature is below 0°C, and airconditioning are allowed during summer when the temperature is above 30°C.

The change of total power consumption and carbon emission in 2017 and 2018 were as follows:

Power consumption and corresponding carbon emission



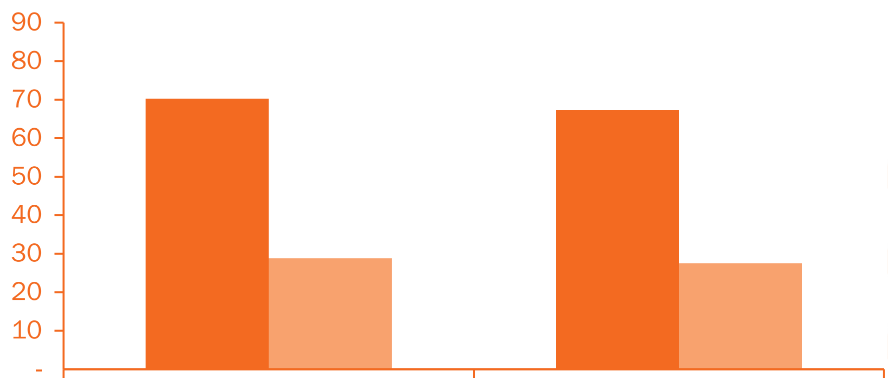
	2017	2018
Power consumption (kWh in '000s)	77,310.3	73,150.0
Carbon emission (tonnes)	60,302.1	57,057.0

Water Consumption Control

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage, in order to encourage staff to save water, the Group has put up signs in offices to remind employees to reduce water consumption.

The change of total water consumption and carbon emission in 2017 and 2018 were as follows:

Water consumption and corresponding carbon emission



	2017	2018
Water consumption (Kiloton)	70.3	67.2
Carbon emission (tonnes)	28.8	27.5

During the year ended 31 December 2018, the total power consumption of the Group was approximately 73,150,000 kWh, and the density was approximately 119.8 kWh/output value of RMB1,000 and total water consumption was approximately 67,200 tonnes and the density was approximately 110.0kg/ output value of RMB1,000.

Packaging materials

The Group does not use cartons, paper and plastics as packaging materials. Therefore, the Group does not consume packaging materials.

The Group will continue to closely monitor the utilisation of resources and conduct regular assessment to seek better ways for contributing to environmental protection.

Economical Use of Resources

The Group strictly complies with the requirements of Energy Conservation Law of the People's Republic of China and has formulated rules in relation to i) integrated planning of usage of water and electricity during production, proper arrangement for preheating and energy-consuming procedures for production workshops, turning off no load current equipment and shutting off the electric power once production is finished in accordance with the characteristics of production procedures generally; and ii) fostering awareness of water and electricity conservation among all staff and turning off lights, faucets, air conditioners and computers, etc. when the use of them is unnecessary to reduce the consumption of energy.

As the result of above energy saving initiatives, the total power consumption and total water consumption decreased approximately 5.4% and approximately 4.4% respectively.

The Group believes that corporation has responsibility, which is imperative, in promoting the sustainable development of environment. In this connection, the Group formulated environmental principles correspondingly to ensure the effective implementation of various measures. In production and operation activities, increased use of energy-saving facilities and reduced energy consumption to mitigate or avoid the impact of wasted water, exhaust gas, greenhouse gas, noise and hazardous and non-hazardous waste on the environment; encouraged the staffs to raise environment protection awareness and to acquire knowledge and skills related to environment protection. The Group strictly complied with national laws, regulations and policies, such as Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution and Hazardous Waste Pollution Prevention Technology Policy. The Group actively introduced International Environment Management System Authentication ISO14001 and passed such authentication.

RELATIONSHIPS WITH CUSTOMERS

Through the efforts of sales and marketing team the Group have established solid relationships with its major customers for periods over five years. The customers of the Group are primarily large automobile manufacturers and engine manufacturers located in the PRC. The customers include many of the top automobile manufacturers in China, including Jiangling Motors, Beiqi Foton Motor, Jiangxi Isuzu, JAC Motors and Great Wall Motors, among others.

SUPPLY CHAIN MANAGEMENT

The Group recognise that supply chain management is essential in improving operational efficiency, and therefore we work closely with the suppliers to meet customers' needs in an effective and efficient manner, while emphasizing responsible operating practices. The Group procure raw materials and key components from third-party suppliers selected by ourselves that are based in the PRC. In addition, certain of our supply arrangements involve the purchase of components and ancillary materials from our customers or suppliers they designate. The five largest suppliers mainly comprised automobile manufacturers and producers of engines, rough cast cylinder blocks and cylinder heads, ancillary cylinder block components and scrap material. The Group had good cooperation relationship with our five largest suppliers and the Group did not rely on any single supplier for raw materials or key components.

The Group selects suppliers based on a number of factors, including, among others, history of our relationship with them, product quality, supply capacity, research and development capability, price and delivery time. To avoid reliance on any single supplier, our policy is to source each major raw material and key component from at least three different suppliers. In addition, certain customers require us to produce finished products using the rough cast cylinder blocks and cylinder heads from their designated suppliers in order to maintain greater control over the production process and quality of their end products. Furthermore, the Group also directly procures raw materials, rough cast cylinder blocks or rough cast cylinder heads from such customers and/or their related companies in the same group.

QUALITY CONTROL AND MANAGEMENT

The Group is committed to maintaining a high quality of our products by performing a variety of quality control, inspection and testing procedures throughout our production process and identify defects and irregularities throughout all stages of production process. The Group has compiled and implemented a set of detailed quality control protocols that are strictly followed by each of our departments. Such protocols set out a series of standardized procedures and measures to monitor and control each stage of our operating process, including procurement of raw materials and key components, production and inspection of finished products, to ensure that our products are of consistently high quality.

The Group has also established a quality control department consisting of 49 dedicated quality control inspectors as at the date of this report. The quality control department oversees our entire operating process and devotes significant resources to maintaining and improving the quality of our products. The department hosts regular meetings to discuss quality issues arising from the production process and to formulate solutions on potential improvement.

Set forth below is a summary of our primary quality control measures:

- Raw materials and key components: Our quality control department conducts sample testing on raw materials and key components, in particular the rough cast products procured from customers or third-party suppliers, to ensure such raw materials and key components meet the requisite quality standards. The Group may also carry out on-site evaluations at the premises of our main suppliers and assess their production facilities to confirm the source of supply of the raw materials and key components from time to time.

- Production process: Our quality control inspectors will closely monitor the production process of each of our products to ensure strict compliance with our standard operating procedures. Throughout our entire production process, the Group also conducts quality control testing at each key production stage. In addition, the Group has installed and operated a number of advanced inspection equipment, including three cylinder bore detectors, 51 pneumatic measuring instruments, 13 triple-axis high precision coordinate measuring machine, a Taylor Hobson cylindricity measuring instrument and a Leica particle analyzer, to ensure that our products are produced precisely to meet our customers' specific design and manufacturing requirements.

- Finished products: The Group inspects sample batches of our products and the packaging of each product before delivery takes place. Products with defects or any quality issues will not be delivered to customers. Our quality control inspectors will help identify the causes for product defects and follow up closely to confirm any problems with the production process are addressed. The Group labels each of our products with a unique serial number to ensure traceability of our products. For ancillary cylinder block components which have been processed by the third-party service providers beginning in early 2017, the Group conducts sample checks to ensure that such products meet the requisite quality standards.

As a result of our stringent quality control system, our production facilities have obtained ISO/TS 16949 certification since 2012, which is required to renew in every three year and currently it is effective up to 2021. During the year ended 31 December 2018 and up to the date of this report, the Group has not experienced any material losses from product liability.

The Group's human resource department formulated and led the implementation of management system to manage the patent, technical secret, trademark and software copyrights to reduce the risks of infringement of intellectual property rights in the advertising activities and labelling of products and ensure the staff to observe the intellectual property rights of other parties, pursuant to which to regulate the behaviour of the suppliers on intellectual property rights. The related management system specifies prevent the risk of intellectual property rights; in order to regulate the Group's management work of technical secret and prevent loss to the Group arising from improper disclosure of technical secret and avoid the risk of its improper leak; to enhance the Group's trademark management, protection of the Group's interests, maintenance of trademark reputation and comprehensive competitiveness of the Group's brand; for the purpose of enhancing the Group's management of software copyrights, definitely protecting the proprietary intellectual property rights and further elevating the core competitive edges and innovation benefit. Meanwhile, the Group places high importance on protection of the employees' privacy and the company secrets. Through measures including formulation of the employee manual, classification of information assets, safe management of paper documents, zoning and management of the Group's safety zone and information safety management control, the employees' privacy and the company secrets are effectively protected.

COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its interim resources to charitable activities. The Group also actively participated in community activities such as organizing the Group's employees to contribute to the working poor and making donations approximately RMB50 thousand from the Company. In addition, the Group encouraged the staff to participate in mutual-support medical activities for employees.

Independent Auditor's Report

Independent auditor's report to the shareholders of Ruifeng Power Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ruifeng Power Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 128, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

<table>
<tr><th colspan="2">TIMING OF REVENUE RECOGNITION</th></tr>
<tr><td colspan="2">Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(r).</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group's revenue is principally generated from the manufacture and sale of cylinder blocks and cylinder heads.

The Group's sales contracts with customers, which are primarily automobile manufacturers and engine producers, have a variety of terms relating to goods acceptance. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the Group's performance obligations, allocation of transaction price and appropriate timing and value for revenue recognition.

We identified the timing of revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue may be manipulated to meet financial expectations or targets and because there is a risk that particular terms of sale contracts may not be met and, as a result, revenue may not be recognised properly and in the correct periods.</td><td>Our audit procedures to assess the timing of revenue recognition included the following:

• Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;

• Inspecting the terms of sales contracts with customers, on a sample basis, to assess whether the Group has appropriately identified performance obligations and determined and allocated the transaction price correctly;

• Evaluating the conditions of goods acceptance as to whether control over the goods has been passed and performance obligation is satisfied when the Group recognises the revenue, and assessing the Group's timing and value of recognition of revenue with reference to the requirements of the prevailing accounting standards;

• Comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included goods acceptance notes, to assess whether the revenue had been recognised in accordance with the terms of the sales contracts and in the appropriate financial period;

• Inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and which met specific risk-based criteria; and

• Confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2018 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed and the Group's accounting records to assess whether the related revenue had been recognised in the appropriate financial periods.</td></tr>
</table>

LOSS ALLOWANCE FOR TRADE RECEIVABLES

Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(h).

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2018, the Group's gross trade receivables totalled RMB229,669,000. Loss allowance of RMB665,000 was recorded. Management measured loss allowance at an amount equal to expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). We identified loss allowance for trade receivables as a key audit matter because trade receivables and loss allowance are material to the Group and the recognition of ECLs is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade receivables included the following: • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the credit control, the trade receivables collection process and making loss allowances for trade receivables; • Obtaining an understanding on the key data and assumptions of the ECL model adopted by the management, including the historical default data, ageing of debtor balances, credit terms, recent settlement patterns and forecast of future economic conditions; • Assessing the reasonableness of management's estimates on loss allowance by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • Assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the relevant underlying documentation; • Assessing the assumptions and estimates made by management for the assessment of loss allowances for trade receivables by performing a retrospective review of the historical accuracy of these assumptions and estimates, including historical default data and estimated loss rates; and • Assessing the disclosures in the consolidated financial statements in relation to the loss allowances for trade receivables with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Independent Auditor's Report

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wan Chi Yau, Charles.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2019

Consolidated statement of profit or loss

for the year ended 31 December 2018

(Expressed in Renminbi ("RMB"))

	Note	**2018 RMB'000**	2017 RMB'000 (Note)
Revenue	4	**610,734**	700,365
Cost of sales		**(420,683)**	(482,965)
Gross profit	4(b)	**190,051**	217,400
Other income	5	**41,785**	7,776
Selling expenses		**(21,842)**	(27,432)
Administrative expenses		**(74,460)**	(75,631)
Profit from operations		**135,534**	122,113
Finance costs	6(a)	**(10,924)**	(12,290)
Profit before taxation	6	**124,610**	109,823
Income tax	7	**(22,261)**	(15,025)
Profit attributable to equity shareholders of the Company for the year		**102,349**	94,798
Earnings per share			
Basic and diluted (RMB)	10	**0.13**	0.16

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2018

(Expressed in RMB)

	2018 RMB'000	2017 RMB'000 (Note)
Profit for the year	**102,349**	94,798
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements into presentation currency	**6,449**	–
Total comprehensive income attributable to equity shareholders of the Company for the year	**108,798**	94,798

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	11	**643,991**	633,288
Lease prepayments	12	**116,235**	105,732
Deferred tax assets	19(b)	**10,218**	10,486
		770,444	749,506
Current assets			
Inventories	14	**143,876**	156,310
Trade and other receivables	15	**311,904**	297,660
Prepaid income tax	19(a)	**12,123**	–
Cash and cash equivalents	16	**170,036**	5,715
		637,939	459,685
Current liabilities			
Trade and other payables	17	**227,119**	329,606
Bank and other loans	18(a)	**209,400**	112,000
Current taxation	19(a)	**–**	2,621
Provision for warranties	21	**2,093**	2,471
		438,612	446,698
Net current assets		**199,327**	12,987
Total assets less current liabilities		**969,771**	762,493
Non-current liabilities			
Bank and other loans	18(b)	**–**	116,000
Deferred income	20	**55,301**	61,793
Provision for warranties	21	**3,449**	2,993
Deferred tax liabilities	19(b)	**4,857**	–
		63,607	180,786
NET ASSETS		**906,164**	581,707

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2018 (Continued)
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000 (Note)
CAPITAL AND RESERVES	22		
Share capital		**66,425**	1
Reserves		**839,739**	581,706
TOTAL EQUITY		**906,164**	581,707

Approved and authorised for issue by the board of directors on 22 March 2019.

Meng Lianzhou
Chairman

Liu Enwang
Director

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 Note 22(b)	Share premium RMB'000 Note 22(d)(i)	Other reserve RMB'000 Note 22(d)(ii)	Statutory reserve RMB'000 Note 22(d)(iii)	Exchange reserve RMB'000 Note 22(d)(iv)	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2017	–	–	20,000	10,000	–	479,276	509,276
Changes in equity for 2017:							
Profit and total comprehensive income for the year	–	–	–	–	–	94,798	94,798
Issuance of shares	1	–	–	–	–	–	1
Distributions in respect of previous year	–	–	–	–	–	(2,368)	(2,368)
Effect on equity arising from a group reorganisation	–	–	(20,000)	–	–	–	(20,000)
Balance at 31 December 2017	1	–	–	10,000	–	571,706	581,707
Impact on initial application of IFRS 9	–	–	–	–	–	(435)	(435)
Adjusted balance at 1 January 2018	**1**	**-**	**-**	**10,000**	**-**	**571,271**	**581,272**
Changes in equity for 2018:							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**102,349**	**102,349**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**6,449**	**-**	**6,449**
Total Comprehensive income	**-**	**-**	**-**	**-**	**6,449**	**102,349**	**108,798**
Capitalisation issue (Note 22(b)(ii))	**49,818**	**(49,818)**	**-**	**-**	**-**	**-**	**-**
Issuance of shares by initial public offering (Note 22(b)(iii))	**16,606**	**248,060**	**-**	**-**	**-**	**-**	**264,666**
Interim dividends declared and paid in respect of the current year (Note 22(c)(i))	**-**	**(48,572)**	**-**	**-**	**-**	**-**	**(48,572)**
Appropriation to reserves	**-**	**-**	**-**	**11,384**	**-**	**(11,384)**	**-**
	66,424	**149,670**	**-**	**11,384**	**-**	**(11,384)**	**216,094**
Balance at 31 December 2018	**66,425**	**149,670**	**-**	**21,384**	**6,449**	**662,236**	**906,164**

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000 (Note)
Cash flows from operating activities			
Profit before taxation		**124,610**	109,823
Adjustments for:			
Depreciation and amortisation	6(c)	**65,373**	52,449
Finance costs	6(a)	**10,924**	12,290
Interest income	5	**(875)**	(87)
Dividend income	5	**–**	(380)
Net loss on disposal of property, plant and equipment	5	**104**	540
Amortisation of deferred income	20	**(6,492)**	(5,788)
Changes in working capital:			
Decrease/(increase) in inventories		**12,434**	(40,137)
Increase in trade and other receivables		**(14,756)**	(45,714)
(Decrease)/increase in trade and other payables		**(82,300)**	61,503
Increase in provision for warranties		**78**	553
Cash generated from operations		**109,100**	145,052
Income tax paid	19(a)	**(31,803)**	(16,956)
Net cash generated from operating activities		**77,297**	128,096
Cash flows from investing activities			
Payments for acquisitions of property, plant and equipment and lease prepayments		**(106,802)**	(145,858)
Government grants received	20	**–**	17,435
Proceeds from disposal of property, plant and equipment		**287**	412
Dividends received		**–**	380
Proceeds from disposal of unquoted equity investment		**–**	4,100
Payment for acquisition of a subsidiary on a reorganisation took place in 2017		**–**	(20,000)
Interest received		**875**	87
Net cash used in investing activities		**(105,640)**	(143,444)

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2018 (Continued)
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000 (Note)
Cash flows from financing activities			
Proceeds from bank and other loans	16(b)	**215,400**	158,500
Repayment of bank and other loans	16(b)	**(234,000)**	(131,333)
Dividends paid	22(c)(i)	**(48,572)**	–
Distributions paid		**–**	(3,383)
Proceeds from issuance of shares by initial public offering, net of share issuance expenses		**264,666**	–
Finance costs paid	16(b)	**(10,956)**	(12,274)
Net cash generated from financing activities		**186,538**	11,510
Net increase/(decrease) in cash and cash equivalents		**158,195**	(3,838)
Cash and cash equivalents at the beginning of the year	16(a)	**5,715**	9,553
Effect of foreign exchange rate changes		**6,126**	–
Cash and cash equivalents at the end of the year	16(a)	**170,036**	5,715

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 128 form part of these financial statements.

1 CORPORATE INFORMATION

Ruifeng Power Group Company Limited (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

(a) 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. Note 2(c) provides information on 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group.

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 Company Limited ("Hebei Ruifeng"). Pursuant to a group reorganisation to rationalise the corporate structure in preparation of the listing of the Company's shares 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

(i) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as IFRS 9.

(ii) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on trade receivables (Note 23(a))	512
Related tax	(77)
Net decrease in retained earnings at 1 January 2018	435

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(h)(i), 2(j), 2(k) and 2(l).

The measurement categories for all financial assets and financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables) and contract assets as defined in IFRS 15 (see Note 2(j)).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(h)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	–
Additional credit loss recognised at 1 January 2018 on trade receivables	512
Loss allowance at 1 January 2018 under IFRS 9	512

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

The assessments of the determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(iii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of IFRS 15 does not have a material impact on the financial position and the financial result of the Group.

Further details of the nature and effect of the changes on previous accounting policies which are relevant to the Group is set out below:

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs.

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced.

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that are considered in determining when the transfer of control occurs. The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	20 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles and others	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and contract assets (see Note 2(j)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls for trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss for trade and other receivables and other financial assets carried at amortised cost was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of trade and other receivables or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(h)(i) and 2(h)(ii)).

(i) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(i)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories and other contract costs *(Continued)*

(ii) Other contract costs *(Continued)*

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventories are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(h)(i).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rendering of services

Revenue is recognised when the service is rendered.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss on a systematic basis over the useful life of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB, the Group's reporting currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Note 23 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(h)(ii). When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future years.

(b) Expected credit losses for trade receivables

The Group estimates loss allowance at an amount equal to lifetime ECLs, which are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. If the financial conditions of the customers and debtors were to deteriorate, and these customers and debtors do not have assets or sources of income that could generate sufficient cash flows to repay the amounts, actual write-offs would be higher than estimated.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(c) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future years.

(d) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management of the Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future years is adjusted if there are significant changes from previous estimates.

(e) Warranty provisions

The Group makes provisions under the warranties it gives on sale of its cylinder blocks and cylinder heads after taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

4 REVENUE AND SEGMENT REPORTING

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

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
– Sales of cylinder blocks	**501,854**	577,643
– Sales of cylinder heads	**73,745**	92,202
– Sales of ancillary cylinder block components	**35,135**	30,520
	610,734	700,365

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical market is disclosed in Notes 4(b)(i) and 4(b)(ii).

Revenue from customers with whom transactions have exceeded 10% of the Group's revenue are as follows:

	2018 RMB'000	2017 RMB'000
Customer A	**150,788**	153,735
Customer B	**122,187**	107,987
Customer C	**61,901**	*

* Transactions with this customer did not exceed 10% of the Group's revenue for year ended 31 December 2017.

Details of concentration of credit risk arising from the Group's customers are set out in Note 23(a).

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(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, assets and liabilities

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 2018 and 2017. 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.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as 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 2018 and 2017 is set out below.

	2018			
	Cylinder blocks RMB'000	**Cylinder heads RMB'000**	**Ancillary cylinder block components RMB'000**	**Total RMB'000**
Revenue from external customers recognised at a point in time	**501,854**	**73,745**	**35,135**	**610,734**
Reportable segment gross profit	**151,580**	**30,617**	**7,854**	**190,051**

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

(ii) Geographic information

The Group's revenue is substantially generated from sales to customers in 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

	2018 RMB'000	2017 RMB'000
Government grants (including amortisation of deferred income, see Note 20)	40,555	7,508
Interest income	875	87
Dividend income	–	380
Net loss on disposal of property, plant and equipment	(104)	(540)
Others	459	341
	41,785	7,776

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2018 RMB'000	2017 RMB'000
Interest on bank and other loans	10,489	10,182
Bank charges and others	435	2,108
	10,924	12,290

No borrowing costs have been capitalised for the year ended 31 December 2018 (2017: RMBNil).

6 PROFIT BEFORE TAXATION *(Continued)*

(b) Staff costs#

	2018 **RMB'000**	2017 RMB'000
Salaries, wages and other benefits	**62,588**	62,655
Contributions to defined contribution retirement plan	**6,452**	6,075
	69,040	68,730

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 also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

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

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2018 RMB'000	2017 RMB'000 (Note)
Depreciation and amortisation (Notes 11 and 12)#	**65,373**	52,449
Impairment losses on trade and other receivables (Note 23(a))	**153**	84
Operating lease charges in respect of temporary warehouse	**129**	133
Provision for warranties (Note 21)	**1,255**	3,099
Auditors' remuneration		
– audit services	**2,800**	2,000
– services in connection with the initial listing of the Company's shares	**–**	1,260
Research and development costs	**21,904**	22,028
Cost of inventories# (Note 14(b))	**420,683**	482,965

\# Cost of inventories includes RMB100,183,000 (2017: RMB93,945,000) 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.

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018 RMB'000	2017 RMB'000
Current taxation – PRC Corporate Income Tax (Note 19(a))		
Provision for the year	**17,059**	16,893
Deferred taxation (Note 19(b))		
Origination and reversal of temporary differences	**345**	(1,868)
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	**4,857**	–
	5,202	(1,868)
	22,261	15,025

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**124,610**	109,823
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	**32,506**	27,485
Tax effect of non-deductible expenses	**182**	147
Tax concessions (Note (iv))	**(15,588)**	(12,672)
Tax effect of withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (v))	**4,857**	–
Tax effect of unused tax losses not recognised	**304**	65
Actual tax expense	**22,261**	15,025

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) The Company and a subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2018 (2017: 16.5%). These companies have no assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2018 (2017: 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 2018 (2017: 25%).

(iv) In 2018, 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 for the calendar years from 2015 to 2020. Pursuant to the relevant tax regulations this subsidiary is entitled to a preferential tax rate of 15%. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 75% (2017: 50%) of the qualified research and development costs incurred by this subsidiary.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

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

(v) The directors of the Company are of the opinion that around RMB48,572,000 retained profits of Hebei Ruifeng will be distributed to Turbo Group Investment Limited, which is subject to a PRC withholding tax rate of 10%. As a result a deferred tax liability of RMB4,857,000 has been provided as at 31 December 2018 accordingly.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Meng Lianzhou	360	265	133	8	766
Mr. Liu Zhanwen	180	144	55	–	379
Mr. Zhang Yuexuan	264	241	111	–	616
Mr. Liu Enwang	180	150	78	8	416
Independent non-executive directors					
Mr. Ren Keqiang	103	–	–	–	103
Mr. Yu Chun Kau	103	–	–	–	103
Mr. Wei Anli	103	–	–	–	103
	1,293	800	377	16	2,486

8 DIRECTORS' EMOLUMENTS *(Continued)*

	2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Meng Lianzhou	–	274	–	7	281
Mr. Liu Zhanwen	–	159	–	–	159
Mr. Zhang Yuexuan	–	248	–	–	248
Mr. Liu Enwang	–	161	–	7	168
Independent non-executive directors					
Mr. Ren Keqiang	6	–	–	–	6
Mr. Yu Chun Kau	6	–	–	–	6
Mr. Wei Anli	6	–	–	–	6
	18	842	–	14	874

On 2 May 2017, Mr. Meng Lianzhou was appointed as a director of the Company, and was redesignated as an executive director on 10 August 2017. On 10 August 2017, Mr. Liu Zhanwen, Mr. Zhang Yuexuan and Mr. Liu Enwang were appointed as executive directors of the Company. On 11 December 2017, Mr. Ren Keqiang, Mr. Yu Chun Kau and Mr. Wei Anli were appointed as independent non-executive directors of the Company.

No emoluments were paid by the Group to the directors during the year as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2017: two) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**1,340**	623
Retirement scheme contributions	**16**	14
	1,356	637

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2018 Number of individuals	2017 Number of individuals
HK$Nil to HK$1,000,000	**3**	2

10 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 RMB102,349,000 (2017: RMB94,798,000) and the weighted average of 797,808,000 ordinary shares in issue during the year (2017: 600,000,000 ordinary shares).

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

	2018	2017
Issued ordinary shares at 1 January	**9,999**	–
Issuance of share upon incorporation of the Company (Note 22(b)(i))	**–**	1
Issuance of shares in May 2017 (Note 22(b)(i))	**–**	9,998
Effect of capitalisation issue (Note 22(b)(ii))	**599,990,001**	599,990,001
Effect of shares issued on the initial listing of the Company's shares on the Stock Exchange (Note 22(b)(iii))	**197,808,000**	–
Weighted average number of shares in issue	**797,808,000**	600,000,000

10 BASIC AND DILUTED EARNINGS PER SHARE *(Continued)*

(a) Basic earnings per share *(Continued)*

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 were regarded as if they have been in issue since 1 January 2017. The capitalisation issue took place on the initial listing of the Company's shares on the Stock Exchange (Note 22(b)(ii)) is deemed to be completed on 1 January 2017 and the weighted average number of shares has 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 2018 and 2017.

11 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2017	220,379	381,400	11,300	105,150	718,229
Additions	1,837	45,824	2,288	84,360	134,309
Transfer in/(out)	19,776	105,222	–	(124,998)	–
Disposals	–	(5,910)	(252)	–	(6,162)
At 31 December 2017	241,992	526,536	13,336	64,512	846,376
Accumulated depreciation:					
At 1 January 2017	(26,498)	(135,887)	(5,755)	–	(168,140)
Charge for the year	(10,696)	(37,670)	(1,792)	–	(50,158)
Written back on disposals	–	5,026	184	–	5,210
At 31 December 2017	(37,194)	(168,531)	(7,363)	–	(213,088)
Carrying amount:					
At 31 December 2017	204,798	358,005	5,973	64,512	633,288
Cost:					
At 1 January 2018	**241,992**	**526,536**	**13,336**	**64,512**	**846,376**
Additions	**510**	**5,498**	**4,513**	**63,612**	**74,133**
Transfer in/(out)	**13,517**	**(14,391)**	**(122)**	**996**	**–**
Disposals	**–**	**(1,960)**	**(857)**	**–**	**(2,817)**
At 31 December 2018	**256,019**	**515,683**	**16,870**	**129,120**	**917,692**
Accumulated depreciation:					
At 1 January 2018	**(37,194)**	**(168,531)**	**(7,363)**	**–**	**(213,088)**
Charge for the year	**(11,335)**	**(49,547)**	**(2,157)**	**–**	**(63,039)**
Written back on disposals	**–**	**1,748**	**678**	**–**	**2,426**
At 31 December 2018	**(48,529)**	**(216,330)**	**(8,842)**	**–**	**(273,701)**
Carrying amount:					
At 31 December 2018	**207,490**	**299,353**	**8,028**	**129,120**	**643,991**

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's property, plant and equipment are mainly located in the PRC.

At 31 December 2018, property, plant and equipment of the Group with carrying amount of RMB79,182,000 (2017: RMB48,245,000) have been pledged as collateral for the Group's short-term bank and other loans (see Note 18(c)).

12 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**116,322**	116,322
Additions	**12,837**	–
At 31 December	**129,159**	116,322
Accumulated amortisation:		
At 1 January	**(10,590)**	(8,299)
Charge for the year	**(2,334)**	(2,291)
At 31 December	**(12,924)**	(10,590)
Carrying amount:		
At 31 December	**116,235**	105,732

Lease prepayments represent land use right premiums paid by the Group for land situated in the PRC. The lease terms are of 50 to 70 years.

At 31 December 2018, lease prepayments of the Group with carrying amount of RMB38,653,000 (2017: RMB26,939,000) have been pledged as collateral for the Group's short-term bank and other loans (see Note 18(c)).

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

			Proportion of ownership interest			
Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of registered/issued and paid up capital	The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hebei Ruifeng (Notes (i) and (ii)) 河北瑞豐動力缸體有限公司	The PRC 29 August 2007	Note (iii)	100%	–	100%	Design, manufacture and sale of cylinder blocks and cylinder heads
Turbo Group Investment Limited	Hong Kong 10 March 2017	1 share	100%	–	100%	Investment holding
Long Teng Holdings Limited	The BVI 25 April 2017	United States Dollar ("US$") 1, 1 share of US$1	100%	100%	–	Investment holding
Hebei Ruifeng Power Technology Co., Ltd. (Note (i)) 河北瑞豐動力科技有限公司	The PRC 24 July 2017	Note (iv)	100%	–	100%	Investment holding

Notes:

(i) The English translation of the names are for identification only. The official names of these entities are in Chinese.

(ii) This entity was registered as a limited liability company under the laws and regulations in the PRC.

(iii) According to the revised Article of this entity, the registered capital of this entity was increased from RMB20,000,000 to RMB110,000,000 on 11 February 2018, and the paid-up capital of RMB20,000,000 remained unchanged.

(iv) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. On 8 February 2018, the registered capital of this entity was increased from HK$10,000,000 to HK$110,000,000. As at the date of this report, the paid-up capital is HK$Nil.

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Raw materials	**48,090**	52,983
Work in progress	**41,228**	23,961
Finished goods	**61,172**	82,019
	150,490	158,963
Less: Write-down of inventories	**(6,614)**	(2,653)
	143,876	156,310

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**416,722**	482,710
Write-down of inventories	**3,961**	255
	420,683	482,965

15 TRADE AND OTHER RECEIVABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade receivables (Note (i))	229,669	207,021	207,021
Bills receivables	64,781	69,412	69,412
	294,450	276,433	276,433
Less: loss allowance (Note 23(a))	(665)	(512)	–
Financial assets measured at amortised cost	293,785	275,921	276,433
Prepayments and deposits	18,119	21,227	21,227
	311,904	297,148	297,660

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

At 31 December 2018, the aggregate carrying amount of trade receivables pledged for the Group's loans from third parties is RMB22,400,000 (2017: RMBNil) (see Note 18(c)).

Note:

(i) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see Note 2(c)(ii)).

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(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 loss allowance, of the Group is as follows:

	2018 RMB'000	2017 RMB'000
Less than 1 month	**125,063**	168,716
1 to 3 months	**55,644**	77,474
3 to 6 months	**67,272**	28,468
Over 6 months	**45,806**	1,775
	293,785	276,433

The Group's customers are mainly automobile and engine manufacturers in the PRC. Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in Note 23(a).

(b) Transfer of financial assets

The Group receives short-term bank acceptance notes from its customers as a method of settlement of goods sold. These notes entitle the Group to receive the full face values from the issuing banks upon the maturities of these notes, which generally range from 3 to 6 months from the dates of issuance.

At 31 December 2018, the Group had discounted certain of the bank acceptance notes at banks, and endorsed certain of the bank acceptance notes to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group assessed that the discounted and endorsed bank acceptance notes were issued by highly-rated banks, the credit risks were relatively insignificant and the Group was not exposed to the relative interest risk. At 31 December 2018, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to RMB101,850,000 (2017: RMB261,737,000).

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash on hand and at bank	**170,036**	5,715

The Group's operation in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other loans RMB'000 (Note 18)	**Interest payables** RMB'000	**Total** RMB'000
At 1 January 2018	228,000	911	228,911
Changes from financing cash flows:			
Proceeds from new bank and other loans	215,400	–	215,400
Repayment of bank and other loans	(234,000)	–	(234,000)
Finance costs paid	–	(10,956)	(10,956)
Total changes from financing cash flows	(18,600)	(10,956)	(29,556)
Other changes:			
Finance costs (Note 6(a))	–	10,924	10,924
At 31 December 2018	209,400	879	210,279

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank and other loans RMB'000 (Note 18)	Interest payables RMB'000	Total RMB'000
At 1 January 2017	200,833	895	201,728
Changes from financing cash flows:			
Proceeds from new bank and other loans	158,500	–	158,500
Repayment of bank and other loans	(131,333)	–	(131,333)
Finance costs paid	–	(12,274)	(12,274)
Total changes from financing cash flows	27,167	(12,274)	14,893
Other changes:			
Finance costs (Note 6(a))	–	12,290	12,290
At 31 December 2017	228,000	911	228,911

17 TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**103,783**	180,270
Payables for construction of property, plant and equipment	**80,845**	90,200
Payables for staff related costs	**17,288**	19,461
Payables for other taxes	**7,715**	13,060
Payables for costs incurred in connection with the initial listing of the Company's shares	**–**	13,708
Others	**17,488**	12,907
	123,336	149,336
Financial liabilities measured at amortised cost	**227,119**	329,606

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

17 TRADE AND OTHER PAYABLES *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Less than 1 month	**28,839**	98,173
1 to 3 months	**39,000**	59,237
3 to 6 months	**27,907**	19,918
Over 6 months	**8,037**	2,942
	103,783	180,270

18 BANK AND OTHER LOANS

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

	2018 RMB'000	2017 RMB'000
Short-term bank loans:		
– secured by property, plant and equipment and lease prepayments	**127,000**	60,000
Loans from third parties:		
– secured by trade receivables	**22,400**	–
	149,400	60,000
Add: current portion of long-term bank and other loans (Note 18(b))	**60,000**	52,000
	209,400	112,000

18 BANK AND OTHER LOANS *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Long-term bank loans:		
– secured by property, plant and equipment and lease prepayments	–	18,000
Loans from third parties:		
– unguaranteed and unsecured	60,000	150,000
	60,000	168,000
Less: current portion of long-term bank and other loans (Note 18(a))	(60,000)	(52,000)
	–	116,000

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

	2018 RMB'000	2017 RMB'000
Within 1 year or on demand	60,000	52,000
After 1 year but within 2 years	–	116,000
	60,000	168,000

(c) The aggregate carrying amount of property, plant and equipment, lease prepayments and trade receivables pledged for the Group's short-term bank and other loans is as follows:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	79,182	48,245
Lease prepayments	38,653	26,939
Trade receivables	22,400	–
	140,235	75,184

18 BANK AND OTHER LOANS *(Continued)*

(d) Certain of the Group's bank loans are subject to the fulfilment of restrictive covenants relating to financial ratios commonly found in lending arrangements with financial institutions. If the Group were to breach the restrictive covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these restrictive covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). At 31 December 2018 none of the restrictive covenants had been breached (2017: None).

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation/(prepaid income tax) in the consolidated statement of financial position represents:

	2018 **RMB'000**	2017 RMB'000
Income tax payable at 1 January	**2,621**	2,684
Provision for the year (Note 7(a))	**17,059**	16,893
Income tax paid	**(31,803)**	(16,956)
Prepaid income tax at 31 December	**(12,123)**	2,621

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets				Liabilities	
	Government grants and subsequent amortisation RMB'000	Provision for warranties RMB'000	Write-down of inventories RMB'000	Credit loss allowance RMB'000	Retained profits to be distributed RMB'000	Total RMB'000
At 1 January 2017	7,522	736	360	–	–	8,618
Credited to the consolidated statement of profit or loss (Note 7(a))	1,747	83	38	–	–	1,868
At 31 December 2017	9,269	819	398	–	–	10,486
Impact on initial application of IFRS 9 (Note 2(c)(ii))	–	–	–	77	–	77
At 1 January 2018	9,269	819	398	77	–	10,563
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(974)	12	594	23	(4,857)	(5,202)
At 31 December 2018	8,295	831	992	100	(4,857)	5,361

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), at 31 December 2018, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB2,183,000 (2017: RMB360,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(d) Deferred tax liabilities not recognised

Except for deferred tax liabilities recognized in Note 19(b), taxable temporary differences relating to undistributed profits of subsidiaries of the Group established in the PRC amounted to RMB625,472,000 at 31 December 2018 (2017: RMB572,066,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

20 DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
At 1 January	**61,793**	50,146
Additions	**–**	17,435
Credited to the consolidated statement of profit or loss	**(6,492)**	(5,788)
At 31 December	**55,301**	61,793

Deferred income represents government grants received to compensate the Group's cost of construction of property, plant and equipment. The grants are amortised over the useful lives of the related property, plant and equipment.

21 PROVISION FOR WARRANTIES

	2018 RMB'000	2017 RMB'000
At 1 January	**5,464**	4,911
Provisions made (Note 6(c))	**1,255**	3,099
Provisions utilised	**(1,177)**	(2,546)
At 31 December	**5,542**	5,464
Less: amount included under "current liabilities"	**(2,093)**	(2,471)
	3,449	2,993

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within the warranty period, which primarily ranges from one to three years from the date of customer acceptance. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

22 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 22(b))	Share premium RMB'000 (Note 22(d)(i))	Exchange reserve RMB'000 (Note 22(d)(iv))	Accumulated losses RMB'000	Total equity RMB'000
Balance at 2 May 2017 (date of incorporation)	–	–	–	–	–
Issuance of shares	1	–	–	–	1
Balance at 31 December 2017 and 1 January 2018	1	–	–	–	1
Loss for the year	–	–	–	(4,811)	(4,811)
Other comprehensive income	–	–	14,028	–	14,028
Total comprehensive income	–	–	14,028	(4,811)	9,217
Capitalisation issue (Note 22(b)(ii))	49,818	(49,818)	–	–	–
Issuance of shares by initial public offering (Note 22(b)(iii))	16,606	248,060	–	–	264,666
Interim dividends declared and paid in respect of the current year (Note 22(c)(i))	–	(48,572)	–	–	(48,572)
	66,424	149,670	–	–	216,094
Balance at 31 December 2018	66,425	149,670	14,028	(4,811)	225,312

22 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(Continued)*

(b) Share capital

Movements in the Company's issued share capital are as follows:

	2018		2017	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	9,999	1	–	–
At 2 May 2017 (date of incorporation) (Note 22(b)(i))	–	–	1	–
Issuance of shares (Note 22(b)(i))	–	–	9,998	1
Capitalisation issue (Note 22(b)(ii))	599,990,001	49,818	–	–
Issuance of shares by initial public offering (Note 22(b)(iii))	200,000,000	16,606	–	–
At 31 December	800,000,000	66,425	9,999	1

Notes:

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 May 2017. Its initial authorised share capital was HK$380,000 divided into 3,800,000 shares with a par value of HK$0.10 per share. On 11 December 2017, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK$380,000 divided into 3,800,000 shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each. In May 2017, the Company issued and allotted/transferred 1 share and 9,998 shares, respectively, at par value for cash to Dragon Rise Ventures Limited ("Dragon Rise") and other investment companies, the proceeds of HK$999.9 (equivalent to approximately RMB796) were credited to the Company's share capital account.

(ii) On the Listing Date, the Company issued 599,990,001 ordinary shares at par value of HK$0.1 each to the equity shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 11 December 2017 by way of capitalisation of the sum of HK$59,999,000 (equivalent to approximately RMB49,818,000) standing to the credit of the share premium account of the Company.

(iii) On the Listing Date, the shares of the Company were listed on the Main Board of the Stock Exchange. 200,000,000 shares were issued by the Company at the offer price of HK$1.68 per share. The net proceeds from the above issuance amounted to approximately HK$318,756,000 (equivalent to approximately RMB264,666,000), of which HK$20,000,000 (equivalent to approximately RMB16,606,000) and HK$298,756,000 (equivalent to approximately RMB248,060,000) were recorded in the Company's share capital and share premium account respectively.

22 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(Continued)*

(c) Dividends

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

	2018 RMB'000	2017 RMB'000
Interim dividend declared and paid of HK$6.85 cents per ordinary share (2017: HK$Nil)	**48,572**	–

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: RMBNil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

The directors of the Company did not recommend the payment of a dividend in respect of year ended 31 December 2017.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Other reserve

The other reserve of the Group as at 1 January 2017 represented the paid-in capital of Hebei Ruifeng. As part of the Reorganisation, the Company, via Ruifeng Technology, acquired the 100% equity interests in Hebei Ruifeng from each of Hebei Ruifeng's then equity holders at a total consideration of RMB20,000,000. The acquisition became effective on 2 August 2017. Immediately following the acquisition, Hebei Ruifeng became an indirectly wholly-owned subsidiary of the Company.

(iii) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established and operated in the Mainland China are required to transfer 10% of their respective net profits to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

22 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks and financial institutions with high credit standings, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 12.2% (2017: 15.2%) and 76.8% (2017: 61.4%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Subject to the results of credit evaluation, the Group generally grants credit period of 30 to 120 days to its customers. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.02%	128,977	30
Less than 1 year past due	0.49%	99,952	487
1 to 2 years past due	20.00%	740	148
		229,669	665

Expected loss rates are based on actual loss experience, adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(h)(i) – Policy applicable prior to 1 January 2018). At 31 December 2017, none of the trade receivables was determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	126,758
Less than 1 year past due	79,785
1 to 2 years past due	478
	207,021

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

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

Movements in the loss allowance account in respect of trade receivables during the year are as follows:

	RMB'000
Balance at 1 January 2017 under IAS 39	–
Impairment losses recognised during the year	84
Amounts written off during the year	(84)
Balance at 31 December 2017 under IAS 39	–
Impact on initial application of IFRS 9 (Note 2(c)(ii))	512
Adjusted balance at 1 January 2018	512
Impairment losses recognised during the year	153
Balance at 31 December 2018	665

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2018	
	Contractual undiscounted cash flow within 1 year or on demand RMB'000	**Carrying amount RMB'000**
Trade and other payables measured at amortised cost	**227,119**	**227,119**
Bank and other loans	**212,700**	**209,400**
	439,819	**436,519**

	2017			
	Contractual undiscounted cash flow			
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost	328,695	–	328,695	328,695
Bank and other loans	122,187	117,908	240,095	228,000
	450,882	117,908	568,790	556,695

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing borrowings at the end of the reporting period:

	2018		2017	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
– Bank loans	**4.92%**	**30,000**	–	–
– Loans from third parties	**4.04%~8.00%**	**82,400**	4.36%	150,000
		112,400		150,000
Variable rate borrowings:				
– Bank loans	**4.83%~5.22%**	**97,000**	4.73%~5.46%	78,000
		209,400		228,000
Fixed rate borrowings as a percentage of total borrowings		**54%**		66%

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB825,000 (2017: RMB663,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The analysis is performed on the same basis as 2017.

(d) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2018 and 2017.

24 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Commitments in respect of property, plant and equipment and land use rights:		
– Contracted for	**6,784**	9,702

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**283**	50
Over 1 year but within 2 years	**94**	–
	377	50

The Group leases certain office premises under operating leases. None of the leases includes contingent rentals.

25 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**4,554**	2,487
Contributions to defined contribution retirement plan	**72**	62
	4,626	2,549

Total remuneration is included in "staff costs" (see Note 6(b)).

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Interests in a subsidiary		**109,243**	–
Current assets			
Other receivables		**337**	–
Cash and cash equivalents		**116,953**	1
		117,290	1
Current liabilities			
Other payables		**1,221**	–
NET ASSETS		**225,312**	1
CAPITAL AND RESERVES	22		
Share capital		**66,425**	1
Reserves		**158,887**	–
TOTAL EQUITY		**225,312**	1

Approved and authorised for issue by the board of directors on 22 March 2019.

Meng Lianzhou
Chairman

Liu Enwang
Director

(Expressed in RMB unless otherwise indicated)

27 COMPARATIVES FIGURES

The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors of the Company consider the immediate parent of the Group to be Dragon Rise, which is incorporated in the BVI. This entity does not produce financial statements available for public use. The directors of the Company consider the ultimate holding parties of the Group to be Mr. Meng Lianzhou, Mr. Liu Zhanwen, Mr. Zhang Yuexuan and Mr. Liu Enwang.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 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
IFRS 16, Leases	1 January 2019
IFRIC 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	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 IFRS 16 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 16, the actual impact upon the initial adoption of this standard 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 standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

IFRS 16, Leases

As disclosed in Note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 24(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB377,000, the majority of which is payable within 1 year after the reporting date. The adoption of IFRS 16 does not have a significant impact on the Group's consolidated financial statements.