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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2019	2018	Change
Revenue (RMB'000)	**187,121**	339,936	(45.0)%
Gross profit (RMB'000)	**43,486**	103,085	(57.8)%
Gross profit margin	***23.2%***	*30.3%*	*(7.1)%*
Profit for the period (RMB'000)	**19,304**	49,416	(60.9)%
Net profit margin	***10.3%***	*14.5%*	*(4.2)%*
Basic and diluted earnings per share (RMB cent)	**2.41**	6.21	

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$54,800,000).

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Ruifeng Power Group Company Limited (the "**Company**") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 together with the comparative figures for the six months ended 30 June 2018. The interim results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - UNAUDITED

For the six months ended 30 June

*(Expressed in Renminbi ("**RMB**"))*

		Six months ended 30 June	
		2019	2018 (Note)
	Note	**RMB'000**	RMB'000
Revenue	4	**187,121**	339,936
Cost of sales		**(143,635)**	(236,851)
Gross profit	4(b)	**43,486**	103,085
Other income	5	**21,882**	15,203
Selling expenses		**(5,414)**	(11,272)
Administrative expenses		**(31,097)**	(42,381)
Profit from operations		**28,857**	64,635
Finance costs	6(a)	**(6,412)**	(5,982)
Profit before taxation	6	**22,445**	58,653
Income tax	7	**(3,141)**	(9,237)
Profit attributable to equity shareholders of the Company for the period		**19,304**	49,416
Earnings per share			
Basic and diluted (RMB cent)	8	**2.41**	6.21
Profit for the period		**19,304**	49,416
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss			
- Exchange differences on translation of financial statements into presentation currency		**462**	(467)
Total comprehensive income attributable to equity shareholders of the Company for the period		**19,766**	48,949

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED

As at 30 June 2019
(Expressed in RMB)

	Note	**At 30 June 2019 RMB'000**	At 31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment		**652,095**	643,991
Lease prepayments		**-**	116,235
Right-of-use assets		**115,172**	-
Deferred tax assets		**9,733**	10,218
		777,000	770,444
Current assets			
Inventories		**154,064**	143,876
Trade and other receivables	9	**273,241**	311,904
Prepaid income tax		**13,123**	12,123
Cash and cash equivalents		**190,791**	170,036
		631,219	637,939
Current liabilities			
Trade and other payables	10	**203,000**	227,119
Bank and other loans	11(a)	**217,000**	209,400
Lease liabilities	3(d)	**213**	-
Provision for warranties		**2,036**	2,093
		422,249	438,612
Net current assets		**208,970**	199,327
Total assets less current liabilities		**985,970**	969,771
Non-current liabilities			
Deferred income		**52,056**	55,301
Provision for warranties		**3,127**	3,449
Deferred tax liabilities		**4,857**	4,857
		60,040	63,607
NET ASSETS		**925,930**	906,164
CAPITAL AND RESERVES			
Share capital		**66,425**	66,425
Reserves		**859,505**	839,739
TOTAL EQUITY		**925,930**	906,164

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

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. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 23 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2019.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC-15, *Operating leases – incentives*, and SIC-27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.93%.

To ease the transition to IFRS 16, the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	377
Less: total future interest expenses	(25)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	352
Add: finance lease liabilities recognised as at 31 December 2018	-
Total lease liabilities recognised at 1 January 2019	352

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in '**right-of-use assets**' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	*Impact on initial application of IFRS 16* RMB'000	*Carrying amount at 1 January 2019* RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Lease prepayments	116,235	(116,235)	-
Right-of-use assets	-	116,587	116,587
Total non-current assets	**770,444**	**352**	**770,796**
Lease liabilities (current)	-	264	264
Current liabilities	**438,612**	**264**	**438,876**
Net current assets	**199,327**	**(264)**	**199,063**
Total assets less current liabilities	**969,771**	**88**	**969,859**
Lease liabilities (non-current)	-	88	88
Total non-current liabilities	**63,607**	**88**	**63,695**
Net assets	**906,164**	**-**	**906,164**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 RMB'000	*At 1 January 2019* RMB'000
Land use rights, carried at depreciated cost	114,961	116,235
Leased office premises	211	352
	115,172	116,587

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		*At 1 January 2019*	
	Present value of the minimum lease payments RMB'000	*Total minimum lease payments* RMB'000	*Present value of the minimum lease payments* RMB'000	*Total minimum lease payments* RMB'000
Within 1 year	213	217	264	283
After 1 year but within 2 years	-	-	88	94
	213	217	352	377
Less: total future interest expenses		(4)		(25)
Present value of lease liabilities		213		352

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the six months ended 30 June 2019.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement.

	Six months ended 30 June 2019				*Six months ended 30 June 2018*
	Amounts reported under IFRS 16 (A)	*Add back: IFRS 16 depreciation and interest expense* (B)	*Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1)* (C)	*Hypothetical amounts for 2019 as if under IAS 17* (D=A+B-C)	*Compared to amounts reported for 2018 under IAS 17*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**28,857**	**141**	**(160)**	**28,838**	**64,635**
Finance costs	(6,412)	21	-	(6,391)	(5,982)
Profit before taxation	**22,445**	**162**	**(160)**	**22,447**	**58,653**
Profit for the period	**19,304**	**162**	**(160)**	**19,306**	**49,416**
Reportable segment gross profit for the six months ended 30 June 2019 (Note 4(b)) impacted by the adoption of IFRS 16:					
- Cylinder blocks	32,255	-	-	32,255	87,637
- Cylinder heads	10,216	-	-	10,216	15,216
- Ancillary cylinder block components	1,015	-	-	1,015	232
- Total	43,486	-	-	43,486	103,085

	Six months ended 30 June 2019			*Six months ended 30 June 2018*
	Amounts reported under IFRS 16	*Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2)*	*Hypothetical amounts for 2019 as if under IAS 17*	*Compared to amounts reported for 2018 under IAS 17*
	(A)	(B)	(C=A+B)	
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	50,881	(160)	50,721	40,363
Net cash generated from operating activities	**47,226**	**(160)**	**47,066**	**19,939**
Capital element of lease rentals paid	(139)	139	-	-
Interest element of lease rentals paid	(21)	21	-	-
Net cash generated from financing activities	**22,671**	**160**	**22,831**	**243,636**

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows during the six months ended 30 June 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in the period. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied during the six months ended 30 June 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

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:

	Six months ended 30 June	
	2019	*2018*
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
– Sales of cylinder blocks	**144,905**	287,979
– Sales of cylinder heads	**30,056**	34,591
– Sales of ancillary cylinder block components	**12,160**	17,366
	187,121	339,936

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 six months ended 30 June 2019 and 2018. 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 six months ended 30 June 2019 and 2018 is set out below:

	Six months ended 30 June 2019			
	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	**144,905**	**30,056**	**12,160**	**187,121**
Reportable segment gross profit	**32,255**	**10,216**	**1,015**	**43,486**

	Six months ended 30 June 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	287,979	34,591	17,366	339,936
Reportable segment gross profit	87,637	15,216	232	103,085

(ii) Geographic information

The Group's revenue is substantially generated from the 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

	Six months ended 30 June	
	2019	*2018*
	RMB'000	RMB'000
Government grants (including amortisation of deferred income)	**20,212**	14,844
Interest income	**696**	402
Net gain/ (loss) on disposal of property, plant and equipment	**3**	(116)
Others	**971**	73
	21,882	15,203

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2019	*2018*
		(Note)
	RMB'000	RMB'000
Interest on bank and other loans	**5,484**	5,852
Bank charges and others	**907**	130
Interest on lease liabilities	**21**	-
	6,412	5,982

No borrowing costs have been capitalised for the six months ended 30 June 2019 and 2018.

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

(b) Staff costs#

	Six months ended 30 June	
	2019	*2018*
	RMB'000	RMB'000
Salaries, wages and other benefits	**28,225**	31,653
Contributions to defined contribution retirement plan	**2,844**	2,940
	31,069	34,593

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

	Six months ended 30 June	
	2019	*2018*
		(Note)
	RMB'000	RMB'000
Depreciation charge		
– owned property, plant and equipment	**31,168**	32,484
– land use rights and leased office premises	**1,415**	1,098
Impairment losses on trade and other receivables	**135**	436
Operating lease charges of short-term leases	**55**	62
Provision for warranties	**175**	832
Research and development costs	**7,353**	12,598
Cost of inventories #	**143,635**	236,851

\# Cost of inventories for the six months ended 30 June 2019 includes RMB46,956,000 (six months ended 30 June 2018: RMB51,304,000) 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 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

7. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2019	*2018*
	RMB'000	RMB'000
Current taxation - PRC Corporate Income Tax	**2,656**	8,829
Deferred taxation	**485**	408
	3,141	9,237

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.

The Company and a subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the six month ended 30 June 2019 (six month ended 30 June 2018: 16.5%). These subsidiaries have no assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB Nil).

The companies of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2019 (six months ended 30 June 2018: 25%).

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% of the qualified research and development costs incurred by this subsidiary.

8. 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 RMB19,304,000 (six months ended 30 June 2018: RMB49,416,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2018: 795,580,110) in issue during the interim period.

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

	Six months ended 30 June	
	2019	*2018*
Issued ordinary shares at 1 January	**800,000,000**	9,999
Effect of capitalisation issue (Note 12(b)(i))	**-**	599,990,001
Effect of shares issued on the initial listing of the Company's shares on the Stock Exchange (Note 12(b)(ii))	**-**	195,580,110
Weighted average number of shares in issue	**800,000,000**	795,580,110

The capitalisation issue took place on the initial listing of the Company's shares on the Stock Exchange (Note 12(b)(i)) is deemed to be completed on 1 January 2018 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 six months ended 30 June 2019 and 2018.

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 **RMB'000**	*As at 31 December 2018* RMB'000
Trade receivables	**196,106**	229,669
Bills receivables	**60,599**	64,781
	256,705	294,450
Less: loss allowance	**(800)**	(665)
Financial assets measured at amortised cost	**255,905**	293,785
Prepayments and deposits	**17,336**	18,119
	273,241	311,904

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

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:

	As at 30 June 2019 **RMB'000**	*As at 31 December 2018* RMB'000
Less than 1 month	**71,068**	125,063
1 to 3 months	**65,821**	55,644
3 to 6 months	**55,022**	67,272
Over 6 months	**63,994**	45,806
	255,905	293,785

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 **RMB'000**	*As at 31 December 2018* RMB'000
Trade payables	**94,182**	103,783
Payables for construction of property, plant and equipment	**72,916**	80,845
Payables for staff related costs	**15,826**	17,288
Payables for other taxes	**5,216**	7,715
Others	**14,860**	17,488
Financial liabilities measured at amortised cost	**203,000**	227,119

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:

	As at 30 June 2019 **RMB'000**	*As at 31December 2018* RMB'000
Less than 1 month	**21,699**	28,839
1 to 3 months	**25,693**	39,000
3 to 6 months	**31,825**	27,907
Over 6 months	**14,965**	8,037
	94,182	103,783

11. BANK AND OTHER LOANS

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

	As at 30 June 2019 **RMB'000**	*As at 31 December 2018* RMB'000
Short-term bank loans:		
– secured by property, plant and equipment and lease prepayments	**217,000**	127,000
Loans from third parties:		
– secured by trade receivables	**-**	22,400
	217,000	149,400
Add: current portion of long-term bank and other loans (Note 11(b))	**-**	60,000
	217,000	209,400

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

	As at 30 June 2019 **RMB'000**	*As at 31December 2018* RMB'000
Loans from third parties:		
– unguaranteed and unsecured	**-**	60,000
Less: current portion of long-term bank and other loans (Note 11(a))	**-**	(60,000)
	-	-

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

	As at 30 June 2019 **RMB'000**	*As at 31 December 2018* RMB'000
Within 1 year or on demand	**-**	60,000

(c) At 30 June 2019, the aggregate carrying amount of property, plant and equipment, right-of-use assets and trade receivables pledged for the Group's short-term bank loans is RMB310,281,000 (31 December 2018: RMB140,235,000).

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the six months ended 30 June

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2019. On 31 August 2018, the directors of the Company declared to distribute HK$54,800,000, equivalent to approximately RMB48,572,000 to the equity shareholders of the Company and the dividends has been fully paid during 2018.

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

The directors of the Company did not recommend the payment of a dividend in respect of year ended 31 December 2018.

(b) Share capital

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

	Six months ended 30 June 2019		*Six months ended 30 June 2018*	
	Number of shares	*Amount* RMB'000	*Number of shares*	*Amount* RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	800,000,000	66,425	9,999	1
Capitalisation issue (Note 12(b)(i))	-	-	599,990,001	49,818
Issuance of shares by initial public offering (Note 12(b)(ii))	-	-	200,000,000	16,606
At 30 June	800,000,000	66,425	800,000,000	66,425

Notes:

(i) 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.

(ii) 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.

(c) *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 shareholder 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.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This adoption had no significant impact in the Group's total debt and adjusted net debt-to-capital ratio.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the first half of 2019, the ongoing Sino-US trade dispute created tension in the relationship between China and the United States, resulting in a GDP growth rate of 6.3% recorded by China for the first half of the year. The automobile industry was under greater pressure in 2019 as the further growth of the automobile market was impeded by a number of negative factors, including the continuous economic slowdown and the impact of the upgrade of the vehicle emission standard from China V standard to China VI standard, leaving the automobile market stuck in the doldrums. According to China Association of Automobile Manufacturers' statistics, approximately 12.1 million and approximately 12.3 million of vehicles were produced and sold respectively in the first half of 2019, representing a decrease of approximately 13.7% and approximately 12.4% year-on-year respectively. Among the above vehicles, a total of approximately 4.0 million of China's branded passenger vehicles were sold, representing a decrease of approximately 21.7% year-on-year and accounting for approximately 39.5% of the total passenger vehicle sales. Market share decreased by approximately 1.9% over the same period of the previous year. Passenger vehicles recorded a larger decline in sales than the overall automobile sector and all vehicle types shown a downward trend.

In June 2019, distributors in certain regions entered the final phase of destocking of China V emission standard products, therefore from the perspective of wholesale sales, the process of the weakening in sales volume was coming to an end. Building on the basis of destocking of China V emission standard from the second half of the year, the Group is expected to bring forward the implementation of China VI emission standard in the key regions, the Pearl River Delta region and the Chengdu-Chongqing region on 1 July 2019. With such efforts, the passenger vehicles market can gradually enhance the stock level of goods that are in compliance with China VI emission standard. During the second half of the year, the growing number of vehicles which complies with China VI emission standard and the continuing success of a series of policies and measures to reduce tax and fees, especially the "Notice on Issuing the Implementation Plan for Promoting the Upgrade of Key Consumer Goods and Resource Recycling (2019-2020)" (《關於印發<推動重點消費品更新升級暢通資源迴圈利用實施方案（2019-2020 年）>的通知》) jointly announced by the National Development and Reform Commission, the Ministry of Ecology and Environment, and the Ministry of Commerce in early June 2019, would bring a relatively positive effect to the passenger vehicles market. In view of this, the Group believes that the automobile market will gradually improve in the second half of the year.

BUSINESS REVIEW AND PROSPECTS

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 customised 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 six months ended 30 June 2019 and 2018:

	For the six months ended 30 June					
	2019			2018		
	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	**36,579**	**19.5**	**46,037**	116,303	34.2	162,067
Cylinder blocks for commercial vehicles	**83,100**	**44.4**	**79,716**	140,476	41.3	123,380
Cylinder blocks for industrial vehicles	**25,226**	**13.5**	**23,300**	31,200	9.2	29,914
Subtotal	**144,905**	**77.4**	**149,053**	287,979	84.7	315,361
Cylinder heads	**30,056**	**16.1**	**52,941**	34,591	10.2	58,874
Ancillary cylinder block components	**12,160**	**6.5**	**608,350**	17,366	5.1	1,348,747
Total	**187,121**	**100.0**		339,936	100.0	

For the six months ended 30 June 2019, the automobile market was in downturn, which affected the sale and business performance of the Group. For the six months ended 30 June 2019, the demands of the cylinder blocks, cylinder heads and ancillary cylinder block components of the Group from the customers decreased significantly, as a result, the revenue and the profit of the Group decreased by 45.0% and 60.9%, respectively to RMB187.1 million and RMB19.3 million.

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 34.2% of our total revenue for the six months ended 30 June 2018 to approximately 19.5% for the six months ended 30 June 2019. Sales volume of cylinder blocks for passenger vehicles decreased by approximately 71.6% from approximately 162,000 units for the six months ended 30 June 2018 to approximately 46,000 units for the six months ended 30 June 2019. The decrease was mainly due to decrease in demands from our customers as the automobile market is in downturn and the Group has decreased the supply of products to several customers which are over our credit limits and aged over 180 days. Besides, the Group has commenced mass production of a cylinder block for passenger vehicles, G501, which can meet China VI standard.

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 41.3% of total revenue for the six months ended 30 June 2018 to approximately 44.4% for the six months ended 30 June 2019. Sales volume of cylinder blocks for commercial vehicles decreased by approximately 35.5% from approximately 123,000 units for the six months ended 30 June 2018 to approximately 80,000 units for the six months ended 30 June 2019.

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 9.2% of total revenue for the six months ended 30 June 2018 to approximately 13.5% for the six months ended 30 June 2019. Sales volume of cylinder blocks for industrial vehicles decreased by approximately 22.0% from approximately 30,000 units for the six months ended 30 June 2018 to approximately 23,000 units for the six months ended 30 June 2019.

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 by approximately 10.1% from approximately 59,000 units for the six months ended 30 June 2018 to approximately 53,000 units for the six months ended 30 June 2019. Such decrease was as a result of decrease in demand on 493 series of cylinder heads.

Production Facilities

All production facilities of the Group are located in Shenzhou City, Hebei Province, the PRC. As at 30 June 2019, 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).

As at 30 June 2019, the Group was setting up 7 cylinder block, 2 cylinder head mechanical processing lines and a precision casting line, and was renovating 2 cylinder block mechanical processing lines in order to cater for customer demand for new products. Most of new production lines and renovation works are expected to be completed before end of 31 December 2019.

FINANCIAL REVIEW

Revenue

Revenue decreased by 45.0% from RMB339.9 million for the six months ended 30 June 2018 to RMB187.1 million for the six months ended 30 June 2019. This decrease was primarily attributable to a decrease in revenue from sales of cylinder blocks, cylinder heads and ancillary cylinder block components. Such significant decrease was mainly affected by the downturn in the automotive industry.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales decreased by 49.7% from RMB288.0 million for the six months ended 30 June 2018 to RMB144.9 million for the six months ended 30 June 2019, primarily attributable to a decrease in sales volume from approximately 315,000 units for the six months ended 30 June 2018 to approximately 149,000 units for the six months ended 30 June 2019 driven by decreased customer demand and tightening credit management of the Group.

Sales of Cylinder Heads

Segment revenue from cylinder head sales decreased by 13.1% from RMB34.6 million for the six months ended 30 June 2018 to RMB30.1 million for the six months ended 30 June 2019. This decrease was primarily due to decrease in demand from our customers. The sales volume of cylinder heads decreased from approximately 59,000 units for the six months ended 30 June 2018 to approximately 53,000 units for the six months ended 30 June 2019, primarily related to decreased sales of the 493 series of cylinder heads, which was consistent with the decreased sales of the same series of cylinder blocks over the period.

Sales of Ancillary Cylinder Block Components

Segment revenue from ancillary cylinder block components sales decreased by 30.0% from RMB17.4 million for the six months ended 30 June 2018 to RMB12.2 million for the six months ended 30 June 2019. This decrease was primarily attributable to decrease in demand from our customers.

Gross Profit and Gross Profit Margin

Gross profit decreased by 57.8% from RMB103.1 million for the six months ended 30 June 2018 to RMB43.5 million for the six months ended 30 June 2019. This decrease was in line with decrease in revenue. The gross profit margin decreased from 30.3% for the six months ended 30 June 2018 to 23.2% for the six months ended 30 June 2019, such a significant decrease in gross profit margin was primarily due to an increase in usage of roughcast products which were provided by our customers for processing and purchase of roughcast products from our suppliers rather than our internal production.

Other Income

Other income increased by 43.9% from RMB15.2 million for the six months ended 30 June 2018 to RMB21.9 million for the six months ended 30 June 2019. This increase was primarily due to an increase in government grants received. During the six months ended 30 June 2019, the Group received government subsidies of RMB17.0 million, as compared with government subsidies of RMB11.6 million for the six months ended 30 June 2018, in relation to the contribution of the Group in technological innovation 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 52.0% from RMB11.3 million for the six months ended 30 June 2018 to RMB5.4 million for the six months ended 30 June 2019. 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 and (ii) a decrease in provision for warranty during the period because the Group enhanced its quality control procedures as well as product quality.

Administrative Expenses

Administrative expenses decreased by 26.6% from RMB42.4 million for the six months ended 30 June 2018 to RMB31.1 million for the six months ended 30 June 2019, primarily due to (i) a decrease in research and development costs of RMB5.2 million to RMB7.4 million for the six months ended 30 June 2019 as the Group had a significant investment in research and development activities in relation to China VI standard in previous year and the Group is ready to promote China VI standard products in this year, (ii) a decrease in listing and professional fee of RMB1.9 million to nil for the six months ended 30 June 2019 as the Company was listed on the Main Board of the Stock Exchange in early January 2018, and (iii) the Group strictly controlled the costs because of the downturn in the industry.

Finance Costs

Finance costs increased by 7.2% from RMB6.0 million for the six months ended 30 June 2018 to RMB6.4 million for the six months ended 30 June 2019, primarily due to the increased discounting bills and factoring being utilized by the Group for financing.

Income Tax Expenses

Income tax expenses decreased by 66.0% from RMB9.2 million for the six months ended 30 June 2018 to RMB3.1 million for the six months ended 30 June 2019 primarily due to a decrease in our profits before taxation and additional tax deduction in research and development costs for the six months ended 30 June 2019. Since a subsidiary of the Group claimed an additional tax deduction in research and development costs for the six months ended 30 June 2019, the effective tax rate decreased from 15.7% for the six months ended 30 June 2018 to 14.0% for the six months ended 30 June 2019.

Profit for the Period

As a result of the foregoing, the profit for the period decreased by 60.9% from RMB49.4 million for the six months ended 30 June 2018 to RMB19.3 million for the six months ended 30 June 2019. The net profit margin decreased from 14.5% for the six months ended 30 June 2018 to 10.3% for six months ended 30 June 2019, which was mainly attributable to a decrease in gross profit margin.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group operates are primarily financed by cash generated from operating activities, net proceeds received from the global offering of the Company (the "**Global Offering**") completed in January 2018 and bank and other borrowings. As of 30 June 2019 and 31 December 2018, the Group had cash and cash equivalents of RMB190.8 million and RMB170.0 million, respectively.

The Group monitors its 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, as well as 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 decreased by 12.9% from RMB293.8 million as at 31 December 2018 to RMB255.9 million as at 30 June 2019, primarily due to decrease in revenue. The trade receivables turnover days increased from 168 days as at 31 December 2018 to 205 days as at 30 June 2019. Such increase was resulted from the downturn in the automotive industry and certain customers settled their bills lately receivable. The Group will strengthen customer credit risk management to guard against the increase in impairment loss on trade receivables. The impairment losses on trade receivables was slightly increased from RMB0.7 million as at 31 December 2018 to RMB0.8 million as at 30 June 2019.

Trade Payables

The trade payables decreased by 9.3% from RMB103.8 million as at 31 December 2018 to RMB94.2 million as at 30 June 2019 primarily due to decrease in purchase. The trade payables turnover days increased from 122 days as at 31 December 2018 to 124 days as at 30 June 2019.

Bank and Other Loans

The bank and other loans slightly increased from RMB209.4 million as at 31 December 2018 to RMB217.0 million as at 30 June 2019, primarily due to increase in the general working capital. As at 30 June 2019, bank and other loans in the amounts of RMB217.0 million (2018: RMB 149.4 million) were pledged by property, plant and equipment, right-of-use assets and trade receivables of the Group, the aggregate carrying amount of which such assets was RMB310.2 million (31 December 2018: RMB140.2 million).

All bank and other loans as at 30 June 2019 and 31 December 2018 were denominated in RMB 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 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	**217,000**	127,000
Other loans		
Within 1 year	**-**	82,400
Total borrowings	**217,000**	209,400

Gearing Ratio

The gearing ratio increased slightly from 23.1% as at 31 December 2018 to 23.4% as at 30 June 2019, such increase was a result of an increase of bank loans and other borrowings of RMB7.6 million.

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

Capital Expenditure

For the six months ended 30 June 2019, the capital expenditure was RMB40.3 million (31 December 2018: RMB87.0 million). The capital expenditure incurred for the six months ended 30 June 2019 primarily related to the building of new mechanical processing lines for the new products and new precision casting lines for the aluminum alloy rough cast products, purchases of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 30 June 2019, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for RMB8.4 million (31 December 2018: RMB6.8 million).

Contingent liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities or guarantees (31 December 2018: 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, AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2019.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group had total of 781 employees (31 December 2018: 861 employees). For the six months ended 30 June 2019, the Group has incurred a total staff costs of approximately RMB31.1 million (six months ended 30 June 2018: RMB34.6 million), representing a decrease of approximately 9.0% as compared with those for six months ended 30 June 2018, which was a result of decrease in our production.

The Group believes its success depends on its employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge and skill level of its employees, the Group places a strong emphasis on training for employees. In addition, the Group offers a competitive remuneration package to retain elite employees, including basic salary and performance-based monthly and annual bonuses, and reviews the remuneration package annually according to industry benchmark, financial results of the Group as well as the individual performance of employees.

Waiver of directors' remuneration

Due to the downturn in the automobile industry and performance of the Group, the executive Directors agreed to waive part of director's salary for the year ending 31 December 2019 and agreed to receive the director's salary of RMB40,000 per annum with effect from 1 January.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Stock Exchange on 5 January 2018. 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 30 June 2019, the Group has applied the net proceeds as follows:

	%	**Budgeted amount as set out in the Prospectus** RMB'000	**Actual usage up to 30 June 2019** RMB'000	**Balance as at 30 June 2019** RMB'000
Usage				
- Optimize the smart manufacturing processes	43.3	114,600	27,456	87,144
- 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	39,964	-
- Strengthen the research and development capabilities	12.0	31,760	31,760	-
- Working capital and general corporate use	4.8	12,704	12,704	-
Total	100.0	264,666	155,025	109,641

As at 30 June 2019, the unused balance of the proceeds from the Global Offering of approximately RMB109.6 million was placed into short-term demand or time deposits. The Group will closely monitor the usage of the net proceeds to ensure the compliance with the intended use of proceeds set out in the Prospectus. As the market is in downturn, the Group will re-visit the use of proceeds in second half of 2019, and if there is any change in use of proceeds, further announcement will be made by the Company as and when appropriate in accordance with the Listing Rules.

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.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, there are no major subsequent events to 30 June 2019 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 six months ended 30 June 2019 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 maintaining high standards of corporate governance and protecting 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 six months ended 30 June 2019, 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 roles of the chairman and the chief executive should be separated 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 has strictly complied with the CG Code. The Directors will review the Group's 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 six months ended 30 June 2019.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$54,800,000).

AUDIT COMMITTEE

The Audit Committee, together with the management, and the external auditor of the Company have reviewed the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the interim results of the Group for the six months ended 30 June 2019.

PUBLICATION OF THE CONSOLIDATED INTERIM RESULTS AND 2019 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim 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 interim report for the six months ended 30 June 2019 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, 23 August 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.