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

(*Incorporated in the Cayman Islands with limited liability*)
(Stock Code: 2025)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Change
Revenue (RMB'000)	**610,734**	700,365	-12.8%
Gross Profit (RMB'000)	**190,051**	217,400	-12.6%
Gross profit margin	***31.1%***	*31.0%*	*0.1%*
Profit for the year (RMB'000)	**102,349**	94,798	8.0%
Net profit margin	***16.8%***	*13.5%*	*3.3%*
Basic and diluted earnings per share (RMB)	**0.13**	0.16	

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Ruifeng Power Group Company Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018**	2017
		RMB'000	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)	8	**0.13**	0.16
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).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	*2018* RMB'000	*2017* RMB'000 (Note)
Non-current assets			
Property, plant and equipment		**643,991**	633,288
Lease prepayments		**116,235**	105,732
Deferred tax assets		**10,218**	10,486
		770,444	749,506
Current assets			
Inventories		**143,876**	156,310
Trade and other receivables	9	**311,904**	297,660
Prepaid income tax		**12,123**	-
Cash and cash equivalents		**170,036**	5,715
		637,939	459,685
Current liabilities			
Trade and other payables	10	**227,119**	329,606
Bank and other loans	11(a)	**209,400**	112,000
Current taxation		**-**	2,621
Provision for warranties		**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	11(b)	**-**	116,000
Deferred income		**55,301**	61,793
Provision for warranties		**3,449**	2,993
Deferred tax liabilities		**4,857**	-
		63,607	180,786
NET ASSETS		**906,164**	581,707
CAPITAL AND RESERVES			
Share capital		**66,425**	1
Reserves		**839,739**	581,706
TOTAL EQUITY		**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).

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 2 May 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 January 2018 (the "**Listing Date**"). The Group is 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.

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 judgments, 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 judgments 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.

Judgments 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.

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	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.

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.

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.

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.

(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.

3. ACCOUNTING JUDGEMENT AND ESTIMATES

(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. 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 condition 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.

(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	2017
	RMB'000	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).

(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 are presented.

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	*Cylinder heads*	*Ancillary cylinder block components*	*Total*
	RMB'000	RMB'000	RMB'000	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 People's Republic of China (the "**PRC**"). The Group's operating assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

5. OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Government grants	**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	2017
	RMB'000	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: Nil).

(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 Scheme 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.

(c) Other items

	2018 RMB'000	2017 RMB'000 (Note)
Depreciation and amortisation #	**65,373**	52,449
Impairment losses on trade and other receivables	**153**	84
Operating lease charges in respect of temporary warehouse	**129**	133
Provision for warranties	**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#	**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		
Provision for the year	**17,059**	16,893
Deferred taxation		
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

(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: Nil).

(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.

(v) The Directors 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. 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	**-**	1
Issuance of shares in May 2017	**-**	9,998
Effect of capitalisation issue	**599,990,001**	599,990,001
Effect of shares issued on the initial listing of the Company's shares on the Stock Exchange	**197,808,000**	-
Weighted average number of shares in issue	**797,808,000**	600,000,000

The Company was incorporated on 2 May 2017, and issued and allotted 9,999 shares in May 2017. In order to present a meaningful earnings per share, the above 9,999 shares 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 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.

9. 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	**(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: Nil) (see Note 11).

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)).

(a) ***Ageing analysis***

The ageing analysis of trade and bills receivables, included in trade and other receivables, based on the invoice date and net of allowance 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.

(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, 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).

10. 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.

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

	2018	2017
	RMB'000	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

11. BANK AND OTHER LOANS

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

	2018	2017
	RMB'000	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 11(b))	**60,000**	52,000
	209,400	112,000

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

	2018	2017
	RMB'000	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 11(a))	**(60,000)**	(52,000)
	-	116,000

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

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

(d) Certain of the Group's bank loans are subject to the 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. At 31 December 2018, none of the restrictive covenants had been breached (2017: None).

12. CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS

Dividends

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

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

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

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

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

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 these 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 manufacture 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	**As a percentage of total revenue**	**Sales volume**	Revenue	As a percentage of total revenue	Sales volume
	RMB'000	**%**	**units**	RMB'000	%	units
Cylinder blocks						
Cylinder blocks for passenger vehicles	**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, 493 N720 and VM2.5.

Cylinder Blocks for Industrial Vehicles

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. Revenue from sales of cylinder blocks for industrial vehicles 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, the Group 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 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, 493 N720 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.

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 RMB92.2million 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 RMB41.8million 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 related 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: RMB 78.0 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	2017
	RMB'000	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 expenditure 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 during the year ended 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 the 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 announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

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.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, 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 announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2018 and up to the date of this announcement, the Company has fully complied with the Code Provisions, except for the following deviations.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the year ended 31 December 2018 and up to the date of this announcement.

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).

CLOSURE OF REGISTER OF MEMBERS

For determining the shareholder's entitlement to attend and vote at the annual general meeting of the Company to be held on 31 May 2019 ("**AGM**"), 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.

AUDITOR

KPMG was appointed as the auditor for the financial statements of the Group prepared in accordance with the IFRSs for the year ended 31 December 2018. The figures in respect of the Group's financial statements set out in this announcement are consistent with those in the financial statements which have been audited by KPMG.

ANNUAL GENERAL MEETING

The 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.

AUDIT COMMITTEE

The audit committee of the Company had reviewed together with the management and external auditor of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the annual results of the Group for the year ended 31 December 2018.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hbsgt.com and the annual report for the year ended 31 December 2018 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the aforesaid websites of the Stock Exchange and the Company in due course.

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

Shenzhou, the PRC, 22 March 2019

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