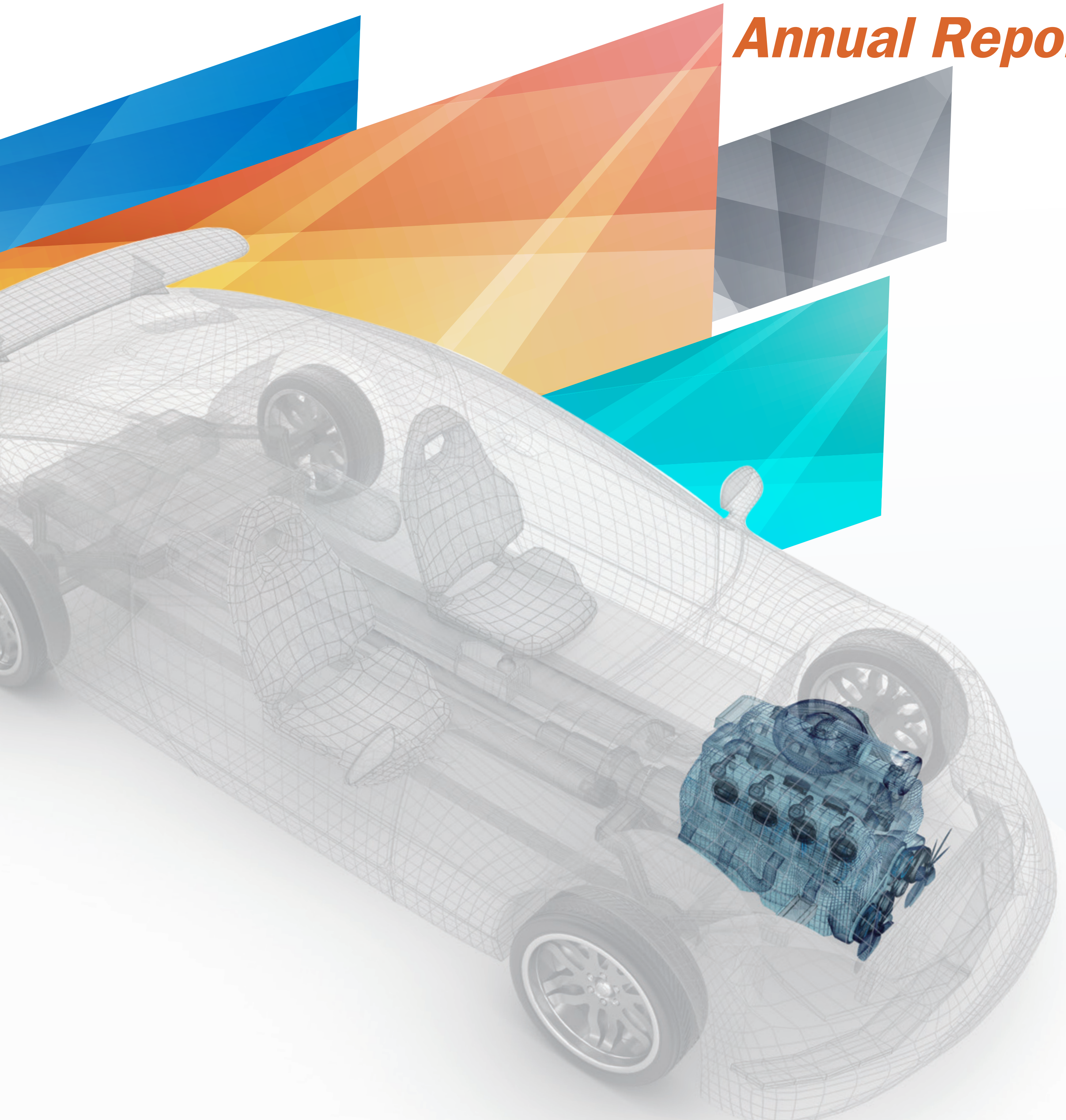
Ruifeng Power Group Company Limited
瑞豐動力集團有限公司

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

2017 Annual Report



Contents

	Page
Corporate Information	2
Company Overview	4
Financial Summary	5
Chairman's Statement	7
Biographical Details of Directors and Senior Management	9
Management Discussion and Analysis	14
Directors' Report	24
Corporate Governance Report	35
Environment, Social and Governance Report	44
Independent Auditor's Report	55
Consolidated Statement of Profit or Loss and Other Comprehensive Income	60
Consolidated Statement of Financial Position	61
Consolidated Statement of Changes in Equity	63
Consolidated Cash Flow Statement	64
Notes to the Financial Statements	66

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Ka Wai

AUTHORISED REPRESENTATIVES

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

LEGAL ADVISOR

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

As to PRC Law:
Jingtian & Gongcheng
34/F, Tower 3, China Central Place,
77 Jianguo Road
Chaoyang District
Beijing PRC

AUDITOR

KPMG

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN PRC

Middle of East Taishan Road
Shenzhou
Hebei Province
PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 09-10, 41st Floor
China Resources Building
26 Harbour Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

STOCK CODE

2025

WEBSITE

www.hbsgt.com

Company Overview

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

Production of cylinder blocks in China has historically been split between internal production by manufacturers of automobiles and automobile engines and external outsourcing to specialized producers of automobile engine spare parts. The large-scale of our operations and significant production capacity allow us to secure the use of our products by some of the leading automobile manufacturers in China such as Jiangling Motors, Beiqi Foton Motor, Jiangxi Isuzu, JAC Motors and Great Wall Motors. During the year ended 31 December 2017, we owned and operated a total of three precision casting lines and 20 mechanical processing lines (including 16 for cylinder blocks, 2 for cylinder heads and 2 for other ancillary cylinder block components), with a designed production capacity of approximately 1,011,000 cylinder blocks and 164,000 cylinder heads, respectively.

THE MAIN PRODUCTS ARE:

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

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

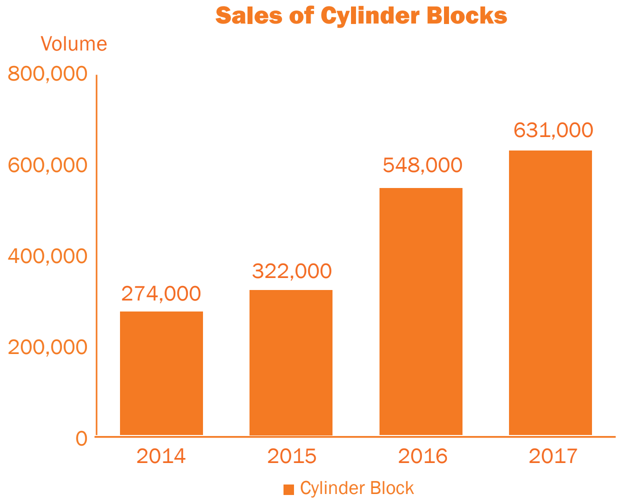
Ancillary Cylinder Block Components – including main bearing cap and flywheel. Main bearing caps are used in piston engines to secure the crankshaft against the cylinder block. Our main bearing caps help prevent the forces created by the piston and transmitted to the crankshaft by forcing the crank to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

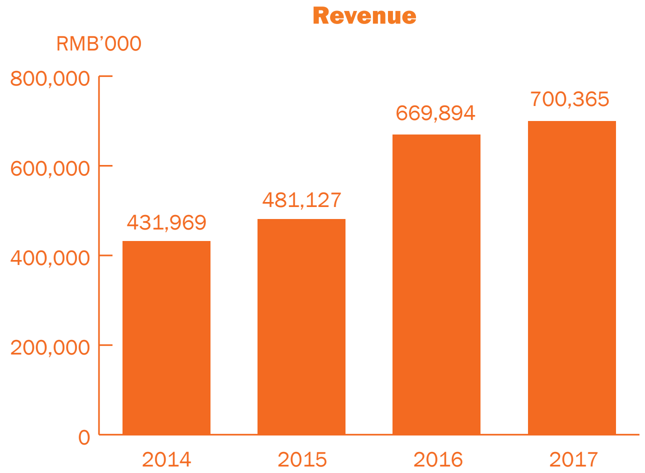
We believe that our following competitive strengths can bring our customers the most economical and reliable products:

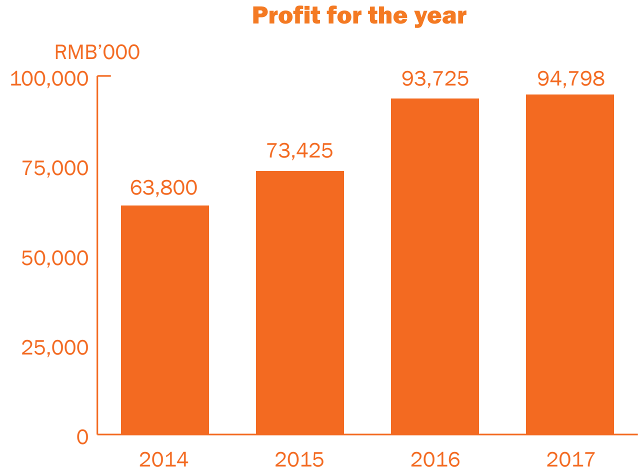
- The fourth largest specialized manufacturer of cylinder blocks and an established producer of cylinder heads in China
- A high level of flexibility in production facilities and process to meet the specific needs of different customers
- Continuous optimization and innovation of production process and technologies
- Strong design and research and development capabilities

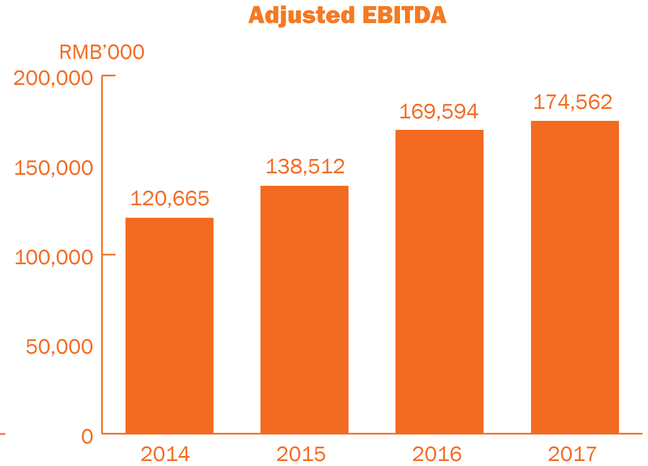
Financial Summary

Year ended 31 December	2017	2016	2015	2014
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income				
Revenue (RMB'000)	**700,365**	669,894	481,127	431,969
Gross profit (RMB'000)	**217,400**	193,101	159,581	139,520
Gross profit margin	**31.0%**	28.8%	33.2%	32.3%
Profit for the year (RMB'000)	**94,798**	93,725	73,425	63,800
Net profit margin	**13.5%**	14.0%	15.3%	14.8%
Listing expenses (RMB'000)	**18,188**	3,779	–	–
Basic and diluted earnings per share (RMB cents)	**15.80**	15.62	N/A	N/A









Financial Summary

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

Notes

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

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

Dear Shareholders,

The Company is pleased to present the annual results report for 2017. The Group continued to grasp the favorable development opportunities in the automotive industry, achieved exceptional growth in its overall results in 2017 and yielded a favorable return to the shareholders of the Company ("Shareholders").

Looking back in 2017, driven by the economic recovery in emerging markets and the accelerated growth in mature markets, the global economy is recovering simultaneously. Despite the global economic recovery, with major central banks starting to tighten the previous easing policies, the rise of trade protectionism and geopolitical tensions, the global economy will face downside risks. As an integral part of the world economy, China's gross domestic product (GDP) increased by 6.9% in 2017 compared to last year. This is the first time that China's economic growth has reversed the downward trend since 2011, and has steadily rebounded.

In 2017, the automotive industry continued to intensify its "supply-side structural reform", stepped up efforts on promoting industrial transformation and upgrading, and strengthened scientific and technological innovation. The efficiency of the industry changed from rapid growth to high quality steady growth. According to China Association of Automobile Manufacturers' statistics, in 2017, China's automobile production and sales achieved 29.0 million and 28.9 million respectively, an increase of approximately 3.2% and approximately 3% year-on-year respectively. Of these, China's branded passenger vehicles sold a total of 10.8 million, an increase of 3% year-over-year; it accounted for approximately 43.9% of the total passenger vehicle sales, and the market share increased by approximately 0.7% over the same period of the previous year. China's branded passenger vehicles continue to grow, which is conducive to the external outsourcing to specialized automobile engine spare part producers. During the year, the Group's sales volume of cylinder block was approximately 631,000, an increase of 15.1% year-on-year.

In September 2017, the Ministry of Industry and Information Technology of the PRC issued 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), which shall come into force on 1 April next year. It also stated that it will start planning guide timetable to end the sale of traditional fuel vehicles, which was another shocking news to the Chinese automobile industry after the European countries announced the timetable to ban the sale of traditional fuel vehicles. As a supplier of spare part for traditional fuel vehicles, this news certainly has a negative impact on the Company. However, after processing the situation for months, what we see is more opportunities in the industry while many traditional fuel vehicle factories also accelerate outsourcing. In addition, the implementation of the China VI Standard starting from July 2020 means that the amount of carbon monoxide emissions must not exceed 0.5 grams per kilometer. From October 2017, cities in Beijing, Tianjin, Hebei, Shandong, Shanxi and Henan provinces have banned the sale of gasoline and diesel fuel for cars that are lower than the China VI standard. Gasoline standards are often implemented one step ahead than emission standards. Therefore, in the next few years, cylinder block products are entering the stage of transformation and upgrading in which new products replace existing products, resulting in a rapid growth of the cylinder block industry in order to meet the environmental protection and light weight requirements of automobiles.

Chairman's Statement

In 2018, the Company successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") and raised HK$326.0 million. The successful listing was also a critical milestone in the development of the Company. It represented the recognition of the Company's business in the capital market and the market was optimistic about the future development of the Company.

Looking ahead, according to 2018 China's automobile market forecast report published by China Association of Automobile Manufacturers, China's automobile market sales growth in 2018 is expected to be 3%, of which passenger vehicle growth of 3%, commercial vehicle growth of 1%. The Group will continue to explore more cooperation opportunities with existing customers and other business partners, including that the Group will actively identify potential merger and acquisition opportunities, strengthen the development of new products with customers, and assess the possibility of establishing joint ventures with other partners, thereby expanding its product mix and strengthening its core competitiveness.

Finally, on behalf of the board ("Board") of directors ("Directors") of the Company, I would like to sincerely show our appreciation to all the staff for their outstanding contributions to the development of the Group. We would also like to thank the shareholders, our customers and partners for their great support. The Group will continue its efforts to achieve its annual business objectives for 2018 and maximize benefits and returns for shareholders and other stakeholders.

Meng Lianzhou
Chairman

Beijing, the PRC
16 March 2018

DIRECTORS

Executive Directors

Mr. Meng Lianzhou (孟連周), aged 57, is the executive Director, chief executive officer and chairman of the Group who is responsible for the overall strategic development and business development of the Group. Mr. Meng was appointed as a Director on 2 May 2017 and re-designated as an executive Director on 10 August 2017. Mr. Meng is also a director of Hebei Ruifeng Cylinder Block Company Limited* (河北瑞豐動力缸體有限公司) ("Hebei Ruifeng"), an indirect wholly owned subsidiary of the Company. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Meng is one of the founders of the Group and one of the controlling shareholders of the Company (the "Controlling Shareholders"). Mr. Meng graduated from Hebei Radio and TV University (河北廣播電視大學) with a certificate in corporate management in July 1988. Mr. Meng joined Hebei Cylinder Block Factory* (河北省內燃機缸體廠) ("Hebei Cylinder Block Factory") in March 1995 as a tooling workshop operator and had held various positions including power workshop director and the director of the finance division. He was promoted to be the plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002 and our chairman since October 2003. Mr. Meng was named a "Model Worker in Hebei Province" (河北省職工勞動模範) by Hebei Municipal Government and Hebei Federation of Trade Unions of Shenzhou City (河北省人民政府、河北省總工會) in 2009. Furthermore, Mr. Meng has also held offices as the vice president of the Union of Returned Overseas Chinese in Hengshui City* (衡水市歸國華僑聯合會) since 2012 and the vice president of the Industry and Commerce Union in Hengshui City* (衡水市工商業聯合會) since 2016. Mr. Meng is a director of Dragon Rise Ventures Limited ("Dragon Rise"), one of the Controlling Shareholders. Mr. Meng's interest in the shares of the Company ("Shares") and its associated corporations as at 31 December 2017 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures".

Mr. Liu Zhanwen (劉占穩), aged 65, is the executive Director who is responsible for the overall business operation of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Liu is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a sales department officer until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Liu has been a director of the Group since June 2002 and had held various positions including assistant of general manager, deputy general manager and sales manager in the Group. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2017 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures".

Mr. Zhang Yuexuan (張躍選), aged 69, is the executive Director who is responsible for the overall product research and development of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Zhang is also a director of Hebei Ruifeng. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Zhang is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a processing line director and was later promoted to be the vice plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Zhang has been a director of the Group since June 2002. From October 2003 until the dissolution of Hebei Ruifeng Internal Combustion Engine Cylinder Block Company Limited* (河北瑞豐內燃機缸體有限公司) ("Hebei Ruifeng Engine") in December 2009, he had held various positions in Hebei Ruifeng Engine including vice chairman, deputy general manager and general manager. He was the deputy general manager of Hebei Ruifeng from March 2016 to February 2017. Since February 2017, he has been the executive general manager of Hebei Ruifeng, mainly responsible for the product research and development. Mr. Zhang is a director of Dragon Rise. Mr. Zhang's interest in the shares of the Company and its associated corporations as at 31 December 2017 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures"

Mr. Liu Enwang (劉恩旺), aged 56, is the executive Director who is responsible for the overall financial management of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He is one of the founders of the Group and one of our Controlling Shareholders. Mr. Liu graduated from School of Agriculture and Mechanization, Hengshui* (衡水地區農業機械化學校) (currently known as Hengshui Industrial School* (衡水工業學校)) with a major in machinery maintenance in May 1981. Mr. Liu joined Hebei Cylinder Block Factory in March 1995 as an accountant and was later promoted to be the deputy section manager in July 1995 and the section manager in May 1997, until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002. He had been the financial director of Hebei Ruifeng Engine from October 2003 to July 2007. Since August 2007, he has been the financial director and deputy general manager of Hebei Ruifeng, mainly responsible for financial management. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2017 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures".

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wei Anli (魏安力), aged 65, is our independent non-executive Director. Mr. Wei was appointed as an independent non-executive Director on 11 December 2017. Mr. Wei graduated from Jilin University of Technology (吉林工業大學) (currently known as Jilin University) with a certificate in automotive engineering (internal combustion engine) in March 1980. From January 1980 to June 1982, Mr. Wei was the technician in the Standards Department of the Technology Bureau, Ministry of Agriculture and Machinery* (農機部科技局標準處). From July 1982 to September 1986, he was employed as the assistant engineer in the quality technology department of Agriculture and Machinery Administration, Ministry of Machinery* (機械部農機總局質量工藝處). From October 1986 to October 1988, he was the engineer in the technology department of the Agricultural Equipment Division, Machinery Committee* (機械委農業裝備司科技處). Mr. Wei was the engineer from November 1988 to December 1990 in the technology department, Engineering and Agricultural Machinery Division, Ministry of Machinery and Electronics* (機械電子部工程農機司科技處). He was the engineer and deputy director from December 1990 to May 1992 in the internal combustion engine department of the Engineering and Agricultural Machinery Division, Ministry of Machinery* (機械部工程農機司內燃機處). From May 1990 to October 1997, Mr. Wei had held various positions including engineer, deputy director, director, senior engineer in the Office of Internal Combustion Engine Industry Planning, the State Council* (國務院內燃機大行業規劃辦公室). From August 1997 until present, Mr. Wei has been working in China Internal Combustion Engine Industry Association* (中國內燃機工業協會) and has held various positions including chairman consultant, secretary-general and deputy secretary-general. He has been the duty secretary- general since July 2008 and is mainly responsible for the research on industry-related matters including industry structure, internal combustion engine products development and industry- related policies and regulations. Mr. Wei is currently an independent director of Tianrun Crankshaft Co., Ltd. (天潤曲軸股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 002283), Shandong Binzhou Bohai Piston Co., Ltd (山東濱州渤海活塞股份有限公司) (listed on the Shanghai Stock Exchange: stock code: 600960) and Henan Province Xixia Automobile Water Pump Co., Ltd. (河南省西峽汽車水泵股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 002536). Mr. Wei also served as an independent director of Kangyue Technology Co., Ltd. (康躍科技股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 300391) from August 2010 to August 2016 and Zhejiang Dehong Automotive Electronic & Electrical Co., Ltd. (浙江德宏汽車電子電器股份有限公司) (listed on the Shanghai Stock Exchange: stock code: 603701) from December 2010 to December 2016.

Mr. Ren Keqiang (任克強), aged 44, is our independent non-executive Director. He was appointed as an independent non-executive Director on 11 December 2017. Mr. Ren graduated from High School of Longkou Mining Bureau, Longkou City, Yantai City, Shandong Province* (山東省煙台市龍口市龍口礦務局高中) (currently known as Longkou School, Longkou City* (龍口市龍礦學校)) in July 1992. He has over 13 years of experience in the investment and management field. From October 1995 to November 2014, Mr. Ren held various positions at Langfang Huari Furniture Co., Ltd.* (廊坊華日家具股份有限公司), a company principally engaged in the sale and manufacturing of furniture in the PRC: he was the purchasing officer and deputy manager of the purchasing department from October 1995 to June 1997; the officer manger from July 1997 to October 2003; the investment manager from October 2003 to December 2011; and the general manager of office furniture division and the assistant of the chairman from January 2012 to November 2014. From January 2015 until present, Mr. Ren is the managing director of Shenzhen Ren Intelligent Investment Co., Ltd* (深圳仁智慧投資有限公司), a company principally engaged in equity investment and secondary stock market investment, and is mainly responsible for investment, assets management and mergers.

Mr. Yu Chun Kau (余振球), aged 45, is our independent non-executive Director. Mr. Yu was appointed as an independent non-executive Director on 11 December 2017. Mr. Yu has over 20 years of experience in finance and management. Mr. Yu graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in May 1994. He obtained a master's degree in corporate governance from The Open University of Hong Kong in June 2005. Mr. Yu is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators respectively and is registered as a Certified Public Accountant (Practising) with Hong Kong Institute of Certified Public Accountants. Mr. Yu is also a senior international finance manager of International Financial Management Association. From August 1994 to July 2002, Mr. Yu was employed as the audit manager of KPMG. From July 2002 to November 2003, Mr. Yu was the Financial controller of First Dragoncom Agro-Strategy Holdings Ltd (listed on the Main Board of the Stock Exchange: stock code: 875) (currently known as China Finance Investment Holdings Limited). From December 2003 to June 2006, Mr. Yu was the Assistant director of Kerry Beverages Limited. From June 2006 to February 2008, Mr. Yu was the Chief financial officer of Brigantine Group. From February 2008 to June 2010, Mr. Yu was the Executive director, chief financial officer and company secretary of China Risun Coal Chemicals Group Limited. From June 2010 to December 2012, Mr. Yu was the Executive director, chief financial officer and company secretary of Sitoy Group Holdings Limited (listed on the Main Board of the Stock Exchange: stock code: 1023). From September 2013 to December 2016, Mr. Yu was the Vice president, chief financial officer and company secretary of Cosmo Lady (China) Holdings Company Limited (listed on the Main Board of the Stock Exchange: stock code: 2298).

SENIOR MANAGEMENT

Mr. Wei Xilai (位喜來), aged 33, is the secretary to chairman who is responsible for the overall administration work of the Group. Mr. Wei joined the Group as an office clerk in 6 September 2006 and was promoted to be the secretary to chairman in February 2012. Mr. Wei graduated from Central Radio and Television University* (中央廣播電視大學) (currently known as The Open University of China* (國家開放大學)) with a diploma in Chinese linguistics and literatures in July 2011.

Mr. Xie Fei (謝飛), aged 43, is the executive deputy general manager who is responsible for the overall management of business operations of the Group. Mr. Xie graduated from Shenxian No. 2 Senior Vocational and Technical Secondary School* (深縣第二高級職業技術中學) in May 1994. Mr. Xie joined Hebei Cylinder Block Factory in March 1995 as a tooling workshop worker until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. He joined the Group in October 2003 as a workshop supervisor. Mr. Xie was the production officer of Hebei Ruifeng Engine from May 2006 to July 2006, the vice plant manager of Hebei Ruifeng Engine from July 2006 to August 2007, the deputy minister of production of Hebei Ruifeng Engine from August 2007 to December 2009, the deputy minister of production of Hebei Ruifeng from December 2009 to May 2011, the production minister of Hebei Ruifeng from May 2011 to March 2016 and the assistant general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the executive deputy general manager of the Group.

Mr. Wen Qingwei (文清威), aged 46, is the deputy general manager who is responsible for the overall product development and quality control of the Group. Mr. Wen graduated from Hengshui Vocational and Technical College of Hebei Province* (河北省衡水勞動技工學院) (currently known as Hengshui Senior Technical School of Hebei Province* (河北省衡水高級技工學校)) with a technician diploma in July 1992. Mr. Wen joined Hebei Cylinder Block Factory as a tooling workshop worker in July 1995 and was later promoted to be the trainee deputy technology manager in September 2001, until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. Mr. Wen joined the Group in October 2003 as a trainee deputy technology manager. He was the quality control manager of Hebei Ruifeng Engine from August 2005 to December 2009, the quality control manager of Hebei Ruifeng from December 2009 to March 2016 and the assistant general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the deputy general manager of the Group.

Mr. Wong Ka Wai (王加威), aged 38, is the chief financial officer and company secretary of the Group. He was appointed as our chief financial officer and company secretary in 1 May 2017. He is responsible for overseeing the Group's financial and banking management and company secretarial work. Mr. Wong graduated from the City University of Hong Kong with a bachelor of business administration in accountancy in November 2001 and is currently a member of the Association of Chartered Certified Accountants. Mr. Wong has also obtained a bachelor of laws from the University of London in August 2007. Prior to joining the Group, Mr. Wong has over 10 years of experience in the tax and accounting field. From September 2001 to May 2004 and from April 2005 to July 2006, Mr. Wong was employed as the tax consultant of KPMG. From July 2006 to January 2008, Mr. Wong was the senior accountant in the tax department of Ernest & Young and was subsequently transferred to the tax department of the Shanghai office as manager until May 2010. From November 2010 to September 2011, he was the manager of BASF East Asia Regional Headquarters Limited, a chemical company principally engaged in chemicals, glues, and electronic chemicals. From November 2011 to December 2012, Mr. Wong was employed as a manager of the individual tax business unit in PricewaterhouseCoopers. From January 2013 to March 2017, Mr. Wong was a chairman of Jai Dam Distribution (Hong Kong) Co. Ltd, a company principally engaged in distributorship of a European fashion and jewellery brand, and was responsible for business development and management of a French jewellery brand in China region. From February 2017 to June 2017, Mr. Wong was an independent non-executive director of Green International Holdings Limited (listed on the Main Board of the Stock Exchange: stock code: 2700). Mr. Wong is an independent non-executive director of Jujiang Construction Group Co., Ltd. (listed on the Main Board of the Stock Exchange: stock code: 1459) since August 2015.

COMPANY SECRETARY

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

Management Discussion and Analysis

INDUSTRY OVERVIEW

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

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

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

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

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

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

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

BUSINESS REVIEW

The Group are principally engaged in the design, development, production and sales of cylinder blocks, as well as cylinder heads and certain cylinder block components, to automobile manufacturers and engine manufacturers in China. The Group work closely with our customers to provide a set of high-quality and customized products. The Group conduct manufacturing operations for our major products through a closely-integrated cycle.

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

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

Cylinder blocks for passenger vehicles

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

Cylinder Blocks for Commercial Vehicles

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

Cylinder Blocks for Industrial Vehicles

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

Cylinder Heads

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

Production Facilities

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

	For the year ended 31 December	
	2017	2016
	units	units
Rough cast cylinder block production	**666,190**	466,793
Cylinder block production	**1,011,037**	698,482
Cylinder heads production	**164,079**	164,716

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

New products and Research and Development

During the year ended 31 December 2017, our research and development department helped successfully develop and produce six new models of cylinder blocks and one new models of cylinder heads for our customers. We do not own the intellectual property rights of the cylinder block or cylinder head products which is developed for the customers. But for the self-developed production equipment and processes in relation to the manufacture of cylinder blocks and cylinder heads, as at 31 December 2017, we owned 12 patents in the PRC, including 11 utility model patents and one invention patent. For the year ended 31 December 2017, the Group invested in research and development amounting to RMB22.0 million (2016: RMB 20.8 million) for product developments and improvement and enhance of production processes.

FUTURE PROSPECTS

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

Continue to implement intelligent manufacturing to increase operational efficiency

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

Continue to increase our production capacity

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

Produce aluminum alloy cylinder blocks and cylinder heads

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

Pursue strategic alliance with a Swiss technology provider of surface solutions

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

Further enhance our product design and research and development capabilities

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

FINANCIAL REVIEW

Revenue

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

Sales of Cylinder Blocks

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

Sales of Cylinder Heads

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

Sales of Ancillary Cylinder Block Components

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

Gross Profit and Gross Profit Margin

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

Management Discussion and Analysis

Other Income

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

Selling Expenses

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

Administrative Expenses

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

Finance Costs

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

Income Tax Expenses

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

Profit for the Year

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

Trade and Bills Receivables

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

Trade Payables

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

Bank and Other Loans

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

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

Gearing Ratio

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

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

Capital Expenditure

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

Capital Commitments

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

Contingent liabilities

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

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

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

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

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

EMPLOYEE AND REMUNERATION POLICIES

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

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

USE OF PROCEEDS

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

MAJOR SUBSEQUENT EVENTS

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

Directors' Report

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities for the year ended 31 December 2017 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 14 to 23 of this annual report.

KEY RISKS AND UNCERTAINTIES

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

OPERATIONAL RISKS

The top five customers, which primarily include large automobile manufacturers and engine producers located in China, accounted for approximately 62.3%, of the revenue for the years ended 31 December 2017. For the years ended 31 December 2017, the largest customer accounted for approximately 22.0% of the revenue. The largest customers for each of the years ended 31 December 2017 were automobile manufacturers and engine manufacturers. The loss of a small number of our large customers, or the decrease in sales with one or more of these customers, could have a significant adverse impact on our financial results.

FINANCIAL RISKS

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

MARKET RISKS

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

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

TAX RELIEF AND EXEMPTION

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 31 December 2017 represented approximately 22.0% (31 December 2016: 20.5%) and 62.3% (31 December 2016: 66.4%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 31 December 2017 represented approximately 19.0% (31 December 2016: 17.9%) and 46.0%, respectively (31 December 2016: 56.4%).

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Further discussion of the key relationship with employees, customers and supplies set out in the section head "Environment, Social and Governance Report" on pages 44 to 54 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

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

SHARE CAPITAL

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2017, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period are set out in note 27 to the financial statement.

CLOSURE OF REGISTER OF MEMBERS

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

ENVIRONMENTAL PROTECTION

The environmental protection policy adopted by the Group is set out in the section head "Environment, Social and Governance Report" on pages 49 of this annual report.

DISTRIBUTABILITY OF RESERVES

As at 31 December 2017, reserves available for distribution of the Company amounted to RMB572.1 million (2016: RMB479.3 million).

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the date of listing of the Company on the Stock Exchange on 5 January 2018 ("Listing Date") and up to the date of this annual report, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were as follows:

Executive Directors

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

Independent Non-Executive Directors

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

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

In accordance with Articles 84 of the Articles, Mr. Meng Lianzhou, Mr. Liu Zhanwen and Mr. Liu Enwang will retire at the 2017 annual general meeting of the Company ("2017 AGM") and, being eligible, will offer themselves for re-election at the 2017 AGM.

SERVICE CONTRACTS WITH DIRECTORS

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

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

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2017.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Schemes" below, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2017.

DIRECTORS' COMPETING INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

As at the date of this report, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules were as follows:

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

Notes:

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2017, other than the Share Option Scheme as set out in the paragraph headed "Share Option Scheme" below, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year ended 31 December 2017.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

INDEMNITY OF DIRECTORS

Under the Articles of Association of the Company, a permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout this year, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 25 to the financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2017 or at any time during the year ended 31 December 2017.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and in the consolidated financial statements, no Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2017.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in notes 18 to the financial statements.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2017, the Group acquired additional property, plant and equipment of approximately RMB134.3 million. Details of the movements are set out in note 11 to the financial statements.

RETIREMENT BENEFIT PLAN

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

CONFIRMATION OF INDEPENDENCE

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

RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 25 to the financial statements. None of the related party transactions disclosed in note 25 to the financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2017. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Dragon Rise, Mr. LZ Meng, Mr. ZW Liu, Mr. YX Zhang and Mr. EW Liu (the "Covenantors") in respect of the compliance with the terms of the non-compete undertaking (the "Non-compete Undertaking"), entered into between the Covenantors and the Company as set out in the section headed "Relationship with our Controlling Shareholders – Non-compete Undertaking" of the Prospectus for the year ended 31 December 2017. Each of the Covenantors has confirmed and declared that he/it had strictly complied with the Non-compete Undertaking without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Covenantors for the year ended 31 December 2017.

AUDITORS

The Company appointed KPMG as auditors of the Company for the year ended 31 December 2017. KPMG will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

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

Beijing, the PRC, 16 March 2018

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

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

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

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

Directors' Continuous Training and Professional Development

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

On 18 August 2017, the Company, together with its Hong Kong legal advisers, organized training sessions for the Directors explaining the on-going obligations and responsibilities as a director of a Hong Kong listed company. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

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

Independence of Independent Non-Executive Directors

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

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

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

Board Committees

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

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

Audit Committee

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

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

Pursuant to the meeting of the Audit Committee on 16 March 2018, the Audit Committee has reviewed, among other things, the financial statements of the Company for the year ended 31 December 2017, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditors. No meeting was held by the Audit Committee during the year ended 31 December 2017 because the Company was listed on 5 January 2018.

Remuneration committee

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

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

Pursuant to the first meeting of the Remuneration Committee on 16 March 2018, the Remuneration Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company. No meeting was held by the Remuneration Committee during the year ended 31 December 2017 because the Company was listed on 5 January 2018.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in note 8 to the consolidated financial statements.

The biographies of the senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report. The remuneration of the senior management by band for the year ended 31 December 2017 is as follows:

Remuneration band (RMB)	Number of individuals
0 – 1,000,000	2
1,000,000 – 1,500,000	–
1,500,000	–

Nomination Committee

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

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

Pursuant to the first meeting of the Nomination Committee on 16 March 2018, the Nomination Committee has reviewed the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. No meeting was held by the Nomination Committee during the year ended 31 December 2017 because the Company was listed on 5 January 2018.

Corporate Governance Functions

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

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

Attendance Record of Directors

The attendance record of each of the current Directors at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2017 is set out in the table below. The Directors did not authorize any alternate Director to attend Board or Board Committee meetings.

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

Notes:

1. The Company was listed on the Stock Exchange on 5 January 2018 and there were no meetings convened by the Audit Committee, the Remuneration Committee and Nomination Committee the during the year ended 31 December 2017.

2. As the Company was listed on the Stock Exchange on 5 January 2018, only one Board meeting was held during the year ended 31 December 2017.

Board Meetings

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

Board Diversity Policy

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

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

- at least 1/3 of the members of the Board shall be independent non-executive directors;
- at least 1 of the members of the Board shall have obtained accounting or relevant financial management professional qualifications; and
- at least 50% of the members of the Board shall have 7 years or more of experience in the industry he is specialised in.

Model Code for Securities Transactions

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

COMPANY SECRETARY

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

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

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

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

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

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

Internal controls and risk management

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

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

Also, the Board engaged an external independent consultant to assess the effectiveness of the Group's risk management, internal control systems and perform an internal audit function which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2017. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness of the risk management and internal control systems and the internal audit function for the year ended 31 December 2017.

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

External Auditor

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

For the year ended 31 December 2017, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB2.0 million. The fees paid and payable to KPMG for the reporting for the year ended 31 December 2017 accountant service in relation to the listing of the Company on the Main Board of the Stock Exchange was approximately RMB1.3 million.

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

Shareholders' Rights

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

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

Extraordinary general meetings may be convened by directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to Room 09-10, 41st Floor, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company by mail to Room 09-10, 41st Floor, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong.

INVESTOR RELATIONS

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

Constitutional Documents

Conditionally adopted by a special resolution dated 11 December 2017, the Articles of Association were adopted with effect from the Listing Date. As at the date of this report, no change has been made to the Articles of Association after the Listing Date.

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

Introduction

The Group is committed to upholding a high quality of corporate social responsibilities ("CSR") and issued this environmental, social and governance report pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. During the year ended 31 December 2017, the Group continued to improve its performance in fulfilling its CSR through diversified measures. The report provides details of the Company's policies and practices in three aspects namely working environment, environmental protection, and community involvement for the year ended 31 December 2017.

This report covered the overall environmental and social performance of all major subsidiaries of the Group which are set out in note 13 to the financial statements during the year ended 31 December 2017.

WORKING ENVIRONMENT

Employees

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

The Group mainly recruits through recruitment fairs and on-campus recruitment. As at 31 December 2017, we had a total of 869 employees. The following table sets forth the number and breakdown of our full-time employees by function as at 31 December 2017:

	Number of employees
Directors and senior management	10
Research and development	36
Production	653
Procurement	14
Sales and marketing	27
Quality control	49
Finance	8
Administration and logistics	72
Total	869

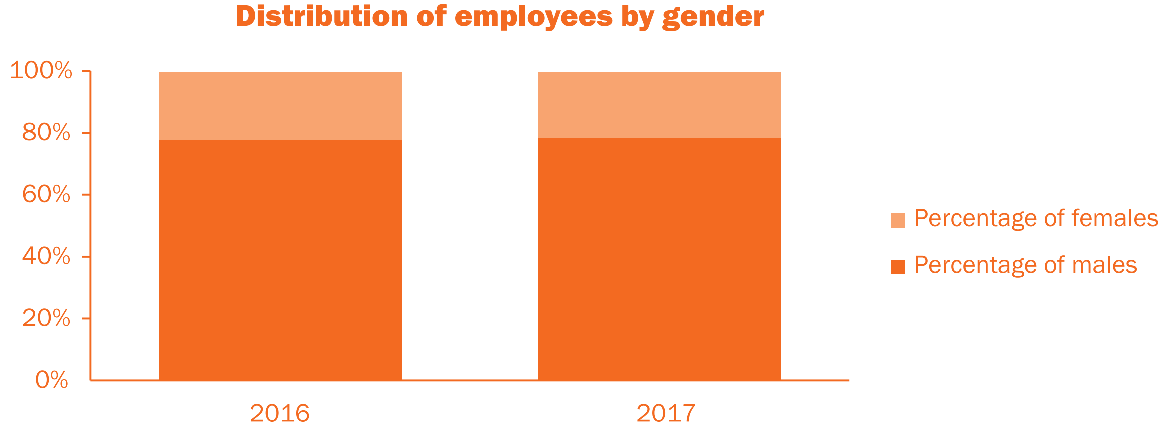
Fair recruitment

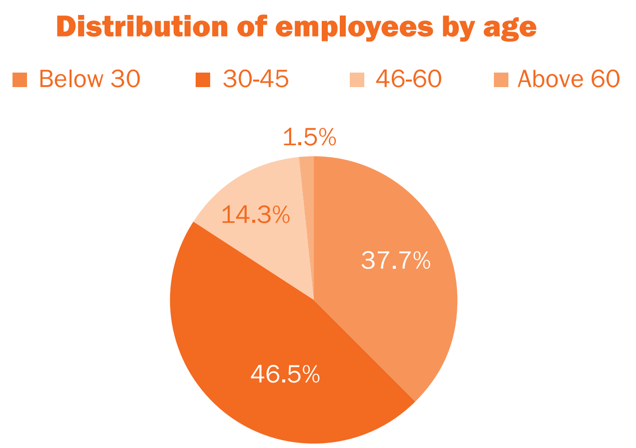
The Group recruits staff based on a fair, open and impartial principle to ensure the recruitment and selection process is objective and consistent. The Group only takes into account an individual's competence, regardless of the age (no recruitment of minors under the age of 16), nationality, race, gender,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

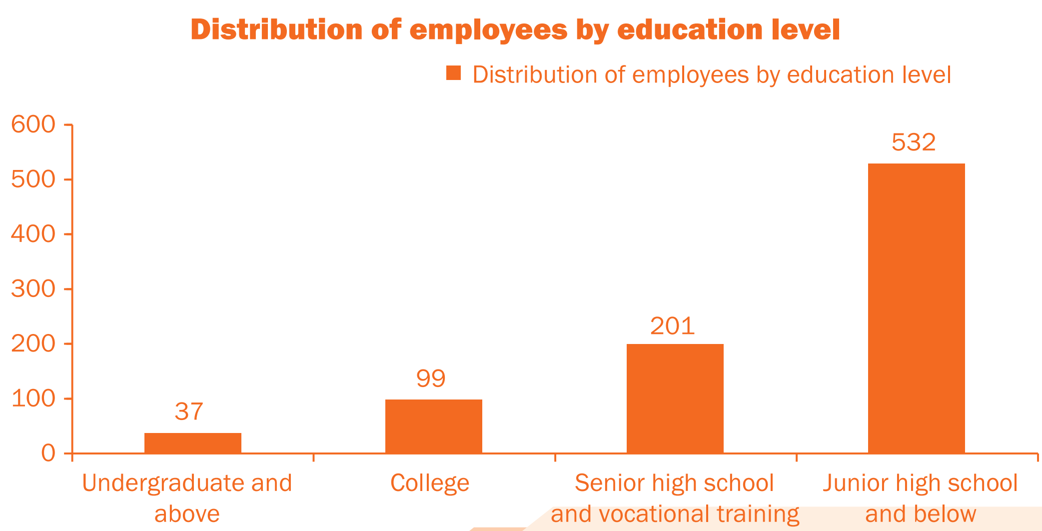
Employment

The Group stringently complies with all national and local laws, such as the Labor Law, Labor Contract Law and Employment Promotion Law of the People's Republic of China. The Group legally abides by labour policies and eliminate any malpractice such as the use of child labour or forced-labour workers.

Employment statistics by gender, age and education level



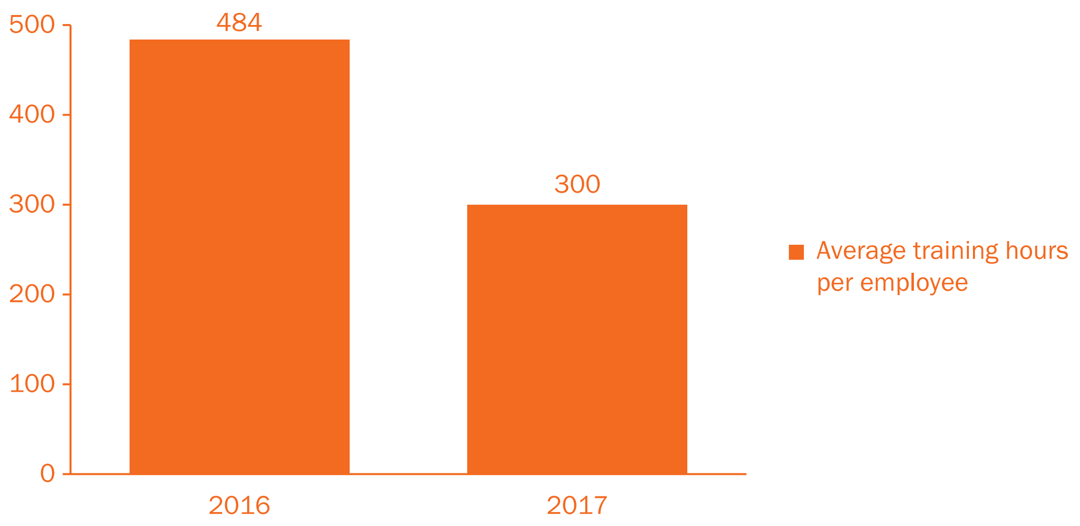




Training

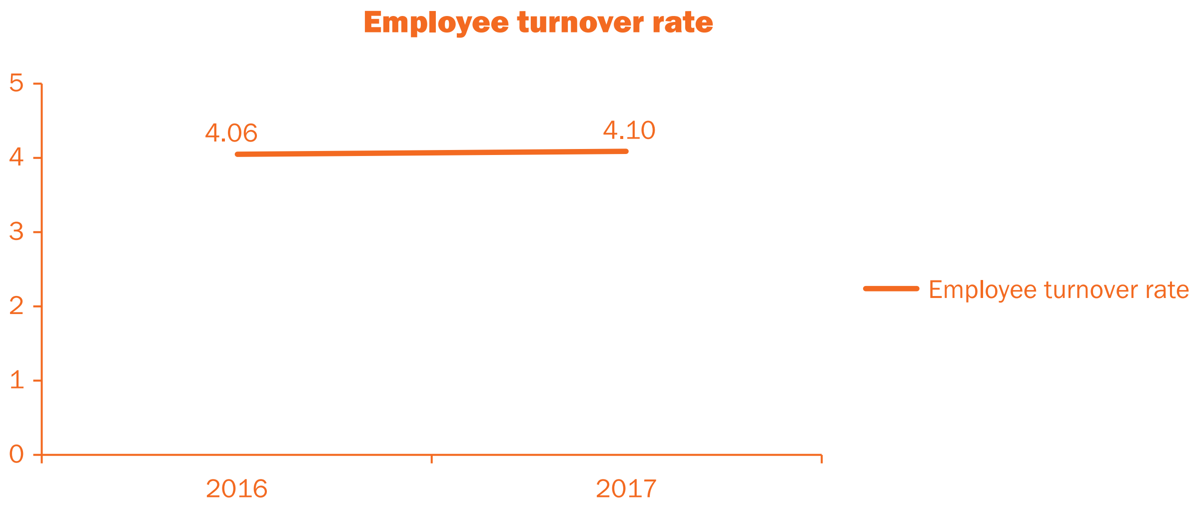
The Group believes our success depends on our employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, the Group places a strong emphasis on training our employees. Prior to commencement of work, new employees must attend mandatory pre-employment training sessions. In addition, the Group also invited professional trainers from third-party research institutions to provide our employees regular training on professional knowledge, technical skills and production safety.

Average training hours per employee



Benefits

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



For the year ended 31 December 2017, the employee turnover rate remained stable mainly due to the fact that during the year, the Group gradually reduced the number of employees to 207 because production processes were upgraded to automated production. The Group believes that the reduction is not a loss of employees and therefore does not include the employee turnover rate.

OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

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

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

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

SUPPLY CHAIN MANAGEMENT

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

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

Data Protection and Privacy Policies

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

Intellectual Property

As at 31 December 2017, the Group had 12 patents in the PRC, including 11 utility model patents and one invention patent, two registered PRC trademarks and two registered Hong Kong trademarks. The Group is also the registered owner of one domain name.

Bribery, corruption and other misconduct

The Group's employee handbook regulates our employees' conduct with respect to conflicts of interest, bribery, corruption and other misconduct. The Group provides regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. Moreover, training in connection with anti-bribery rules and regulations under the PRC laws from our PRC Legal Advisers will be arranged for our Board and senior management team to enhance their awareness of the effect and consequences of bribery. An effective whistle blowing policy is also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace.

ENVIRONMENTAL PROTECTION

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

Energy Conservation and Emission Reduction

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

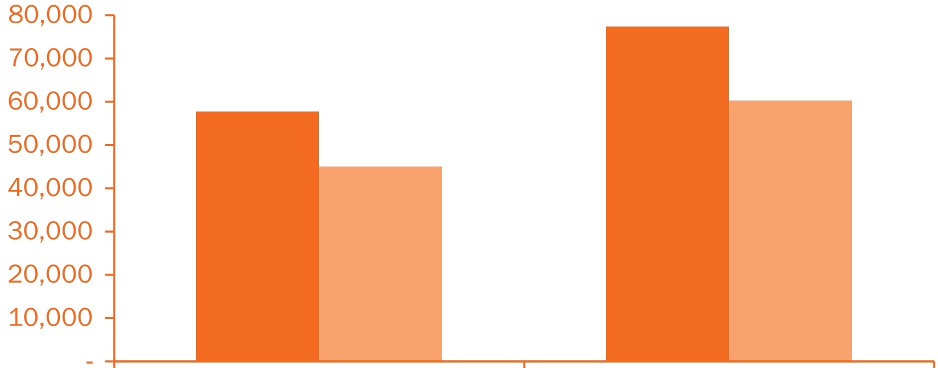
Wastes Control

The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, which amounted to approximately 2.12 tonnes for the year, consisting of various chemicals and wastes, such as oil residue and hazardous cutting fluid used in the manufacture of products. For such hazardous substance, the Group primarily cooperated with qualified units for its centralized and regular treatment.

Power Consumption Control

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

Power consumption and corresponding carbon emission



	2016	2017
Power consumption (kWh in '000s)	57,644.2	77,310.3
Carbon emission (tonnes)	44,978.1	60,302.1

Water Consumption Control

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage.

Water consumption and corresponding carbon emission

	2016	2017
Water consumption (Kiloton)	82.8	70.3
Carbon emission (tonnes)	33.9	28.8

During the year ended 31 December 2017, the total power consumption of the Group was approximately 57,644,200 kWh, and the density was approximately 82.3 kWh/output value of RMB1,000 and total water consumption was approximately 82,785.0 tonnes and the density was approximately 118.2kg/output value of RMB1,000.

Packaging materials

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

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

Economical Use of Resources

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

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

RELATIONSHIPS WITH CUSTOMERS

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

SUPPLY CHAIN MANAGEMENT

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

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

QUALITY CONTROL AND MANAGEMENT

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

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

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

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

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

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

As a result of our stringent quality control system, our production facilities have obtained ISO/TS 16949 certification in 2012, which was subsequently renewed in 2015 and will be effective for three years. During the year ended 31 December 2017 and up to the date of this report, the Group has not experienced any material losses from product liability.

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

COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its interim resources to charitable activities. The Group also actively participated in community activities such as Drill for Flood Events in Hutuo River and Charity Marathon.

FUTURE DIRECTION

The Group recognises the importance of CSR, and strives to improve its performance in this aspect going forward. As our businesses continue to expand, the Group will strive to promote our CSR initiatives to all operation units and communities where our businesses are located.

The Group will continue to work hard on various aspects to improve our performance in CSR, including:

– Continue to reinforce and comply with sustainable environmental practices; and

– Continue to enhance the occupational health & safety standards; and

The Group will regularly review this CSR policy to ensure the CSR initiatives and performance address the needs of the society in this ever-changing environment.

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

OPINION

We have audited the consolidated financial statements of Ruifeng Power Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 114, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

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

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

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

• inspecting sales contracts with customers, on a sample basis, to identify terms and conditions relating to goods acceptance and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;

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

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

• confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2017 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed and the Group's accounting records to assess whether the related revenue had been recognised in the appropriate financial period.</td></tr>
</table>

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards. From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Certified Public Accountants

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

16 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

(Expressed in Renminbi ("RMB"))

	Note	2017 RMB'000	2016 RMB'000
REVENUE	4	**700,365**	669,894
Cost of sales		**(482,965)**	(476,793)
GROSS PROFIT	4(b)	**217,400**	193,101
Other income	5	**7,776**	5,056
Selling expenses		**(27,432)**	(25,857)
Administrative expenses		**(75,631)**	(50,270)
PROFIT FROM OPERATIONS		**122,113**	122,030
Finance costs	6(a)	**(12,290)**	(13,064)
PROFIT BEFORE TAXATION	6	**109,823**	108,966
Income tax	7	**(15,025)**	(15,241)
PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY FOR THE YEAR		**94,798**	93,725
EARNINGS PER SHARE			
Basic and diluted (RMB cents)	10	**15.80**	15.62

The notes on pages 66 to 114 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**633,288**	550,089
Lease prepayments	12	**105,732**	108,023
Deferred tax assets	19(b)	**10,486**	8,618
Unquoted equity investments		**–**	4,000
TOTAL NON-CURRENT ASSETS		**749,506**	670,730
CURRENT ASSETS			
Inventories	14	**156,310**	116,173
Trade and other receivables	15	**297,660**	252,046
Cash and cash equivalents	16	**5,715**	9,553
TOTAL CURRENT ASSETS		**459,685**	377,772
CURRENT LIABILITIES			
Trade and other payables	17	**329,606**	280,652
Bank and other loans	18(a)	**112,000**	90,833
Current taxation	19(a)	**2,621**	2,684
Provision for warranties	21	**2,471**	2,084
TOTAL CURRENT LIABILITIES		**446,698**	376,253
NET CURRENT ASSETS		**12,987**	1,519
TOTAL ASSETS LESS CURRENT LIABILITIES		**762,493**	672,249
NON-CURRENT LIABILITIES			
Bank and other loans	18(b)	**116,000**	110,000
Deferred income	20	**61,793**	50,146
Provision for warranties	21	**2,993**	2,827
TOTAL NON-CURRENT LIABILITIES		**180,786**	162,973
NET ASSETS		**581,707**	509,276

The notes on pages 66 to 114 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
CAPITAL AND RESERVES	22		
Share capital		**1**	–
Reserves		**581,706**	509,276
TOTAL EQUITY		**581,707**	509,276

Approved and authorised for issue by the board of directors on 16 March 2018.

Meng Lianzhou
Chairman

Liu Enwang
Director

The notes on pages 66 to 114 form part of these financial statements.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2017

(Expressed in RMB)

	Note	Attributable to equity shareholders of the Company				
		Share capital RMB'000 (Note 22(b))	Other reserve RMB'000 (Note 22(d)(i))	Statutory reserve RMB'000 (Note 22(d)(ii))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2016		–	20,000	10,000	387,013	417,013
Changes in equity for 2016:						
Profit and total comprehensive income for the year		–	–	–	93,725	93,725
Distributions in respect of the previous year	22(c)(i)	–	–	–	(1,462)	(1,462)
Balance at 31 December 2016 and 1 January 2017		–	20,000	10,000	479,276	509,276
Changes in equity for 2017:						
Profit and total comprehensive income for the year		**–**	**–**	**–**	**94,798**	**94,798**
Issuance of shares	22(b)	**1**	**–**	**–**	**–**	**1**
Effect on equity arising from the Reorganisation (as defined in Note 2(b))		**–**	**(20,000)**	**–**	**–**	**(20,000)**
Distributions in respect of the previous year	22(c)(i)	**–**	**–**	**–**	**(2,368)**	**(2,368)**
Balance at 31 December 2017		**1**	**–**	**10,000**	**571,706**	**581,707**

The notes on pages 66 to 114 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**109,823**	108,966
Adjustments for:			
Depreciation and amortisation	6(c)	**52,449**	47,564
Finance costs	6(a)	**12,290**	13,064
Interest income	5	**(87)**	(573)
Dividend income from unquoted equity investments	5	**(380)**	(462)
Net loss on disposal of property, plant and equipment	5	**540**	–
Amortisation of deferred income	20	**(5,788)**	(3,883)
Changes in working capital:			
Increase in inventories		**(40,137)**	(17,896)
Increase in trade and other receivables		**(45,714)**	(89,062)
Increase in trade and other payables		**61,503**	102,131
Increase in provision for warranties		**553**	747
CASH GENERATED FROM OPERATIONS		**145,052**	160,596
Income tax paid	19(a)	**(16,956)**	(17,683)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**128,096**	142,913
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment and lease prepayments		**(145,858)**	(198,196)
Government grants received	20	**17,435**	11,120
Proceeds from disposal of property, plant and equipment		**412**	54
Dividends received from unquoted equity investments		**380**	462
Proceeds from disposal of unquoted equity investment		**4,100**	600
Payment for acquisition of a subsidiary	22(d)(i)	**(20,000)**	–
Finance costs received		**87**	573
NET CASH USED IN INVESTING ACTIVITIES		**(143,444)**	(185,387)

The notes on pages 66 to 114 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other loans		158,500	233,393
Repayment of bank and other loans		(131,333)	(187,856)
Dividends paid		(3,383)	(447)
Finance costs paid		(12,274)	(12,391)
NET CASH GENERATED FROM FINANCING ACTIVITIES		11,510	32,699
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,838)	(9,775)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	16	9,553	19,328
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16	5,715	9,553

The notes on pages 66 to 114 form part of these financial statements.

1 CORPORATE INFORMATION

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The Company was incorporated on 2 May 2017. Prior to the incorporation of the Company, the principal business of the Group has been operated under a sole operating subsidiary of the Company, namely Hebei Ruifeng Cylinder Co., Ltd. ("Hebei Ruifeng"). Pursuant to a group reorganisation to rationalise the corporate structure in preparation of the listing of the Company's 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 and 2016 have been prepared and presented as a continuation of the financial statements of Hebei Ruifeng with the assets and liabilities of Hebei Ruifeng recognised and measured at their historical carrying amounts prior to the Reorganisation.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's financial performance and financial position for current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(i)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in Note 2(r)(iii).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments and the gain or loss or any impairment loss (see Note 2(i)) is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

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

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

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

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

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

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

(g) Research and development expenditures

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

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

(i) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

– a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and receivables *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and receivables *(Continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

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

– property, plant and equipment;

– prepaid interests in leasehold land classified as being held under an operating lease; and

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

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

– Calculation of recoverable amount

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(j) Inventories

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Employee benefits

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

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

(ii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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

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

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

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

  – the same taxable entity; or

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

(q) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(ii) Rendering of services

Revenue from the rendering of processing service is recognised when the related services are rendered.

(iii) Dividends

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

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

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

(s) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Translation of foreign currencies *(Continued)*

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

(t) Borrowing costs

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

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

(u) Related parties

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

- (i) that person has control or joint control over the Group;
- (ii) that person has significant influence over the Group; or
- (iii) that person is a member of the key management personnel of the Group or of the Group's parent.

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

- (i) the entity and the Group are members of the same group.
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) both entities are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

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

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

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

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

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

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

(v) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

(a) Impairment losses for non-current assets

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

(b) Impairment losses for doubtful debts

The Group estimates impairment losses for doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the ageing of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(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

(a) Revenue

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

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

	2017 RMB'000	2016 RMB'000
Customer A	**153,735**	136,981
Customer B	**107,987**	88,808
Customer C	*	90,498
Customer D	*	67,670

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

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

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

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

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

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

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

(i) Segment results

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

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

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

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results *(Continued)*

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

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

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

(ii) Geographic information

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

5 OTHER INCOME

	2017 RMB'000	2016 RMB'000
Government grants (including amortisation of deferred income, see Note 20)	7,508	3,982
Interest income	87	573
Dividend income from unquoted equity investments	380	462
Net loss on disposal of property, plant and equipment	(540)	–
Others	341	39
	7,776	5,056

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

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

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

(b) Staff costs#

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

6 PROFIT BEFORE TAXATION *(Continued)*

(b) Staff costs# *(Continued)*

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

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

(c) Other items

	2017 RMB'000	2016 RMB'000
Depreciation and amortisation (Notes 11 and 12)#	**52,449**	47,564
Impairment losses on trade and bills receivables (Note 15(b))	**84**	600
Operating lease charges in respect of temporary warehouse	**133**	108
Provision for warranties (Note 21)	**3,099**	2,947
Auditors' remuneration		
– annual audit services	**2,000**	20
– services in connection with the initial listing of the Company's shares	**1,260**	600
Research and development costs	**22,028**	20,757
Cost of inventories# (Note 14(b))	**482,965**	476,793

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

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017 RMB'000	2016 RMB'000
Current taxation – PRC Corporate Income Tax (Note 19(a))		
Provision for the year	**16,893**	16,474
Deferred taxation (Note 19(b))		
Origination and reversal of temporary differences	**(1,868)**	(1,233)
	15,025	15,241

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

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

Notes:

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

(ii) A subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%). The subsidiary has no assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2017 (2016: RMB 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 2017 (2016: 25%).

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

8 DIRECTORS' EMOLUMENTS

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

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

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Meng Lianzhou	–	255	–	6	261
Mr Liu Zhanwen	–	147	–	–	147
Mr Zhang Yuexuan	–	229	–	–	229
Mr Liu Enwang	–	147	–	6	153
	–	778	–	12	790

8 DIRECTORS' EMOLUMENTS *(Continued)*

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

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2016: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	**623**	393
Retirement scheme contributions	**14**	12
	637	405

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

	2017 Number of individuals	2016 Number of individuals
Hong Kong Dollars ("HK$") Nil to HK$1,000,000	**2**	2

(Expressed in RMB unless otherwise indicated)

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

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

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

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

The Company was incorporated on 2 May 2017, and issued and allotted 9,999 shares in May 2017 (Note 22(b)(ii)). In order to present a meaningful earnings per share, the above 9,999 shares are regarded as if they have been in issue since 1 January 2016. The capitalisation issue took place on 5 January 2018 (Note 22(b)(iii)) is deemed to be completed on 1 January 2016 and the weighted average number of shares in 2017 and 2016 have been adjusted accordingly.

(b) Diluted earnings per share

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

11 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2016	182,273	321,538	7,895	31,321	543,027
Additions	–	–	4,073	171,797	175,870
Transfer in/(out)	38,106	59,862	–	(97,968)	–
Disposals	–	–	(668)	–	(668)
At 31 December 2016	220,379	381,400	11,300	105,150	718,229
Accumulated depreciation:					
At 1 January 2016	(18,037)	(100,222)	(4,910)	–	(123,169)
Charge for the year	(8,461)	(35,665)	(1,459)	–	(45,585)
Written back on disposals	–	–	614	–	614
At 31 December 2016	(26,498)	(135,887)	(5,755)	–	(168,140)
Carrying amount:					
At 31 December 2016	193,881	245,513	5,545	105,150	550,089
Cost:					
At 1 January 2017	**220,379**	**381,400**	**11,300**	**105,150**	**718,229**
Additions	**1,837**	**45,824**	**2,288**	**84,360**	**134,309**
Transfer in/(out)	**19,776**	**105,222**	**–**	**(124,998)**	**–**
Disposals	**–**	**(5,910)**	**(252)**	**–**	**(6,162)**
At 31 December 2017	**241,992**	**526,536**	**13,336**	**64,512**	**846,376**
Accumulated depreciation:					
At 1 January 2017	**(26,498)**	**(135,887)**	**(5,755)**	**–**	**(168,140)**
Charge for the year	**(10,696)**	**(37,670)**	**(1,792)**	**–**	**(50,158)**
Written back on disposals	**–**	**5,026**	**184**	**–**	**5,210**
At 31 December 2017	**(37,194)**	**(168,531)**	**(7,363)**	**–**	**(213,088)**
Carrying amount:					
At 31 December 2017	**204,798**	**358,005**	**5,973**	**64,512**	**633,288**

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

At 31 December 2017, property, plant and equipment of the Group with carrying amount of RMB48,245,000 (2016: RMB97,170,000) have been pledged as collateral for the Group's short-term and long-term bank loans (see Note 18).

12 LEASE PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At 1 January	116,322	79,776
Additions	–	36,546
At 31 December	116,322	116,322
Accumulated amortisation:		
At 1 January	(8,299)	(6,320)
Charge for the year	(2,291)	(1,979)
At 31 December	(10,590)	(8,299)
Carrying amount:		
At 31 December	105,732	108,023

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

At 31 December 2017, lease prepayments of the Group with carrying amount of RMB26,939,000 (2016: RMB32,599,000) have been pledged as collateral for the Group's short-term and long-term bank loans (see Note 18).

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Hebei Ruifeng (Notes (i) and (ii)) 河北瑞豐動力缸體有限公司	The PRC 29 August 2007	RMB20,000,000	100%	–	100%	Design, manufacture and sale of cylinder blocks and cylinder heads
Turbo Group Investment Limited	Hong Kong 10 March 2017	1 share	100%	–	100%	Investment holding
Long Teng Holdings Limited	The BVI 25 April 2017	United States Dollar ("US$") 1, 1 share of US$1 each	100%	100%	–	Investment holding
Hebei Ruifeng Power Technology Co., Ltd. ("Ruifeng Technology") (Notes (i) and (iii)) 河北瑞豐動力科技有限公司	The PRC 24 July 2017	(Note (iii))	100%	–	100%	Investment holding

Notes:

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

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

(iii) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. As at the date of this report, the registered capital of this entity is HK$10,000,000 and paid-up capital is HK$Nil.

14 INVENTORIES

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

	2017 RMB'000	2016 RMB'000
Raw materials	**52,983**	40,547
Work in progress	**23,961**	29,764
Finished goods	**82,019**	48,260
	158,963	118,571
Less: Write-down of inventories	**(2,653)**	(2,398)
	156,310	116,173

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

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**482,710**	476,553
Write-down of inventories	**255**	240
	482,965	476,793

15 TRADE AND OTHER RECEIVABLES

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

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

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

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

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

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see Note 2(i)(i)).

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

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

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

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade and other receivables that are not impaired

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

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

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

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

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

16 CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash on hand and at bank	**5,715**	9,553

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

Subsequent to the end of the reporting period and as mentioned in Note 27(b), on the Listing Date, 200,000,000 shares were issued by the Company at the offer price of HK$1.68 per share. The Company received a net proceeds of approximately RMB263,862,000.

17 TRADE AND OTHER PAYABLES

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

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

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

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

18 BANK AND OTHER LOANS

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

	2017 RMB'000	2016 RMB'000
Short-term bank loans:		
– secured	**60,000**	90,833
Add: current portion of long-term bank and other loans (Note 18(b))	**52,000**	–
	112,000	90,833

18 BANK AND OTHER LOANS *(Continued)*

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

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

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

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

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

(d) Certain of the Group's bank loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). As at 31 December 2017 none of the covenants relating to financial ratios had been breached (2016: None).

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2017 RMB'000	2016 RMB'000
At 1 January	**2,684**	3,893
Provision for the year (Note 7(a))	**16,893**	16,474
Income tax paid	**(16,956)**	(17,683)
At 31 December	**2,621**	2,684

(b) Deferred tax assets recognised

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

Deferred tax assets arising from:	Government grants and subsequent amortisation RMB'000	Provision for warranties RMB'000	Write-down of inventories RMB'000	Total RMB'000
At 1 January 2016	6,436	625	324	7,385
Credited to the consolidated statement of profit or loss (Note 7(a))	1,086	111	36	1,233
At 31 December 2016	7,522	736	360	8,618
Credited to the consolidated statement of profit or loss (Note 7(a))	1,747	83	38	1,868
At 31 December 2017	**9,269**	**819**	**398**	**10,486**

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), as at 31 December 2017, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB360,000 (2016: RMBNil), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

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

(d) Deferred tax liabilities not recognised

At 31 December 2017, taxable temporary differences relating to the retained profits of the Group's subsidiaries established in the PRC (excluding Hong Kong) amounted to RMB572,066,000 (2016: RMB479,276,000) where no deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits were recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

20 DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At 1 January	50,146	42,909
Additions	17,435	11,120
Credited to the consolidated statement of profit or loss	(5,788)	(3,883)
At 31 December	61,793	50,146

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

21 PROVISION FOR WARRANTIES

	2017 RMB'000	2016 RMB'000
At 1 January	4,911	4,164
Provisions made	3,099	2,947
Provisions utilised	(2,546)	(2,200)
At 31 December	5,464	4,911
Less: Amount included under "current liabilities"	(2,471)	(2,084)
	2,993	2,827

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

22 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS

(a) Movements in components of equity

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

The Company

	Share capital **RMB'000** (Note 22(b))
At 2 May 2017 (date of incorporation)	
Issuance of shares	1
At 31 December 2017	1

(b) Share capital

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

	Number of shares	**Nominal value of ordinary shares** **RMB'000**
Ordinary shares, issued and fully paid:		
At 2 May 2017 (date of incorporation) (Note (ii))	1	–
Issuance of shares (Note (ii))	9,998	1
At 31 December 2017	9,999	1
Capitalisation issue on 5 January 2018 (Note (iii))	599,990,001	49,817,170
Prior to issuance of shares on initial listing	600,000,000	49,817,171

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

(b) Share capital *(Continued)*

Notes:

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 May 2017. Its initial authorised share capital was HK$380,000 divided into 3,800,000 shares with a par value of HK$0.10 per share.

On 11 December 2017, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK$380,000 divided into 3,800,000 shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each.

(ii) In May 2017, the Company issued and allotted/transferred 1 share and 9,998 shares, respectively, at par value for cash to Dragon Rise Ventures Limited("Dragon Rise") and other investment companies, the proceeds of HK$999.9 (equivalent to approximately RMB796) were credited to the Company's share capital account.

(iii) On 5 January 2018, 599,990,001 ordinary shares of HK$0.01 each were allotted and issued at par value 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 standing to the credit of the share premium account of the Company, and these allotted and issued shares rank pari passu in all respects with the then existing issued shares. Consequently, the total number of shares outstanding upon the completion of the capitalisation was 600,000,000.

(c) Distributions/dividends

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

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

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

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

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

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

(d) Nature and purpose of reserves

(i) Other reserve

The other reserve of the Group as at 1 January 2016 and 31 December 2016 represented the paid-in capital of Hebei Ruifeng, which is the sole operating subsidiary of the Group in 2016.

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

(ii) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established and operated in Mainland China are required to transfer 10% of its net profit to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders.

This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

(e) Capital management

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

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

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2017, 11.4% (2016: 9.0%) of the total trade and bills receivables were due from the Group's largest trade debtor, and 46.0% (2016: 38.1%) of the trade and bills receivables were due from the Group's five largest trade debtors.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 15.

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

(b) Liquidity risk

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

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

	2017				
	Contractual undiscounted cash flow				
	Within 1 year or on demand RMB'000	**Over 1 year but within 2 years RMB'000**	**Over 2 years but within 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Trade and other payables	**328,695**	**–**	**–**	**328,695**	**328,695**
Bank and other loans	**122,187**	**117,908**	**–**	**240,095**	**228,000**
	450,882	**117,908**	**–**	**568,790**	**556,695**

	2016				
	Contractual undiscounted cash flow				
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years but within 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables	280,652	–	–	280,652	280,652
Bank and other loans	97,625	55,503	61,089	214,217	200,833
	378,277	55,503	61,089	494,869	481,485

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

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

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

	2017		2016	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
– Bank loans	–	–	4.21%	60,833
– Loans from third parties	4.36%	150,000	4.08%	110,000
		150,000		170,833
Variable rate borrowings:				
– Bank loans	4.73%~5.46%	78,000	4.73%	30,000
		228,000		200,833
Fixed rate borrowings as a percentage of total borrowings		66%		85%

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB663,000 (2016: RMB255,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The analysis is performed on the same basis as 2016.

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

(d) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

24 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Commitments in respect of property, plant and equipment and land use rights:		
– Contracted for	9,702	47,986

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	50	–

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

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits	**2,487**	1,591
Contributions to defined contribution retirement plan	**62**	53
	2,549	1,644

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

(b) Transactions with related parties

	2017 **RMB'000**	2016 RMB'000
Key management personnel and their close family members		
– Loans repaid	**–**	(4,728)
– Interest expenses	**–**	356

The loans from key management personnel and their close family members bore interest at 7.80% per annum and had been fully repaid in 2016.

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 RMB'000
Current assets		
Cash and cash equivalents		**1**
CAPITAL AND RESERVES	22(b)	
Share capital		**1**

Approved and authorised for issue by the board of directors on 16 March 2018.

Meng Lianzhou
Chairman

Liu Enwang
Director

27 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) 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 standing to the credit of the share premium account of the Company.

(b) 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 issue amounted to approximately RMB263,862,000, of which RMB16,606,000 and RMB247,256,000 were recorded in the Company's share capital and share premium account respectively.

(Expressed in RMB unless otherwise indicated)

28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2017, the directors consider the immediate parent of the Group to be Dragon Rise, which is incorporated in the BVI. This entity does not produce financial statements available for public use. The directors consider the ultimate holding parties of the Group to be Mr Meng Lianzhou, Mr Liu Zhanwen, Mr Zhang Yuexuan and Mr Liu Enwang.

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

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

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

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

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 9, Financial instruments *(Continued)*

(a) Classification and measurement *(Continued)*

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment on the historical impairment experience, the Group expects the accumulated impairment loss provision will not materially change.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 15, Revenue from contracts with customers *(Continued)*

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(r). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) 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;

(iii) 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 will be considered in determining when the transfer of control occurs.

The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group expects that the adoption of IFRS 15 will not materially impact how it recognises revenue.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 15, Revenue from contracts with customers *(Continued)*

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for sales of cylinder blocks and cylinder heads at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. The expected changes in accounting policies as described above will not have a material impact on the Group's financial results from 2018 onwards.

IFRS 16, Leases

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

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

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 16, Leases *(Continued)*

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for property which are currently classified as operating leases. As disclosed in Note 24(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB50,000 for certain office premises, all of which is payable within 1 year after the reporting date. The adoption of IFRS 16 is unlikely to have a significant impact on the Group's financial statements. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.