



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

2019 ANNUAL REPORT



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DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Ka Wai

AUTHORISED REPRESENTATIVES

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

LEGAL ADVISOR

As to Hong Kong Law:

Chiu & Partners
40/F, Jardine House,
1 Connaught Place
Central
Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in
accordance with the Financial Reporting Council
Ordinance

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR BRANCH

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

2025

WEBSITE

www.hbsgt.com

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 2019, we owned and operated a total of 3 precision casting lines and 18 mechanical processing lines (including 14 for cylinder blocks, 3 for cylinder heads and 1 for other ancillary cylinder block components).

THE MAIN PRODUCTS ARE:

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

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

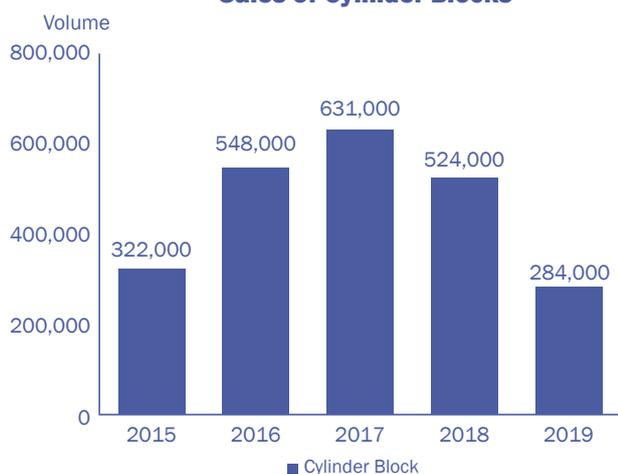
Ancillary Cylinder Block Components – including main bearing cap and flywheel. Main bearing caps are used in piston engines to secure the crankshaft against the cylinder block. Our main bearing caps help prevent the forces created by the piston and transmitted to the crankshaft by forcing the crank to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

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

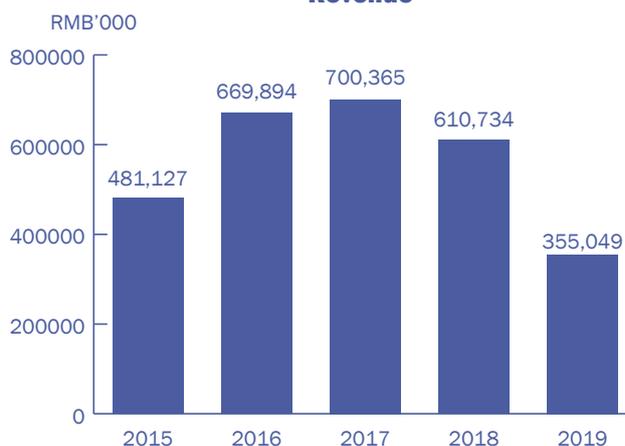
- The specialized manufacturer of cylinder blocks and an established producer of cylinder heads in China
- A high level of flexibility in production facilities and process to meet the specific needs of different customers
- Continuous optimization and innovation of production process and technologies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

Year ended 31 December	2019	2018	2017	2016 (Note 1)	2015 (Note 1)
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue (RMB'000)	355,049	610,734	700,365	669,894	481,127
Gross profit (RMB'000)	85,680	190,051	217,400	193,101	159,581
Gross profit margin	24.1%	31.1%	31.0%	28.8%	33.2%
Profit for the year (RMB'000)	30,115	102,349	94,798	93,725	73,425
Net profit margin	8.5%	16.8%	13.5%	14.0%	15.3%
Basic and diluted earnings per share (RMB)	0.04	0.13	0.16	0.16	-

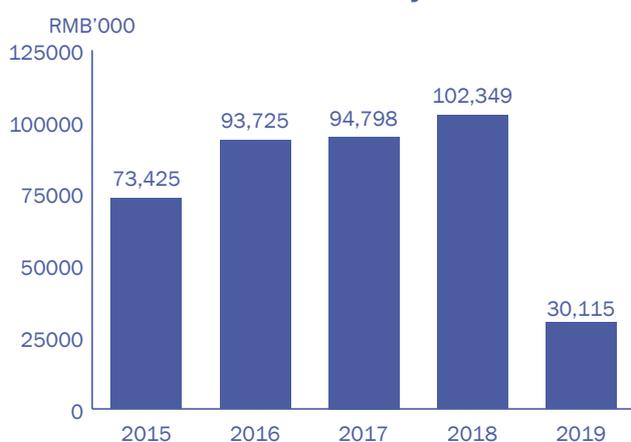
Sales of Cylinder Blocks



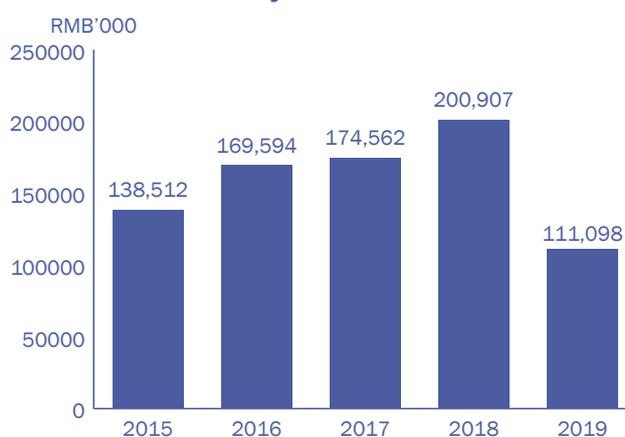
Revenue



Profit for the year



Adjusted EBITDA



Financial Summary

As at 31 December	2019	2018	2017	2016 (Note 1)	2015 (Note 1)
Major Items of Consolidated Statement of Financial Position					
Non-current assets (RMB'000)	797,345	770,444	749,506	670,730	505,399
Current assets (RMB'000)	522,000	637,939	459,685	377,772	280,489
Current liabilities (RMB'000)	317,225	438,612	446,698	376,253	323,572
Net current assets/(liabilities) (RMB'000)	204,775	199,327	12,987	1,519	(43,083)
Non-current liabilities (RMB'000)	61,802	63,607	180,786	162,973	45,303
Net assets (RMB'000)	940,318	906,164	581,707	509,276	417,013
Gearing ratio (Note 2)	12.9%	23.1%	39.2%	39.4%	37.2%

Notes

- (1) The results and summary of assets and liabilities for the years ended 31 December 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,

On behalf of the board (the "Board") of directors (the "Directors") of Ruifeng Power Group Company Limited (the "Company" or "Ruifeng Power"), I am going to present to the shareholders the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 ("2019" or the "Year"). During the Year, the Group continued to proactively collaborate with various major automobile manufacturers on the development of more products, to improve its production lines and to enhance its own overall competitiveness on an ongoing basis.

During the Year, unresolved conflicts remained over the Sino-US trade war, coupled with other factors such as early implementation of the 'China VI' standard in some regions and the slash in subsidies for new energy vehicles, China's automobile market had been tough and bracing for a wave of challenges in 2019. While the automobile industry was yet to be recovered from the unprecedented negative growth recorded in the automobile market in 2018, certain automobile companies were deep in plight. During 2019, 25.721 million and 25.769 million of vehicles were produced and sold respectively, representing a year-on-year slip of 7.5% and 8.2% respectively. Hard-hit by the continuous plunge of the automobile market, the auto spare parts industry was directly left to suffer.

It is the Group's belief that the automobile industry has reached the critical moment of its transformation and upgrade, where more opportunities along with challenges will also face the auto spare parts industry. Within the current auto spare parts market of China, multinational auto spare parts suppliers have been taking the lead in the field of key auto spare parts manufacturing in China, all leveraging on their pioneering advantages such as their state-of-the-art design of spare parts and research and development techniques, their long-term and stable partnership with finished vehicle manufacturers, or their precedent identity as foreign-owned finished vehicle brands. When Chinese auto spare parts suppliers are often bound by the reality of seeking for the partnership with multinational auto spare parts suppliers at the very start, they can narrow the gap between themselves and their multinational peer group in the field of key spare parts manufacturing through accumulating know-how with their relentless efforts. Thus, the Group and Saint Jean Industries S.A.S., a French company, reached a cooperative agreement in November 2019, pursuant to which the Group will invest in the newly established production line of lightweight products of Saint Jean Industries S.A.S. located at Changshu, Jiangsu Province, the PRC. The Group believes that such cooperation will allow itself not only to learn more from multinational auto spare parts suppliers on the management and manufacturing experiences, but also to advance its own casting technology, thus propelling itself to the success of tapping into the market products of mid-to-high-end and new energy vehicles.

Chairman's Statement

Throughout the past year, the Group has been proactively formulating plans to diversify its product markets. In the second half of 2019, having successfully won a spot on the list of suppliers of Deutz AG ("Deutz"), the Group has become the sole supplier of Deutz for the procurement of cylinder blocks and cylinder heads in Asia, and will provide it with mechanic cylinder blocks and cylinder heads. Such cooperation can best prove the quality of the Group's products that have earned international recognition, thereby further consolidating its market position. Meanwhile, it will also benefit the Company in terms of i) expediting its market development of non-road vehicles, thus allowing the Company to move away from its previous focus on the markets of passenger vehicles and commercial vehicles; ii) cooperating with international bigwigs that will draw in relatively stable sales volume and higher profit margins; and iii) favoring the future export of the Company's products to the overseas markets and striving for greater vitality in the market through its partnership with international giants.

Despite the daunting challenges faced by the Chinese automobile market in 2019, the automobile industry has already become one of the crucial industries in the Chinese economy. As an upstream industry of the automobile industry, the auto spare parts industry is a key component of the entire automobile industry chain. Looking forward to 2020, the Group is of the opinion that the Chinese's auto spare parts industry will still have large room for growth in the years ahead based on the patterns of industrial restructuring and upgrade of the auto spare parts industry. The Group will solidify its relationships with its existing customers and other business partners, meanwhile further strengthen the solid foundation laid during the current year. Marching forward step by step, we will thrive with a prudent approach and strive for long-term development while securing our market competitiveness.

Finally, on behalf of the Board, I would like to sincerely show our appreciation to all the staff for their outstanding contributions to the development of the Group. We would also like to thank the shareholders, our customers and partners for their great support. The Group will continue its efforts to achieve its annual business objectives for 2020 and maximize benefits and returns for shareholders and other stakeholders.

Meng Lianzhou

Chairman

Shenzhou, the PRC

31 March 2020

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Meng Lianzhou (孟連周), aged 59, 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 2019 is disclosed under the paragraph headed “Directors’ Report – Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures”.

Mr. Liu Zhanwen (劉占穩), aged 67, 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 2019 is disclosed under the paragraph headed “Directors’ Report – Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures”.

Biographical Details of Directors and Senior Management

Mr. Zhang Yuexuan (張躍選), aged 71, 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 2019 is disclosed under the paragraph headed “Directors’ Report – Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures”.

Mr. Liu Enwang (劉恩旺), aged 58, 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 2019 is disclosed under the paragraph headed “Directors’ Report – Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures”.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wei Anli (魏安力), aged 67, 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 46, 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 manager 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.

Biographical Details of Directors and Senior Management

Mr. Yu Chun Kau (余振球), aged 47, is our independent non-executive Director. Mr. Yu was appointed as an independent non-executive Director on 11 December 2017. Mr. Yu has over 20 years of experience in finance and management. Mr. Yu graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in May 1994. He obtained a master's degree in corporate governance from The Open University of Hong Kong in June 2005. Mr. Yu is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators respectively and is registered as a Certified Public Accountant (Practising) with Hong Kong Institute of Certified Public Accountants. Mr. Yu is also a senior international finance manager of International Financial Management Association. From August 1994 to July 2002, Mr. Yu was employed as the audit manager of KPMG. From July 2002 to November 2003, Mr. Yu was the Financial controller of First Dragoncom Agro-Strategy Holdings Ltd. (listed on the Main Board of the Stock Exchange: stock code: 875) (currently known as China Finance Investment Holdings Limited). From December 2003 to June 2006, Mr. Yu was the Assistant director of Kerry Beverages Limited. From June 2006 to February 2008, Mr. Yu was the Chief financial officer of Brigantine Group. From February 2008 to June 2010, Mr. Yu was the Executive director, chief financial officer and company secretary of China Risun Coal Chemicals Group Limited (listed on the Main Board of the Stock Exchange: stock code: 1907) (currently known as China Risun Group Limited). From June 2010 to December 2012, Mr. Yu was the Executive director, chief financial officer and company secretary of Sitoy Group Holdings Limited (listed on the Main Board of the Stock Exchange: stock code: 1023). From September 2013 to December 2016, Mr. Yu was the Vice president, chief financial officer and company secretary of Cosmo Lady (China) Holdings Company Limited (listed on the Main Board of the Stock Exchange: stock code: 2298). Mr. Yu is an independent non-executive director of Forward Fashion (International) Holdings Company Limited (listed on the Main Board of the Stock Exchange: stock code: 2528) since January 2020 and an independent non-executive director of JiaChen Holding Group Limited (listed on the Main Board of the Stock Exchange: stock code: 1937) since December 2019.

SENIOR MANAGEMENT

Mr. Wei Xilai (位喜來), aged 35, 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 45, is the executive deputy general manager who is responsible for the overall management of business operations of the Group. Mr. Xie graduated from Shenxian No. 2 Senior Vocational and Technical Secondary School* (深縣第二高級職業技術中學) in May 1994. Mr. Xie joined Hebei Cylinder Block Factory in March 1995 as a tooling workshop worker until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. He joined the Group in October 2003 as a workshop supervisor. Mr. Xie was the production officer of Hebei Ruifeng Engine from May 2006 to July 2006, the vice plant manager of Hebei Ruifeng Engine from July 2006 to August 2007, the deputy minister of production of Hebei Ruifeng Engine from August 2007 to December 2009, the deputy minister of production of Hebei Ruifeng from December 2009 to May 2011, the production minister of Hebei Ruifeng from May 2011 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the executive deputy general manager of the Group.

Biographical Details of Directors and Senior Management

Mr. Wen Qingwei (文清威), aged 48, is the deputy general manager who is responsible for the overall product development and quality control of the Group. Mr. Wen graduated from Hengshui Vocational and Technical College of Hebei Province* (河北省衡水勞動技工學院) (currently known as Hengshui Senior Technical School of Hebei Province* (河北省衡水高級技工學校)) with a technician diploma in July 1992. Mr. Wen joined Hebei Cylinder Block Factory as a tooling workshop worker in July 1995 and was later promoted to be the trainee deputy technology manager in September 2001, until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. Mr. Wen joined the Group in October 2003 as a trainee deputy technology manager. He was the quality control manager of Hebei Ruifeng Engine from August 2005 to December 2009, the quality control manager of Hebei Ruifeng from December 2009 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the deputy general manager of the Group.

Mr. Wong Ka Wai (王加威), aged 40, 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.

INDUSTRY OVERVIEW

Looking back in 2019, China recorded an annual GDP growth rate of 6.3%. Affected by various factors such as the slowdown of China's economic growth and a decline in consumer demand, the sales volume in the automobile market dropped and the automobile industry was under greater pressure. According to China Association of Automobile Manufacturers' statistics, approximately 25.7 million and approximately 25.8 million of vehicles were produced and sold respectively in China in 2019, a decrease of approximately 7.5% and approximately 8.2% year-on-year respectively. Out of those vehicles, a total of approximately 8.4 million China's branded passenger vehicles were sold, a decrease of approximately 15.8% year-over-year, accounting for approximately 39.2% of the total passenger vehicle sales. The market share of the China branded passenger vehicles decreased by approximately 2.9% over the same period of the previous year. In terms of new energy vehicles, approximately 1.2 million and 1.2 million of new energy vehicles were produced and sold in 2019 respectively, a decrease of approximately 2.3% and 4.0% respectively over the same period of the previous year.

During the year ended 31 December 2019, China's automobile industry stuck in the doldrums, where both the production and the sales of vehicles had sunk as compared to last year. Affected by the switch of China VI vehicle emission standard in some regions and the diminishing new energy vehicle subsidies, a majority of automobile manufacturers had opted for axing prices to promote sales and destock. Yet, along with 'price promotion' or other factors, the market still saw no signs of a sales recovery amid the unchanged wait-and-see sentiment among consumers.

Due to the slump in the automobile industry, the Chinese government introduced different policies to drive the growth in the automobile market in 2019. Among them, the "Implementation Plan for Further Optimising Supply to Promote the Stable Consumption Growth and Facilitating the Formation of a Strong Domestic Market (2019)" (《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》) focused on the automobile consumption field and proposed measures including to promote the scrapping of old vehicles, optimise the subsidies for new energy vehicles, promote the upgrading of rural vehicles, accelerate the prosperity of the used car market, relax the restrictions on pickup trucks entering cities, and to optimise local governments' motor vehicle management. Through various measures in place, the automobile consumption can be boosted and residents' travel needs can be better satisfied. Since April 2019, the Chinese government has reduced the current value added tax rate for the manufacturing and other industries from 16% to 13%. The lower value added tax rate means a reduction in costs, which has greatly benefitted the vehicle prices.

BUSINESS REVIEW

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

The Group primarily manufacture cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufactures cylinder heads as well as certain other structural components of cylinder blocks, primarily including main bearing caps and flywheels. The following table sets forth the revenue and sales volume by segment and major product type for the year ended 31 December 2019 and 2018:

Management Discussion and Analysis

For the year ended 31 December

	2019			2018		
	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	48,009	13.5	58,155	155,438	25.5	217,023
Cylinder blocks for commercial vehicles	180,633	50.9	180,038	285,238	46.7	249,725
Cylinder blocks for industrial vehicles	49,896	14.1	46,148	61,178	10.0	56,805
Subtotal	278,538	78.5	284,341	501,854	82.2	523,553
Cylinder heads	60,319	17.0	107,639	73,745	12.1	127,095
Ancillary cylinder block components	16,192	4.5	709,282	35,135	5.7	2,794,656
Total	355,049	100.0		610,734	100.0	

Cylinder blocks for passenger vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0-1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. Revenue from sales of cylinder blocks for passenger vehicles decreased from approximately 25.5% of our total revenue from cylinder block sales for the year ended 31 December 2018 to approximately 13.5% for the year ended 31 December 2019. Sales volume of cylinder blocks for passenger vehicles decreased approximately 73.2% from approximately 217,000 units for the year ended 31 December 2018 to approximately 58,000 units for the year ended 31 December 2019. The decrease was mainly due to decrease in demands from our customers as the automobile market is in downturn and the Group has decreased the supply of the products to several customers which are over our credit limits and aged over 180 days.

During the year ended 31 December 2019, the Group has mass production of cylinder block for passenger vehicles, G501, which can meet China VI standards. The G501 cylinder block contributed a revenue of approximately RMB16.8 million for the year ended 31 December 2019 as compared with a revenue of approximately RMB2.6 million. The Group expected that G501 cylinder block will be one of our major products in 2020 and the demands will be increased as well.

Cylinder Blocks for Commercial Vehicles

The cylinder blocks for commercial vehicles are normally used in engines of 1.5 liters or above. The cylinder blocks for commercial vehicles are made from grey cast iron alloy. Revenue from sales of cylinder blocks for commercial vehicles increased from approximately 46.7% of total revenue from sales

Management Discussion and Analysis

of cylinder blocks for the year ended 31 December 2018 to approximately 50.9% for the year ended 31 December 2019. Sales volume of cylinder blocks for commercial vehicles decreased approximately 27.9% from approximately 250,000 units for the year ended 31 December 2018 to approximately 180,000 units for the year ended 31 December 2019. The decrease was mainly due to decrease in demands from our customers as the automobile market is in downturn.

Cylinder Blocks for Industrial Vehicles

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. Revenue from sales of cylinder blocks for industrial vehicles increased from approximately 10.0% of total revenue from sales of cylinder blocks for the year ended 31 December 2018 to approximately 14.1% for the year ended 31 December 2019. Sales volume of cylinder blocks for industrial vehicles decreased approximately 18.8% from approximately 57,000 units for the year ended 31 December 2018 to approximately 46,000 units for the year ended 31 December 2019. The decrease was mainly due to decrease in demands from customers.

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 15.3% from approximately 127,000 units for the year ended 31 December 2018 to approximately 108,000 units for the year ended 31 December 2019. Such decrease was as a result of decrease in demand on 493 series of cylinder heads.

Tapping into the Lightweight Automobile Market through Merger and Acquisition and Investments

At present, there is a huge potential for the development of lightweight materials in the automobile industry. According to China's automobile lightweight technology roadmap and development goals, the weight of automobiles produced in China needs to be reduced by 10% compared with 2015 by 2020; and by 2025, it is expected that the weight will be further reduced by 20% from 2015. In November 2019, the Company and Saint Jean Industries S.A.S. ("Saint Jean"), a French company, signed a cooperative agreement ("Cooperative Agreement"), pursuant to which the Group agreed to acquire or procure a subsidiary to acquire 10.7% equity interests of Saint Jean Automotive System (Changshu) Co., Ltd* (聖讓汽車系統(常熟)有限公司) ("Saint Jean Changshu") for a consideration of EUR 5.0 million. Saint Jean has invested in the newly established production line of lightweight products in the factory of Saint Jean Changshu (the "Changshu Factory"). The Changshu Factory is expected to commence production of automobile chassis parts and components in 2021, with the production volume reaching 2 million units or more by 2025.

The Group cooperated with Saint Jean, primarily considering that it is an international supplier of products including, among others, chassis, engines and wheels, with production sites in the United States, Europe and Asia, a team of over 2,500 employees, and major international brand automaker customers. The Changshu Factory mainly applies "COBAPRESS", Saint Jean's core aluminum casting

and forging technology, to produce roughcast for automobile chassis parts and components. This technology allows the parts to be lightweight with the casting technology and of high strength with the forging technology. It is now mainly used in the mid-to-high-end and new energy vehicle markets. Since the Changshu Factory only has the capability to produce roughcast, the products still need to be processed before being provided to customers. Therefore, with the cooperation between the Company and Saint Jean, the roughcast produced by the Changshu Factory can be processed at the production facilities of the Company, bringing a new business to the Company and opening the channel for the Company to tap into the lightweight automobile market.

As at 31 December 2019, the Group paid EUR3 million (equivalent to RMB23.4 million) to Saint Jean. Currently, the necessary transfer procedures are still pending to complete the transaction.

Cooperating with International Giants to Expand the Market

In the second half of 2019, having successfully won a spot on the list of suppliers of DEUTZ AG (“DEUTZ AG”), the Group has become the sole supplier of DEUTZ AG for the procurement of cylinder blocks and cylinder heads in Asia. It is expected that the Company will start to supply 2.9L and 6.1L mechanic cylinder blocks and cylinder heads to DEUTZ AG by the end of 2020. DEUTZ AG is one of the world’s leading manufacturers of innovative drive systems. Its products are sold in more than 130 countries/regions around the world and mainly used in diesel, gas and electric drivetrain systems for construction equipment, agricultural machinery, commercial vehicles, railway vehicles and other applications. Besides, in 2019, DEUTZ AG also produced engines with Sany Heavy Industry under a joint venture, in order to meet the demand for non-road vehicle engines. Through this cooperation, the Group can extend its reach to the industrial vehicle market and diversify its sales in view of over-reliance on the sales of commercial and passenger vehicles.

Production Facilities and New Products and Research and Development

All production facilities of the Group are located in Shenzhou City, Hebei Province, the PRC. As at 31 December 2019, the Group owned and operated a total of 3 precision casting lines and 18 mechanical processing lines (including 14 for cylinder blocks, 3 for cylinder heads and 1 for other ancillary cylinder block components).

During the year ended 31 December 2019, the Group invested in 4 mechanical processing lines (i.e. 3 cylinder blocks and 1 cylinder head), which meet the new China VI emission standards. It is expected that there can be mass production for new products in 2020. The investment costs of these 4 production lines were around RMB39.0 million.

In addition, the Group is building 8 new mechanical processing lines and a precision casting lines by using the renovation of the existing production line or investing a new production line. Most of the new production lines can be completed before end of 2020. After completion of the 8 processing lines, the Group will enhance its production efficiency and provide over 6 new products, especially for cylinder blocks for industrial and passenger vehicles.

FUTURE PROSPECTS

The Chinese economy is moving from the high-speed growth stage to the high-quality development stage, while the automobile market is in the period of new and old kinetic energy conversion and structural efficiency adjustment. The Group expects that in 2020, the automobile market will have no significant changes but will continue to progress well. The Group still adheres to customer-oriented and technology-oriented strategies, continuously improving its competitiveness and providing high-quality services for traditional car companies. At the same time, the Group is gradually developing support measures for new energy vehicles while accurately grasping market trends, and enhancing production efficiency through internal technological transformation.

Besides, while the precision processing market is one of the auto spare parts self-supply sectors that large-scale automakers have withdrawn from, their exit from the market has in return created a high potential for the Company to expand its market share. With the slowing down in the automobile market, plenty of large-scale automakers have changed their business models to into an asset-light business model, by outsourcing their non-core businesses or cooperating with professional manufacturers under a profit-sharing model, in order to cut their own investments and costs, and boost their profitability. When the Group expects to seize every opportunity, in 2020, the Company will push forward its in-depth cooperation with large-scale automakers for, including but not limited to, establishing a sales cooperation platform or providing comprehensive outsourcing services, through which the Company will deliver more diversified and comprehensive products and services for the purpose of growing its revenue.

FINANCIAL REVIEW

Revenue

Revenue decreased by 41.9% from RMB610.7 million for the year ended 31 December 2018 to RMB355.0 million for the year ended 31 December 2019. This decrease was primarily attributable to a decrease in revenue from sales of cylinder blocks, cylinder heads and cylinder block components. Such significant decrease was mainly affected by the downturn in the automotive industry.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales decreased by 44.5% from RMB501.9 million for the year ended 31 December 2018 to RMB278.5 million for the year ended 31 December 2019, primarily attributable to a decrease in sales volume from approximately 524,000 units for the year ended 31 December 2018 to approximately 284,000 units for the year ended 31 December 2019 driven by decreased customer demand and tightening credit management of the Group.

Sales of Cylinder Heads

Segment revenue from cylinder head sales decreased by 18.2% from RMB73.7 million for the year ended 31 December 2018 to RMB60.3 million for the year ended 31 December 2019. This decrease was primarily due to decrease in demand from our customers. The sales volume of cylinder heads decreased from approximately 127,000 units for the year ended 31 December 2018 to approximately 108,000 units for the year ended 31 December 2019, primarily related to decreased sales of the 493 series of cylinder heads, which was consistent with the decreased sales of the same series of cylinder blocks during the year.

Sales of Ancillary Cylinder Block Components

Segment revenue from ancillary cylinder block components sales decreased by 53.9% from RMB35.1 million for the year ended 31 December 2018 to RMB16.2 million for the year ended 31 December 2019. This decrease was primarily attributable to a decrease in demand from our customers.

Gross Profit and Gross Profit Margin

Gross profit decreased by 54.9% from RMB190.1 million for the year ended 31 December 2018 to RMB85.7 million for the year ended 31 December 2019. This decrease was in line with decrease in revenue. The gross profit margin decreased from 31.1% for the year ended 31 December 2018 to 24.1% for the year ended 31 December 2019, such a significant decrease in gross profit margin was primarily due to an increase in usage of roughcast products which were provided by our customers for processing and production inefficiency as the demands decreased sharply.

Other Income

Other income decreased by 5.1% from RMB41.8 million for the year ended 31 December 2018 to RMB39.7 million for the year ended 31 December 2019. This decrease was primarily due to a decrease in government grants. The government subsidies related to the expansion of the production facilities and purchase of new production equipment which are recorded as deferred income and amortised during the year.

Selling Expenses

Selling expenses decreased by 50.0% from RMB21.8 million for the year ended 31 December 2018 to RMB10.9 million for the year ended 31 December 2019. The decrease was primarily due to (i) a decrease in transportation expenses incurred in relation to delivery of products to the customers due to decrease sales and (ii) a decrease in provision for warranty during the year because the Group enhanced its quality control procedures as well as products quality.

Administrative Expenses

Administrative expenses decreased by 7.6% from RMB74.5 million for the year ended 31 December 2018 to RMB68.8 million for the year ended 31 December 2019, primarily due to (i) a decrease in research and development costs of RMB8.5 million to RMB13.4 million for the year ended 31 December 2019 as the Group had a significant investment in research and development activities in relation to China VI standard in previous year and the Group is ready to promote China VI standard products in this year; (ii) a decrease in listing and professional fee of RMB1.9 million to nil for the year ended 31 December 2019; and (iii) stringent cost control measures adopted by the Group, which was offset by an increase in impairment loss on trade receivables of RMB12.0 million for the year ended 31 December 2019.

Finance Costs

Finance costs decreased by 2.4% from RMB10.9 million for the year ended 31 December 2018 to RMB10.7 million for the year ended 31 December 2019, primarily due to a decrease in bank loans balance which partially offset by an increase in using of the discounting bills and factoring for financing.

Income Tax Expenses

Income tax expenses decreased by 78.2% from RMB22.3 million for the year ended 31 December 2018 to RMB4.9 million for the year ended 31 December 2019, primarily due to a decrease in profits before taxation for the year ended 31 December 2019. The effective tax rate decreased from 17.9% for the year ended 31 December 2018 to 13.9% for the year ended 31 December 2019, primarily due to a withholding tax in relation to the retained profits to be distributed by a subsidiary of the Group of approximately RMB4.9 million was recognized for the year ended 31 December 2018 as no such withholding tax was provided for the year ended 31 December 2019.

Profit for the Year

As a result of the foregoing, the profit for the year decreased by 70.6% from RMB102.3 million for the year ended 31 December 2018 to RMB30.1 million for the year ended 31 December 2019. The net profit margin decreased from 16.8% for the year ended 31 December 2018 to 8.5% for the year ended 31 December 2019, which was mainly attributable to a decrease in gross profit margin.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations are primarily financed by cash generated from operating activities, net proceeds received from the global offering of the Company completed on 5 January 2018 (the "Global Offering") and bank and other borrowings. As of 31 December 2019 and 2018, the Group had cash and cash equivalents of RMB49.3 million and RMB170.0 million, respectively.

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

Trade and Bills Receivables

The trade and bills receivables decreased by 13.9% from RMB293.8 million as at 31 December 2018 to RMB253.0 million as at 31 December 2019, primarily due to decrease in revenue. The trade and bills receivables turnover days increased from 168 days as at 31 December 2018 to 204 days as at 31 December 2019. Such increase was resulted from the delay in settlement by certain customers due to the downturn in the automotive industry. The Group will strengthen customer credit risk management to guard against the increase in impairment loss on trade receivables. The impairment losses on trade receivables was increased from RMB0.7 million as at 31 December 2018 to RMB12.7 million as at 31 December 2019, such increase was primarily due to an increase in expected loss rate.

Trade Payables

The trade payables remained stable at approximately RMB103.8 million and RMB102.4 million as at 31 December 2018 and 2019, respectively. The trade payables turnover days increased from 122 days as at 31 December 2018 to 138 days as at 31 December 2019.

Bank and Other Loans

The bank and other loans decreased from approximately RMB209.4 million as at 31 December 2018 to approximately RMB120.9 million as at 31 December 2019, primarily due to the Group used the Global Offering to repay the bank loans. As at 31 December 2019, bank and other loans in the amounts of approximately RMB120.9 million (2018: RMB 149.4 million) were pledged by property, plant and equipment, right-of-use assets and trade and bills receivables of the Group, the aggregate carrying amount of which such assets was approximately RMB179.7 million (2018: RMB140.2 million).

All bank and other loans as at 31 December 2019 and 31 December 2018 were denominated in RMB at fixed or floating interest rate. The following table sets forth the amount of indebtedness of the Group as at the date indicated:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	120,920	127,000
Other loans		
Within 1 year	–	82,400
Total borrowings	120,920	209,400

Gearing Ratio

The gearing ratio decreased from 23.1% as at 31 December 2018 to 12.9% as at 31 December 2019, such decrease was a result of a decrease in bank loans and other borrowings of approximately RMB88.5 million.

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

Capital Expenditure

For the year ended 31 December 2019, the capital expenditure was approximately RMB92.6 million (2018: approximately RMB87.0 million). The capital expenditure incurred for the year ended 31 December 2019 primarily related to the building of new mechanical processing lines for the new products and purchases of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 31 December 2019, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB37.8 million (2018: approximately RMB6.8 million).

Contingent liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities or guarantees (2018: RMB Nil).

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

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

SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this report, the Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2019.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2019, the Group had total of 747 employees (2018: 861 employees). For the year ended 31 December 2019, the Group has incurred a total staff costs of approximately RMB63.5 million (2018: RMB69.0 million), representing a decrease of approximately 8.0% as compared with those for the year ended 31 December 2018, which was a result of decrease in our production.

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

Waiver of directors' remuneration

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

Management Discussion and Analysis

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Stock Exchange on 5 January 2018. The net proceeds from the Company's issue of new shares in the Global Offering amounted to approximately RMB264.7 million. On 24 November 2019, the Company has resolved to change the use of net proceeds of the initial public offering. Details of the revised allocation of the change in use of net proceeds are set out as follows:

Designated use set forth in the Prospectus	%	Original	Reallocation	Revised	Actual use of	Unutilised
		amount of net proceeds from the Global Offering allocated	of unutilized net proceeds as at 24 November 2019	use of net proceeds from the Global Offering	net proceeds as of the date of this report	net proceeds as of the date of this report
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Optimisation of the smart manufacturing process	43.3	114,600	(67,144)	47,456	27,456	20,000*
Purchase of equipment and other enhancements to strengthen collaboration with third-party industry partners	8.5	22,497	(22,497)	–	–	–
Repayment of short-term borrowings	16.3	43,141	40,000	83,141	83,141	–
Construction of new mechanical processing lines and purchase of additional machinery and equipment	15.1	39,964	–	39,964	39,964	–
Enhancement of research and development capabilities	12.0	31,760	–	31,760	31,760	–
Working capital and general corporate use	4.8	12,704	11,641	24,345	24,345	–
Settlement of the consideration under the Cooperative Agreement	–	–	38,000	38,000	38,000	–
	100.0	264,666	–	264,666	244,666	20,000

* The Group expected to fully use the proceeds on or before end of 2020.

For more details on change in use of unutilised net proceeds, please refer to the related announcements of the Company dated 24 November 2019.

As of the date of this report, the unused balance of the proceeds from the Global Offering of approximately RMB20.0 million was placed into short-term demand or time deposits.

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

MAJOR SUBSEQUENT EVENTS

The outbreak of Coronavirus Disease 2019 (“COVID-19”) in China since early 2020 have brought about uncertainties in the Group’s operating environment. A number of provinces in the PRC have taken emergency public health measures and various actions to prevent the spread of the COVID-19.

To the best of the Directors’ knowledge and belief, the outbreak of the COVID-19 has caused, among others, (i) temporary suspension of work in the production facilities of the Group due to the shortage of workforce; (ii) delay in delivery of raw materials to the Group due to the disruption to the local logistics network; and (iii) extensive disruption to the normal operation of the businesses in the PRC, including most of our customers i.e. automobile manufactures and engine manufactures, and thereby may affect the Group’s sales. The Group will closely monitor the development of the epidemic situation, timely evaluate and actively respond to the impact of the epidemic situation to the Group’s business operations and financial conditions. If the impact is subsequently predicted to be significant and may affect the financial results and operation of the Group, an announcement will be published in due course.

Save as disclosed in the report, there are no major subsequent events to 31 December 2019 which would materially affect the Group’s operating and financial performance as of the date of this report.

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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 is 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 2019 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 14 to 24 of this annual report.

KEY RISKS AND UNCERTAINTIES

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

OPERATIONAL RISKS

The top five customers of the Group, which primarily include large automobile manufacturers and engine producers located in China, accounted for approximately 77.0%, of the revenue for the year ended 31 December 2019. For the year ended 31 December 2019, the largest customer of the Group accounted for approximately 24.7% of the revenue. The largest customer for the year ended 31 December 2019 was an automobile manufacturer. The loss of a small number of our large customers, or the decrease in sales with one or more of these customers, could have a significant adverse impact on our financial results.

FINANCIAL RISKS

The major financial risks faced by the Group are interest risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks, the financial risk management risk management objectives and policies are set out in the note 24 to the consolidated financial statement.

MARKET RISKS

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

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

TAX RELIEF AND EXEMPTION

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest and five largest customers for the year ended 31 December 2019 accounted for approximately 24.7% (2018: 24.7%) and 77.0% (31 December 2018: 69.3%), respectively, of the Group's total revenue from sales operations.

The aggregate purchases attributable to the Group's largest and five largest suppliers for the year ended 31 December 2019 accounted for approximately 11.9% (2018: 17.3%) and 28.9%, respectively (31 December 2018: 34.3%).

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Further discussion of the key relationship with employees, customers and suppliers is set out in the section head "Environment, Social and Governance Report" on pages 48 to 59 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

DIVIDEND POLICY

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

Determination Mechanism

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

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

Approval and Payment Procedures

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

Review and Monitor of this Policy

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 to the financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("AGM") will be held on 29 May 2020. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the shareholders' entitlement to attend and vote at the AGM to be held on 29 May 2020, the register of members of the Company will be closed from 26 May 2020 to 29 May 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 25 May 2020, being the business day before the first day of closure of the register of members.

ENVIRONMENTAL PROTECTION

The Group uphold the concept of sustainable development, encourages environmental protection and strive to promote its awareness within the Group.

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

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the section headed "Environment, Social and Governance Report" on pages 48 to 59 in this annual report for details.

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

RESERVES

As at 31 December 2019, reserves available for distribution of the Company amounted to RMB149.7 million.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2019 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 2019 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.

All the directors of the Company are subject to retirement by rotation as required by the Articles of Association. In accordance with Articles 84 of the Articles, Mr. Liu Zhanwen, Mr. Liu Enwang and Mr. Ren Keqiang will retire at the AGM of the Company to be held on 29 May 2020 and, being eligible, will offer themselves for re-election at the AGM.

SERVICE CONTRACTS WITH DIRECTORS

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

Each of the independent non-executive Directors has entered into an appointment letter with the Company 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.

Except for the above, 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 2019.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed “Share Option Scheme” below, at no time during the year ended 31 December 2019 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 2019.

DIRECTORS' COMPETING INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) as recorded in the register of directors' and chief executive's interests and short positions required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock

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

Name of Director	Name of Group member	Capacity/Nature of interest	Number and class of securities	Approximate percentage of shareholding
			<i>(Note 1)</i>	
Meng Lianzhou ("Mr. LZ Meng") <i>(Note 2)</i>	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") <i>(Note 2)</i>	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") <i>(Note 2)</i>	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") <i>(Note 2)</i>	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 Shares.
- (2) These 411,042,000 Shares are held by Dragon Rise, the issued shares of which are owned as to approximately 50.46% by Mr. Meng Lianzhou, approximately 14.32% by Mr. ZW Liu, approximately 22.36% by Mr. YX Zhang and approximately 12.86% by Mr. EW Liu respectively. On 28 August 2017, Mr. Meng Lianzhou, Mr. YX Zhang, Mr. EW Liu and Mr. ZW Liu entered into a concert party agreement to, among others, confirm their acting-in-concert agreement. Under the SFO, each of Mr. Meng Lianzhou, Mr. YX Zhang, Mr. EW Liu and Mr. ZW Liu is taken to be interested in the Shares beneficially owned by Dragon Rise.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

As at 31 December 2019, 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	Approximate percentage of shareholding
		<i>(Note 1)</i>	
Dragon Rise	Beneficial owner	411,042,000 Share (L)	51.38%
Ms. Zhao Jingmei (“Ms. Zhao”) <i>(Note 2)</i>	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Meng Dongdong (孟冬冬) <i>(Note 3)</i>	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Xiao Zhiru (肖智茹) <i>(Note 4)</i>	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Wang Sujuan (王素娟) <i>(Note 5)</i>	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 Shiyong (“Mr. Wang”) <i>(Note 6)</i>	Interest of controlled corporation	67,868,000 Share (L)	8.48%
Ms. Yin Shujuan (“Ms. Yin”) <i>(Note 7)</i>	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”) <i>(Note 8)</i>	Interest of controlled corporation	46,864,000 Share (L)	5.86%
Ms. Zhu Yunchuan (朱雲川) <i>(Note 9)</i>	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”) <i>(Note 10)</i>	Interest of controlled corporation	46,864,000 Share (L)	5.86%
Mr. Li Xunye (李訓業) <i>(Note 11)</i>	Interest of spouse	46,864,000 Share (L)	5.86%

Notes:

- (1) The letter “L” denotes a long position in the Shares.
- (2) Ms. Zhao is the spouse of Mr. Meng Lianzhou. Under the SFO, she is taken to be interested in the Shares in which Mr. Meng Lianzhou is interested.
- (3) Ms. Meng Dongdong (孟冬冬) is the spouse of Mr. ZW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. ZW Liu is interested.
- (4) Ms. Xiao Zhiru (肖智茹) is the spouse of Mr. YX Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. YX Zhang is interested.
- (5) Ms. Wang Sujuan (王素娟) is the spouse of Mr. EW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. EW Liu is interested.
- (6) These 67,868,000 Shares are beneficially owned by Radiant Path, which is wholly-owned by Mr. Wang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Radiant Path.
- (7) Ms. Yin is the spouse of Mr. Wang. Under the SFO, she is taken to be interested in the Shares in which Mr. Wang is interested.
- (8) These 46,864,000 Shares are beneficially owned by Great Ally, which is wholly-owned by Mr. ZB Zhang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Great Ally.
- (9) Ms. Zhu Yunchuan (朱雲川) is the spouse of Mr. ZB Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. ZB Zhang is interested.
- (10) These 46,864,000 Shares are beneficially owned by Rosy Raise, which is wholly-owned by Ms. ML Liu. Under the SFO, she is taken to be interested in the Shares beneficially owned by Rosy Raise.
- (11) Mr. Li Xunye (李訓業) is the spouse of Ms. ML Liu. Under the SFO, he is taken to be interested in the Shares in which Ms. ML Liu is interested.

Save as disclosed above, as at 31 December 2019, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed “Directors’ and Chief Executive’s Interests and Short Positions in the Shares, Underlying Shares and Debentures” above, no person had interest or short position in the Shares or underlying Shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2019, 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 2019.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) on 11 December 2017. The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group’s operations. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological

support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

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

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

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

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date (i.e. 17 April 2020) 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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the Directors of the Company is currently in force and was in force throughout this year, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. During the year ended 31 December 2019, no claims were made against the Directors.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 26 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 2019 or at any time during the year ended 31 December 2019.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the consolidated financial statements, no Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2019.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in note 18 to the financial statements.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2019, the Group acquired additional property, plant and equipment of approximately RMB92.6 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 26 to the financial statements. None of the related party transactions disclosed in note 26 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 2019. 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 2019. 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 2019.

AUDITORS

The Company appointed KPMG as auditors of the Company for the year ended 31 December 2019. KPMG will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for the re-appointment of KPMG as auditor of the Company for the year ending 31 December 2020 will be proposed at the forthcoming annual general meeting.

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

Shenzhou, the PRC, 31 March 2020

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

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the “Code Provisions”) of the Corporate Governance Code (“CG Code”) set out in Appendix 14 to the Listing Rules. Throughout year ended 31 December 2019 and up to the date of this annual report, the Company has fully complied with the Code Provisions, except for the following deviations.

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

Save as disclosed above, the Company strictly complied with the CG Code. The Directors will review the 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. During the year ended 31 December 2019 and up to 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 the 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 the 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 the Directors has entered into a service contract with the Company.

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

Directors’ Continuous Training and Professional Development

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

During the year ended 31 December 2019, to assist directors’ continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. The Directors have participated in continuous professional development programmes such as external seminars organized by qualified professionals. 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, the audit committee comprises Mr. Ren Keqiang, Mr. Yu Chun Kau and Mr. Wei Anli, all being independent non-executive Directors. Mr. Yu Chun Kau is the chairman of our audit committee.

During the year, the Audit Committee held two meetings. The Audit Committee has reviewed, among other things, the financial statements of the Company for the six months ended 30 June 2019 and the year ended 31 December 2019, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditors.

Remuneration Committee

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

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

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

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2019 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 2019 is as follows:

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

Nomination Committee

The Company has established a nomination committee (the “NC”) on 11 December 2017 with written terms of reference in compliance with Code A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the 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, the nomination committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Yu Chun Kau and Mr. Wei Anli. Mr. Wei Anli is the chairman of the nomination committee.

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

NOMINATION POLICY

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

1. Selection Criteria

- (a) The NC is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.
- (b) In assessing the suitability of a proposed candidate, the NC may make reference to certain criteria such as the Company’s need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in automobile, automobile engine and automobile engine spare part industry and/or other professional areas, the amount of time and effort that the candidate will devote to

discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

- (c) Where necessary, the NC should seek independent professional advice to access a wider range of potential candidates.
- (d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.
- (e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

2. Nomination Procedures

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

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

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

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

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

3. Review and Monitor of this Policy

- (a) The NC shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.
- (b) The NC shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.
- (c) The NC shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

Corporate Governance Functions

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

The Board has 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 2019 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	Remuneration Committee	Nomination Committee	Board
Mr. Meng Lianzhou	2/2	1/1	1/1	4/4
Mr. Liu Zhanwen	2/2	1/1	1/1	4/4
Mr. Zhang Yuexuan	2/2	1/1	1/1	4/4
Mr. Liu Enwang	2/2	1/1	1/1	4/4
Mr. Ren Keqiang	2/2	1/1	1/1	4/4
Mr. Yu Chun Kau	2/2	1/1	1/1	4/4
Mr. Wei Anli	2/2	1/1	1/1	4/4

Board Meetings

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

Board Diversity Policy

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

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

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

The Nomination Committee considered that an appropriate balance of diversity perspective of the Board is maintained during the year ended 31 December 2019. Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the board diversity policy for the year ended 31 December 2019.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the year ended 31 December 2019 and up to the date of this report.

COMPANY SECRETARY

Mr. Wong Ka Wai was appointed as the Company Secretary on 28 February 2017. According to Rule 3.29 of the Listing Rules, an issuer’s company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr. Wong has taken no less than 15 hours of relevant professional training in 2019.

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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong). 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.

Internal controls and risk management

The Board acknowledges its responsibility for the risk-management and internal control system and reviewing their effectiveness.

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. 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 our operations and the is responsible for the risk management and internal control systems and reviewing their effectiveness. After due consideration, our Directors are of the view that our current risk management and internal control systems are adequate and effective.

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

Also, the Company has an internal audit function to carry out the analysis and independent appraisal of the effectiveness of the Group's risk management, internal control systems and perform an internal audit procedure which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2019. 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 2019.

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

The Company has developed a policy for handling and dissemination of inside information. The policy provides a general guide to the Company's Directors, officers and relevant employees in handling confidential information and monitoring information disclosure.

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 2019, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB2.3 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.

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.

Shareholders' Rights

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

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

Extraordinary general meetings may be convened by directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to Room 619A, 6/F, Block B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

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

Investor Relations

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

Constitutional Documents

During the year ended 31 December 2019, no change has been made to the Company's memorandum and articles of association after the Listing Date.

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

Environment, Social and Governance Report

ABOUT THIS REPORT

This is the Environmental, Social and Governance (“ESG”) Report (the “ESG Report”) of the Group for the year ended 31 December 2019, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility (“CSR”) and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group’s ESG strategy and reporting. The Board is responsible for evaluating and determining the Group’s ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

During the year ended 31 December 2019 (the “Reporting Period”), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company’s policies and practices in two aspects namely environmental and social for the Reporting Period.

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 2019. The Group only has one operating PRC subsidiary, which is Hebei Ruifeng Cylinder Co., Ltd.

Scope of the ESG Report

The core business of the Group is the design, manufacture and sale of cylinder blocks and cylinder heads in the PRC. The data disclosed in the ESG Report was collected from the main office and the production plants of the Group in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

Reporting Framework

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the “Comply or Explain” provisions therein. In view of our first time disclosure of certain key performance indicators (“KPIs”), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

Access of the ESG Report

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange’s website (www.hkexnews.hk) and the Company’s website (www.hbsgt.com).

This report has both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

Contact Information

We highly appreciate and welcome your feedback and comment on the ESG Report so that we may meet the stakeholder’s interests and for our sustainability initiatives. For any enquires or recommendations, please send the written enquiries to us at Room 619A, 6/F, Tower B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong.

Environment, Social and Governance Report

Stakeholder Engagement

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community.

Major Stakeholders	Communication Channels	Expectations
Shareholders	<ul style="list-style-type: none"> • Annual general meeting and other shareholder meetings • Annual report and interim report • Announcements and circulars • Company's website • Meeting with investors 	<ul style="list-style-type: none"> • Return on investment • Information disclosure and transparency • Protection of shareholders' rights and fair treatment of shareholders
Government and regulatory authorities	<ul style="list-style-type: none"> • Policy guidance • Response to public consultation in writing • Meeting 	<ul style="list-style-type: none"> • Compliance with laws and regulations • Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility • Proper tax payment
Employees	<ul style="list-style-type: none"> • Regular meetings and training • Performance assessment • Staff newsletters and broadcasts • Labour union 	<ul style="list-style-type: none"> • Salary and welfare • Safe working environment • Fair career development opportunities
Customers	<ul style="list-style-type: none"> • Regular meetings • Site visit • Exhibition • Email 	<ul style="list-style-type: none"> • High quality products and services • Group reputation and brand image
Business partners	<ul style="list-style-type: none"> • Business partner meetings • Site visit • Email • Tendering process • Purchase review 	<ul style="list-style-type: none"> • Long-term partnership • Win-win cooperation • Fair purchase • Timely payment
The public and the community	<ul style="list-style-type: none"> • Site visit • Email • Public newsletters and broadcasts 	<ul style="list-style-type: none"> • Volunteer • Community visit • Donate

ENVIRONMENTAL

Although the production process of the Group 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 its production process. The Group has put in place various dust cleansing and collection devices at all key stages of production operations to minimize dust generation. The Group has also developed a cutting fluid disposal device which recycles and reuses the hazardous cutting fluid generated during our production process to ensure clean disposal of such industrial liquid waste. In addition, the Group has adopted a self-developed lost foam casting process which is considered more environmentally-friendly and cost-effective to produce a portion of our rough cast cylinder block products. The Group obtained two utility model patents from the SIPO for the aforementioned cutting fluid disposal device and the lost foam casting process in October 2016 and July 2017, respectively. The Group believes these measures effectively reduce the negative environmental impact of the hazardous materials the Group produces while satisfying our sustainable production needs.

Energy Conservation and Emission Reduction

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

Wastes Control

The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, consisting of various chemicals and wastes, such as oil residue and hazardous cutting fluid used in the manufacture of products. For hazardous substance, the Group primarily cooperated with qualified units to collect and handle these hazardous waste. The Group actively reduces the use of such hazardous chemicals during its production process, as a result, such wastes decrease from approximately 1.91 tonnes during the year ended 31 December 2018 to approximately 1.6 tonnes during the year ended 31 December 2019.

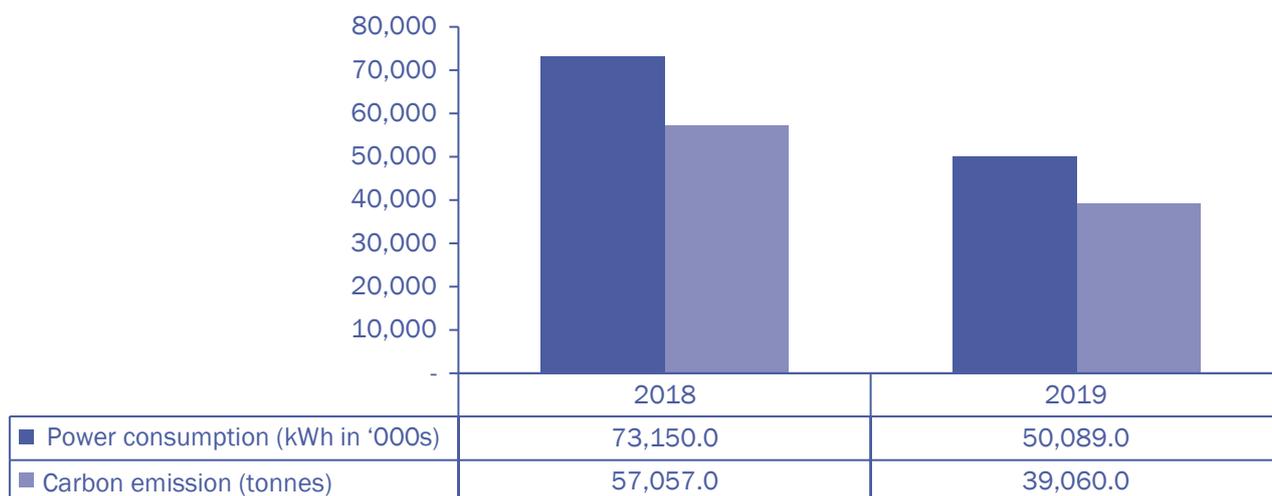
Power Consumption Control

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

Environment, Social and Governance Report

The change of total power consumption and carbon emission in 2018 and 2019 were as follows:

Power consumption and corresponding carbon emission

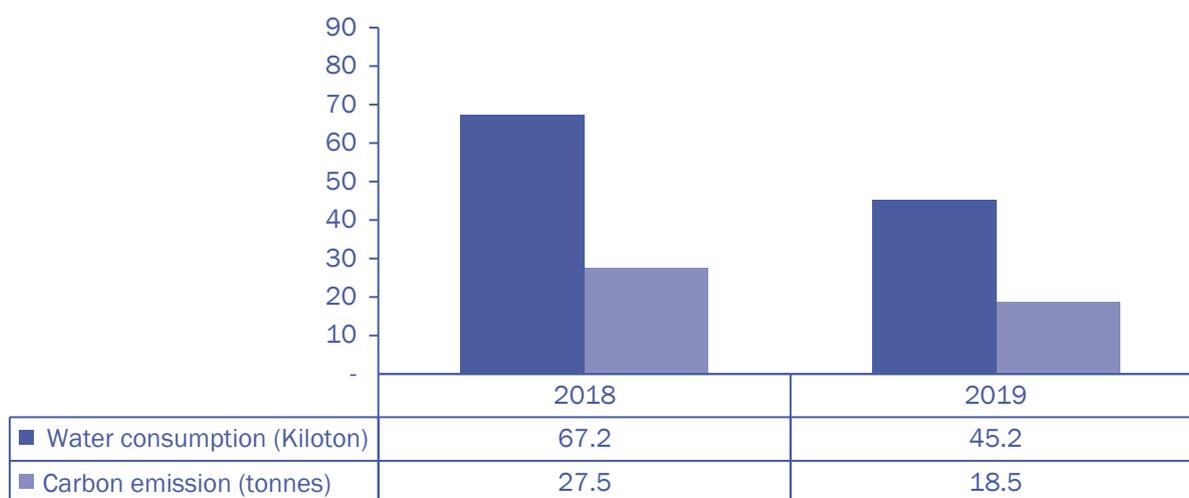


Water Consumption Control

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

The change of total water consumption and carbon emission in 2018 and 2019 were as follows:

Water consumption and corresponding carbon emission



Environment, Social and Governance Report

During the year ended 31 December 2019, the total power consumption of the Group was approximately 50,089,000 kWh, and the density was approximately 141.1 kWh/output value of RMB1,000 and total water consumption was approximately 45,200 tonnes and the density was approximately 127.3kg/output value of RMB1,000.

Packaging materials

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

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

Economical Use of Resources

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

As the result of above energy saving initiatives, the total power consumption and total water consumption decreased by approximately 31.5% and approximately 32.7% from 2018 to 2019 respectively.

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

SOCIAL

Employees

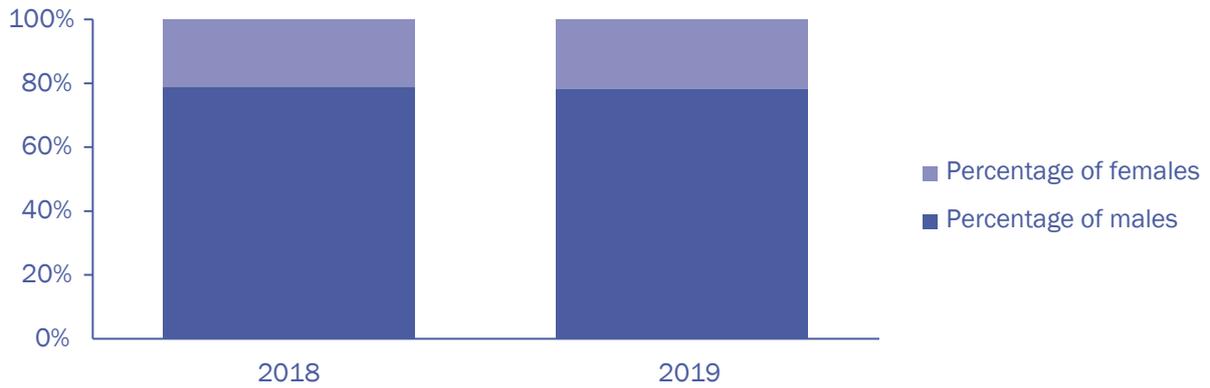
The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and the management are reasonable 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 the 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 formulated detailed regulations in its employee manual with respect to dismissal, working hours, vacations and other aspects.

The Group mainly recruits employees through recruitment fairs and on-campus recruitment. As at 31 December 2019, we had a total of 747 employees. The following table sets forth the number and breakdown of our full-time employees by function as at 31 December 2019:

	Number of employees
Directors and senior management	13
Research and development	23
Production	536
Procurement	11
Sales and marketing	21
Quality control	71
Finance	8
Administration and logistics	64
Total	747

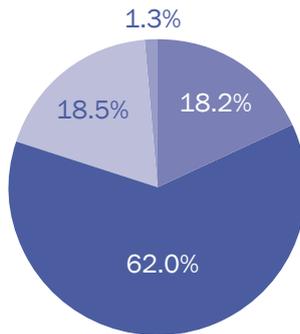
Employment statistics by gender, age and education level

Distribution of employees by gender



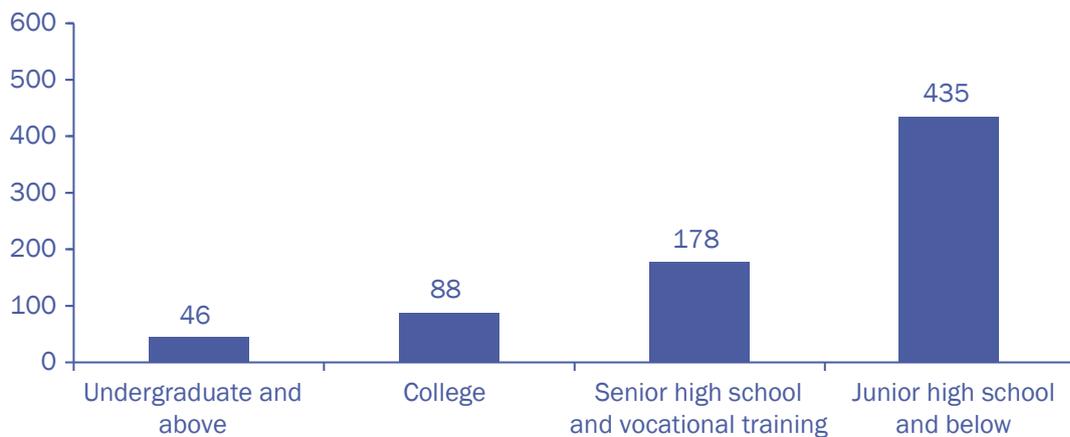
Distribution of employees by age

■ Below 30 ■ 30-45 ■ 46-60 ■ Above 60



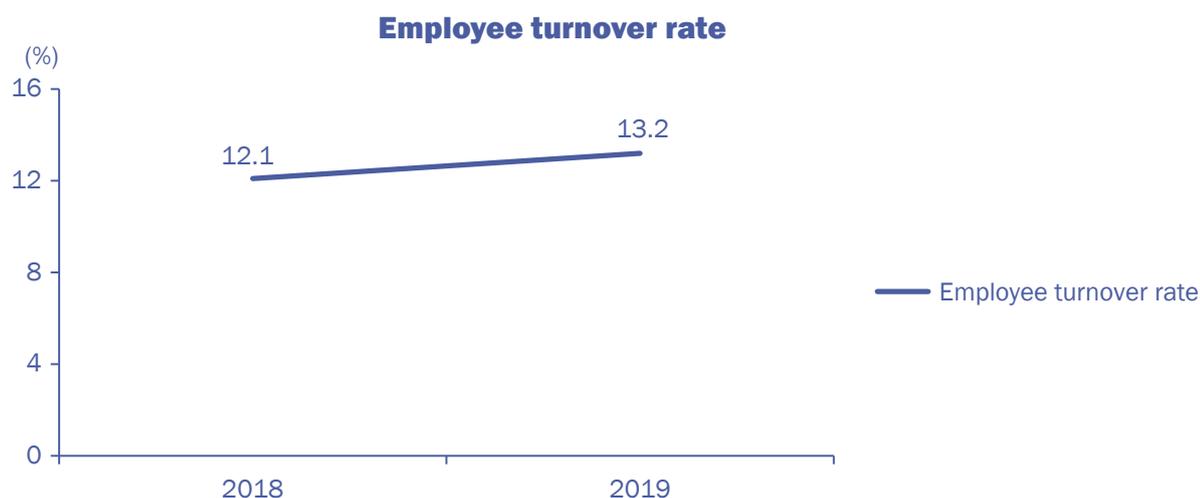
Distribution of employees by education level

■ Distribution of employees by education level



Benefits

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



For the year ended 31 December 2019, the employee turnover rate increased to 13.2%, mainly due to the greater mobility of the production staff of the Group affecting 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.

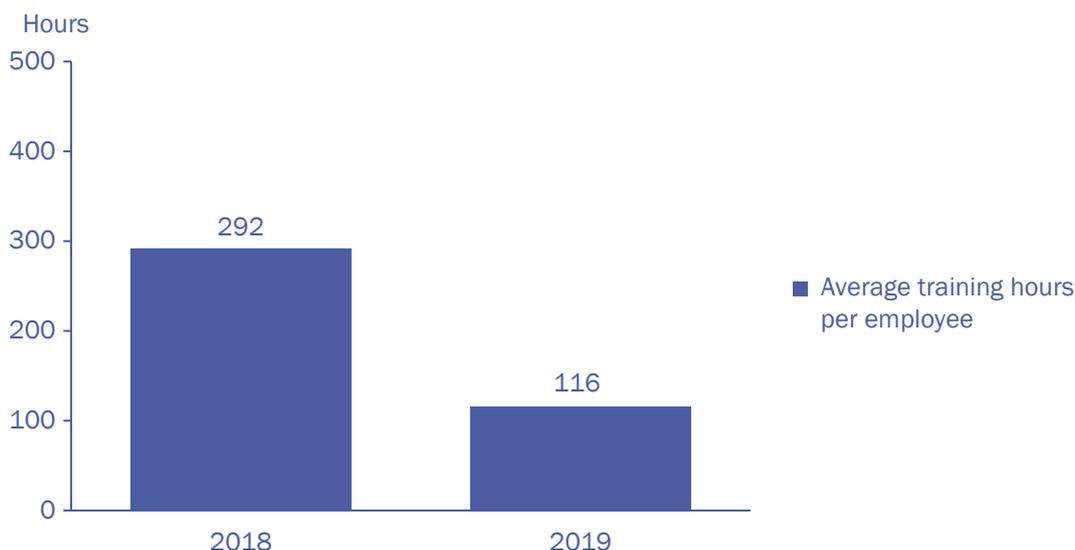
The Group has implemented various safety guidelines and operating procedures for our production process to ensure safe operation of our production facilities and to prevent injuries. The Group conducts regular and thorough worksite inspection to eliminate potential hazards in our work environment. The Group also provides mandatory safety training to all new employees prior to commencement of work. Furthermore, the Group provides 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 the production process nor received any claims for personal or property damages during the year, and the PRC Legal Advisor has confirmed that the Group is in compliance in all material respects with applicable laws relating to labor safety matters in the PRC during the Reporting Period.

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



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 (apart from the policy of no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment opportunities to all candidates.

Employment

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

RELATIONSHIPS WITH CUSTOMERS

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

SUPPLY CHAIN MANAGEMENT

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

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

QUALITY CONTROL AND MANAGEMENT

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

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

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

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

- **Production process:** Our quality control inspectors will closely monitor the production process of each of our products to ensure strict compliance with our standard operating procedures. Throughout our entire production process, the Group also conducts quality control testing at each key production stage. In addition, the Group has installed and operated a number of advanced inspection equipment, including three cylinder bore detectors, 51 pneumatic measuring instruments, 13 triple-axis high precision coordinate measuring machine, a Taylor Hobson cylindricity measuring instrument and a Leica particle analyzer, to ensure that our products are produced precisely to meet our customers' specific design and manufacturing requirements.
- **Finished products:** The Group inspects sample batches of our products and the packaging of each product before delivery takes place. Products with defects or any quality issues will not be delivered to customers. Our quality control inspectors will help identify the causes for product defects and follow up closely to confirm any problems with the production process are addressed. The Group labels each of our products with a unique serial number to ensure traceability of our products. For ancillary cylinder block components which have been processed by the third-party service providers beginning in early 2017, the Group conducts sample checks to ensure that such products meet the requisite quality standards.

As a result of our stringent quality control system, our production facilities have obtained ISO/TS 16949 certification since 2012, which is required to renew in every three year and currently it is effective up to 2021. During the Reporting Period, the Group has not experienced any material claim 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 intend to prevent the risk of infringement of third parties' 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 trade 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 trade secrets are effectively protected.

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 2019, the Group had 12 patents in the PRC, including 11 utility model patents and 1 invention patent, 2 registered PRC trademarks and 2 registered Hong Kong trademarks. The Group is also the registered owner of one domain name.

Bribery, corruption and other misconduct

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

COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its resources to charitable activities. Due to the confronting the serious outbreak of the coronavirus (COVID-19) in China, on February 2020, the Group has played a part in winning the battle of prevention and control against the epidemic with practical action by making a donation of RMB200,000 to fully fulfill its CSR. In addition, the Group encouraged its staff to participate in mutual-support medical activities for employees.

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Ruifeng Power Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 136, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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 ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

TIMING OF REVENUE RECOGNITION	
<i>Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(r).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Group's revenue is principally generated from the manufacture and sales of cylinder blocks and cylinder heads.</p> <p>The Group's sales contracts with customers, which are primarily automobile manufacturers and engine producers, have a variety of terms relating to goods acceptance. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the Group's performance obligations, allocation of transaction price and appropriate timing and value for revenue recognition.</p> <p>We identified the timing of revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue may be manipulated to meet financial expectations or targets and because there is a risk that particular terms of sale contracts may not be met and, as a result, revenue may not be recognised properly and in the correct periods.</p>	<p>Our audit procedures to assess the timing of revenue recognition included the following:</p> <ul style="list-style-type: none"> • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • Inspecting the terms of sales contracts with customers, on a sample basis, to assess whether the Group has appropriately identified performance obligations and determined and allocated the transaction price correctly; • Evaluating the conditions of goods acceptance as to whether control over the goods has been passed and performance obligation is satisfied when the Group recognises the revenue, and assessing the Group's timing and value of recognition of revenue with reference to the requirements of the prevailing accounting standards; • Comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included goods acceptance notes, to assess whether the revenue had been recognised in accordance with the terms of the sales contracts and in the appropriate financial periods; • Inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and which met specific risk-based criteria; and • Confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2019 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed and the Group's accounting records to assess whether the related revenue had been recognised in the appropriate financial periods.

Independent Auditor's Report

LOSS ALLOWANCE FOR TRADE RECEIVABLES	
<i>Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(h)(i).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>At 31 December 2019, the Group's gross trade receivables totalled RMB 186,781,000. Loss allowance of RMB 12,709,000 was recorded.</p> <p>Management measured loss allowance at an amount equal to expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).</p> <p>We identified loss allowance for trade receivables as a key audit matter because trade receivables and loss allowance are material to the Group and the recognition of ECLs is inherently subjective and requires the exercise of significant management judgement.</p>	<p>Our audit procedures to assess the loss allowance for trade receivables included the following:</p> <ul style="list-style-type: none"> • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the credit control, the trade receivables collection process and making loss allowances for trade receivables; • Obtaining an understanding on the key data and assumptions of the ECL model adopted by the management, including the historical default data, ageing of debtor balances, credit terms, recent settlement patterns and forecast of future economic conditions; • Assessing the reasonableness of management's estimates on loss allowance by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • Assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the relevant underlying documentation; • Assessing the assumptions and estimates made by management for the assessment of loss allowances for trade receivables by performing a retrospective review of the historical accuracy of these assumptions and estimates, including historical default data and estimated loss rates; and • Assessing the disclosures in the consolidated financial statements in relation to the loss allowances for trade receivables with reference to the requirements of the prevailing accounting standards.

ASSESSING POTENTIAL IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Refer to Notes 11 and 12 to the consolidated financial statements and the accounting policies in Note 2(h)(ii).

The Key Audit Matter	How the matter was addressed in our audit
<p>At 31 December 2019, the Group has property, plant and equipment and right-of-use assets relating to the manufacture and sale of cylinder blocks, cylinder heads and ancillary cylinder block components amounting to approximately RMB671,419,000 and RMB113,687,000 respectively.</p> <p>Management identified indicators of potential impairment of certain property, plant and equipment and right-of-use assets and performed impairment assessments of these assets as at 31 December 2019 using value-in-use calculations for each smallest identifiable group of assets that generate independent cash inflows ("CGUs") by preparing discounted cash flow forecasts for each CGU.</p> <p>The impairment assessment involves a significant degree of management judgement, particularly in relation to the key assumptions adopted, including the future revenue growth rates, future gross margins, and the discount rate applied in the discounted cash flow forecast.</p> <p>We identified assessing potential impairment of certain property, plant and equipment and right-of-use assets as a key audit matter because the carrying value of property, plant and equipment and right-of-use assets is material to the consolidated financial statements and because of the significant management judgement and estimation required in assessing potential impairment which could be subject to error or potential management bias.</p>	<p>Our audit procedures to assess the impairment of property, plant and equipment and right-of-use assets included the following:</p> <ul style="list-style-type: none"> • assessing management's identification of CGUs and the allocation of assets to each CGU and assessing the methodology adopted by management in its preparation of the discounted cash flow forecasts with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards; • engaging our internal valuation specialists to assist us in assessing whether the discounted cash flow forecasts were within the ranges adopted by comparable companies in same industry; • comparing the most significant inputs used in the discounted cash flow forecasts, including the revenue growth rates and future gross margins, with the historical performance of each CGU, management's budgets and forecasts and industry and other externally available information; • performing sensitivity analyses of the discount rates applied, the assumptions for revenue growth rates and future gross margins adopted by management in the discounted cash flow forecasts to assess what changes thereto, either individually or collectively, would result in a different conclusion being reached and assessing whether there were any indicators of management bias in the selection of key assumptions; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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.

Independent Auditor's Report

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 Chu Man Wai.

KPMG

Certified Public Accountants

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

31 March 2020

Consolidated statement of profit or loss

for the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB'000	2018 (Note) RMB'000
Revenue	4(a)	355,049	610,734
Cost of sales		(269,369)	(420,683)
Gross profit	4(b)	85,680	190,051
Other income	5	39,658	41,785
Selling expenses		(10,929)	(21,842)
Administrative expenses		(68,784)	(74,460)
Profit from operations		45,625	135,534
Finance costs	6(a)	(10,660)	(10,924)
Profit before taxation	6	34,965	124,610
Income tax	7	(4,850)	(22,261)
Profit attributable to equity shareholders of the Company for the year		30,115	102,349
Earnings per share			
Basic and diluted (RMB)	10	0.04	0.13

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 74 to 136 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

(Expressed in RMB)

	2019	2018
	RMB'000	(Note) RMB'000
Profit for the year	30,115	102,349
Other comprehensive income for the year (after tax):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements into presentation currency	4,039	6,449
Total comprehensive income attributable to equity shareholders of the Company for the year	34,154	108,798

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 74 to 136 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2019

(Expressed in RMB)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	11	671,419	643,991
Lease prepayments	12	–	116,235
Right-of-use assets	12	113,753	–
Deferred tax assets	20(b)	12,173	10,218
		797,345	770,444
Current assets			
Inventories	14	161,239	143,876
Trade and other receivables	15	304,231	311,904
Prepaid income tax	20(a)	7,247	12,123
Cash and cash equivalents	16	49,283	170,036
		522,000	637,939
Current liabilities			
Trade and other payables	17	194,429	227,119
Bank and other loans	18(a)	120,920	209,400
Lease liabilities	19	67	–
Provision for warranties	22	1,809	2,093
		317,225	438,612
Net current assets		204,775	199,327
Total assets less current liabilities		1,002,120	969,771
Non-current liabilities			
Deferred income	21	54,019	55,301
Provision for warranties	22	2,926	3,449
Deferred tax liabilities	20(b)	4,857	4,857
		61,802	63,607
NET ASSETS		940,318	906,164

The notes on pages 74 to 136 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2019

(Expressed in RMB)

	Note	2019 RMB'000	2018 (Note) RMB'000
CAPITAL AND RESERVES	23		
Share capital		66,425	66,425
Reserves		873,893	839,739
TOTAL EQUITY		940,318	906,164

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the board of directors on 31 March 2020.

Meng Lianzhou

Director

Liu Enwang

Director

The notes on pages 74 to 136 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019

(Expressed in RMB)

	Share capital RMB'000 Note 23(b)	Share premium RMB'000 Note 23(d)(i)	Statutory reserve RMB'000 Note 23(d)(ii)	Exchange reserve RMB'000 Note 23(d)(iii)	Retained profits RMB'000 (Note)	Total equity RMB'000
Balance at 1 January 2018	1	–	10,000	–	571,271	581,272
Changes in equity for 2018:						
Profit for the year	–	–	–	–	102,349	102,349
Other comprehensive income for the year	–	–	–	6,449	–	6,449
Total comprehensive income	–	–	–	6,449	102,349	108,798
Capitalisation issue (Note 23(b)(ii))	49,818	(49,818)	–	–	–	–
Issuance of shares by initial public offering (Note 23(b)(iii))	16,606	248,060	–	–	–	264,666
Dividends declared (Note 23(c)(i))	–	(48,572)	–	–	–	(48,572)
Appropriation to reserves	–	–	11,384	–	(11,384)	–
Balance at 31 December 2018 and 1 January 2019	66,425	149,670	21,384	6,449	662,236	906,164
Changes in equity for 2019:						
Profit for the year	–	–	–	–	30,115	30,115
Other comprehensive income for the year	–	–	–	4,039	–	4,039
Total comprehensive income	–	–	–	4,039	30,115	34,154
Appropriation to reserves	–	–	3,624	–	(3,624)	–
Balance at 31 December 2019	66,425	149,670	25,008	10,488	688,727	940,318

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 74 to 136 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB'000	2018 (Note) RMB'000
Cash flows from operating activities			
Profit before taxation		34,965	124,610
Adjustments for:			
Depreciation and amortisation	6(c)	65,473	65,373
Finance costs	6(a)	10,660	10,924
Interest income	5	(1,700)	(875)
Net (gain)/loss on disposal of property, plant and equipment	5	(79)	104
Amortisation of deferred income	21	(6,624)	(6,492)
Changes in working capital:			
(Increase)/decrease in inventories		(17,362)	12,434
Decrease/(increase) in trade and other receivables		31,117	(14,756)
Decrease in trade and other payables		(9,116)	(82,300)
(Decrease)/increase in provision for warranties		(807)	78
Cash generated from operations		106,527	109,100
Income tax paid	20(a)	(1,929)	(31,803)
Net cash generated from operating activities		104,598	77,297
Cash flows from investing activities			
Payments for acquisitions of property, plant and equipment and right-of-use assets		(110,006)	(106,802)
Government grants received	21	5,342	–
Proceeds from disposal of property, plant and equipment		2,575	287
Deposits paid for potential investments	15(i)	(23,446)	–
Interest received	5	1,700	875
Net cash used in investing activities		(123,835)	(105,640)

The notes on pages 74 to 136 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2019

(Expressed in RMB)

	Note	2019 RMB'000	2018 (Note) RMB'000
Cash flows from financing activities			
Capital element of lease rentals paid	16(b)	(285)	–
Interest element of lease rentals paid	16(b)	(24)	–
Proceeds from bank and other loans	16(b)	203,000	215,400
Repayment of bank and other loans	16(b)	(291,480)	(234,000)
Dividends paid	23(c)(i)	–	(48,572)
Proceeds from issuance of shares by initial public offering, net of share issuance expenses		–	264,666
Finance costs paid	16(b)	(11,348)	(10,956)
Net cash (used in)/generated from financing activities		(100,137)	186,538
Net (decrease)/increase in cash and cash equivalents		(119,374)	158,195
Cash and cash equivalents at the beginning of the year	16(a)	170,036	5,715
Effect of foreign exchange rate changes		(1,379)	6,126
Cash and cash equivalents at the end of the year	16(a)	49,283	170,036

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 74 to 136 form part of these financial statements.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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 2019 comprise the Group.

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.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

IFRS 16, Leases

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

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

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

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

(i) *New definition of a lease*

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

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting and transitional impact*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to the leased office premises in Hong Kong as disclosed in Note 25(b). For an explanation of how the Group applies lessee accounting, see Note 2(f).

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

(ii) Lessee accounting and transitional impact (Continued)

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

The following table reconciles the operating lease commitments as disclosed in Note 25(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

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

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018. The Group previously recorded the payments made on the acquisition of land held under an operating lease as “Lease prepayments”. Since 1 January 2019, the amortised carrying amount of lease prepayment has been reclassified to “right-of-use assets”.

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

(ii) Lessee accounting and transitional impact (Continued)

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

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases *(Continued)*

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

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

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

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

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

	2019			2018	
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	45,625	286	(309)	45,602	135,534
Finance costs	(10,660)	24	-	(10,636)	(10,924)
Profit before taxation	34,965	310	(309)	34,966	124,610
Profit for the year	30,115	310	(309)	30,116	102,349
Reportable segment gross profit for the year ended 31 December 2019 (Note 4(b)) impacted by the adoption of IFRS 16:					
- Cylinder blocks	59,565	-	-	59,565	151,580
- Cylinder heads	21,669	-	-	21,669	30,617
- Ancillary cylinder block components	4,446	-	-	4,446	7,854
- Total	85,680	-	-	85,680	190,051

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

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

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	106,527	(309)	106,218	109,100
Net cash generated from operating activities	104,598	(309)	104,289	77,297
Capital element of lease rentals paid	(285)	285	–	–
Interest element of lease rentals paid	(24)	24	–	–
Net cash used in financing activities	(100,137)	309	(99,828)	186,538

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases *(Continued)*

(iii) *Impact on the financial result, segment results and cash flows of the Group (Continued)*

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

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

(d) Subsidiaries

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

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

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

(e) Property, plant and equipment

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

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.

(f) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

As a lessee

(A) Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)). Right-of-use assets are depreciated using the straight-line method from the commencement lease date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

As a lessee *(Continued)*

(A) *Policy applicable from 1 January 2019* *(Continued)*

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

(B) *Policy applicable prior to 1 January 2019*

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

(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. Other development expenditure is recognised as an expense in the period in which it is incurred.

(h) Credit losses and impairment of assets

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

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

Measurement of ECLs

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs (Continued)

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

Significant increases in credit risk

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk (Continued)

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

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Basis of calculation of interest income

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

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Basis of calculation of interest income (Continued)

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

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

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

(ii) **Impairment of other non-current assets**

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

- property, plant and equipment;
- right-of-use assets; and
- investment in a subsidiary in the Company's statement of financial position.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) **Impairment of other non-current assets** *(Continued)*

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) **Interim financial reporting and impairment**

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories and other contract costs

(i) **Inventories**

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

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

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

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

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

(ii) **Other contract costs**

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

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

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) **Other contract costs** *(Continued)*

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

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

(j) **Contract assets and contract liabilities**

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

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

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

(k) **Trade and other receivables**

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

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

(l) **Cash and cash equivalents**

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other payables

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

(n) Interest-bearing borrowings

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

(o) Employee benefits

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

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

(ii) Termination benefits

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

(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.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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.

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) **Income tax** *(Continued)*

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) **Provisions and contingent liabilities**

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

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

(r) **Revenue and other income**

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

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

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

(i) **Sale of goods**

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue and other income *(Continued)*

(ii) **Rendering of services**

Revenue is recognised when the service is rendered.

(iii) **Dividends**

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

(iv) **Interest income**

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

(v) **Government grants**

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

(s) Translation of foreign currencies

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

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

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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)*

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

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

(v) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Note 24 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses for non-current assets

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Expected credit losses for trade receivables

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

(c) Recognition of deferred tax assets

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

(d) Depreciation

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

(e) Warranty provisions

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

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

(a) Disaggregation of revenue

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

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
– Disaggregated by major products:		
– Sales of cylinder blocks	278,538	501,854
– Sales of cylinder heads	60,319	73,745
– Sales of ancillary cylinder block components	16,192	35,135
	355,049	610,734

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

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

	2019 RMB'000	2018 RMB'000
Customer A	87,660	150,788
Customer B	53,607	122,187
Customer C	49,635	61,901
Customer D	58,046	*

* Transactions with this customer did not exceed 10% of the Group's revenue for year ended 31 December 2018.

Details of concentration of credit risk arising from the Group's customers are set out in Note 24(a).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

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

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

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2019 and 2018. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	2019			
	Cylinder blocks RMB'000	Cylinder heads RMB'000	Ancillary cylinder block components RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	278,538	60,319	16,192	355,049
Reportable segment gross profit	59,565	21,669	4,446	85,680
	2018			
	Cylinder blocks RMB'000	Cylinder heads RMB'000	Ancillary cylinder block components RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	501,854	73,745	35,135	610,734
Reportable segment gross profit	151,580	30,617	7,854	190,051

(ii) Geographic information

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

5 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Government grants (including amortisation of deferred income, see Note 21)	36,686	40,555
Interest income	1,700	875
Net gain/(loss) on disposal of property, plant and equipment	79	(104)
Others	1,193	459
	39,658	41,785

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 RMB'000	2018 (Note) RMB'000
Interest on bank and other loans	10,588	10,489
Bank charges and others	48	435
Interest on lease liabilities	24	–
	10,660	10,924

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

No borrowing costs have been capitalised for the year ended 31 December 2019 (2018: RMB Nil).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

(b) Staff costs[#]

	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	58,913	62,588
Contributions to defined contribution retirement plan	4,593	6,452
	63,506	69,040

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

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

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

(c) Other items

	2019 RMB'000	2018 RMB'000
Depreciation charge*		
– owned property, plant and equipment (Note 11)	62,639	63,039
– lease prepayments*	–	2,334
– right-of-use assets* (Note 12)	2,834	–
Impairment losses on trade receivables (Note 24(a))	12,044	153
Operating lease charges of short-term leases	383	129
Provision for warranties (Note 22)	658	1,255
Auditors' remuneration	2,350	2,800
Research and development costs	13,370	21,904
Cost of inventories [#] (Note 14(b))	269,369	420,683

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items *(Continued)*

* The Group has initially applied IFRS 16 using the modified retrospective approach and recognised right-of-use assets at 1 January 2019 relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the amortised carrying amount of payments made on the acquisition of land held under an operating lease as “Lease prepayments” now is identified as a right-of-use asset (see Note 2(c)(ii)).

The Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (see Note 2(c)).

Operating lease charges in 2019 represents the lease payments for short-term leases.

Cost of inventories includes RMB87,867,000 (2018: RMB100,183,000) relating to staff costs, depreciation and lease expenses, 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:

	2019 RMB'000	2018 RMB'000
Current taxation – PRC Corporate Income Tax (Note 20(a))		
Provision for the year	6,805	17,059
Deferred taxation (Note 20(b))		
Origination and reversal of temporary differences	(1,955)	345
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	–	4,857
	(1,955)	5,202
	4,850	22,261

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	34,965	124,610
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	9,987	32,506
Tax effect of non-deductible expenses	191	182
Tax concessions (Note (iv))	(5,613)	(15,588)
Tax effect of withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (v))	-	4,857
Tax effect of unused tax losses not recognised	285	304
Actual tax expense	4,850	22,261

Notes:

- (i) The Company and a subsidiary of the Group incorporated in the British Virgin Islands (the "BVI") are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The Company and a subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax according to the two-tiered profits tax rates regime from the year of assessment 2018/19 onwards. The profits tax rate for the first HK\$2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a tax rate of 16.5%.
- (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 2019 (2018: 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 for the calendar years from 2015 to 2020. Pursuant to the relevant tax regulations, this subsidiary is entitled to a preferential tax rate of 15%. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 75% (2018: 75%) of its qualified research and development costs incurred.
- (v) The directors of the Company are of the opinion that around RMB48,572,000 retained profits of Hebei Ruifeng Cylinder Block Co., Ltd. ("Hebei Ruifeng") will be distributed to Turbo Group Investment Limited, which is subject to a PRC withholding tax rate of 10%. As a result, a deferred tax liability of RMB4,857,000 has been provided accordingly.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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:

	2019				
	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	40	287	78	–	405
Mr Liu Zhanwen	40	144	31	–	215
Mr Zhang Yuexuan	40	256	66	–	362
Mr Liu Enwang	40	151	46	6	243
Independent non-executive directors					
Mr Ren Keqiang	106	–	–	–	106
Mr Yu Chun Kau	106	–	–	–	106
Mr Wei Anli	106	–	–	–	106
	478	838	221	6	1,543
	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Meng Lianzhou	360	265	133	8	766
Mr Liu Zhanwen	180	144	55	–	379
Mr Zhang Yuexuan	264	241	111	–	616
Mr Liu Enwang	180	150	78	8	416
Independent non-executive directors					
Mr Ren Keqiang	103	–	–	–	103
Mr Yu Chun Kau	103	–	–	–	103
Mr Wei Anli	103	–	–	–	103
	1,293	800	377	16	2,486

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS *(Continued)*

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	1,485	1,340
Retirement scheme contributions	–	16
	1,485	1,356

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:

	2019 Number of individuals	2018 Number of individuals
HK\$Nil to HK\$1,000,000	3	3

Notes to the financial statements

(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 RMB30,115,000 (2018: RMB102,349,000) and the weighted average of 800,000,000 ordinary shares in issue during the year (2018: 797,808,000 ordinary shares).

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

	2019	2018
Issued ordinary shares at 1 January	800,000,000	9,999
Effect of capitalisation issue (Note 23(b)(ii))	–	599,990,001
Effect of shares issued on the initial listing of the Company's shares on the Stock Exchange (Note 23(b)(iii))	–	197,808,000
Weighted average number of shares in issue	800,000,000	797,808,000

The capitalisation issue took place on the initial listing of the Company's shares on the Stock Exchange (Note 23(b)(ii)) is deemed to be completed on 1 January 2018 and the weighted average number of shares has been adjusted accordingly.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2019 and 2018.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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 2018	241,992	526,536	13,336	64,512	846,376
Additions	510	5,498	4,513	63,612	74,133
Transfer in/(out)	13,517	(14,391)	(122)	996	–
Disposals	–	(1,960)	(857)	–	(2,817)
At 31 December 2018	256,019	515,683	16,870	129,120	917,692
At 1 January 2019	256,019	515,683	16,870	129,120	917,692
Additions	1,015	27,259	2,551	61,738	92,563
Transfer in/(out)	5,256	41,797	–	(47,053)	–
Disposals	–	(2,829)	(1,817)	–	(4,646)
At 31 December 2019	262,290	581,910	17,604	143,805	1,005,609
Accumulated depreciation:					
At 1 January 2018	(37,194)	(168,531)	(7,363)	–	(213,088)
Charge for the year	(11,335)	(49,547)	(2,157)	–	(63,039)
Written back on disposals	–	1,748	678	–	2,426
At 31 December 2018	(48,529)	(216,330)	(8,842)	–	(273,701)
At 1 January 2019	(48,529)	(216,330)	(8,842)	–	(273,701)
Charge for the year	(12,124)	(48,103)	(2,412)	–	(62,639)
Written back on disposals	–	1,892	258	–	2,150
At 31 December 2019	(60,653)	(262,541)	(10,996)	–	(334,190)
Net book value:					
At 31 December 2019	201,637	319,369	6,608	143,805	671,419
At 31 December 2018	207,490	299,353	8,028	129,120	643,991

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

At 31 December 2019, property, plant and equipment of the Group with carrying amount of RMB145,230,000 (2018: RMB79,182,000) have been pledged as collateral for the Group's short-term bank and other loans (see Note 18(c)).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

12 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Leased office RMB'000	Total RMB'000
Cost:			
At 1 January 2019 and 31 December 2019	129,159	352	129,511
Accumulated depreciation:			
At 1 January 2019	(12,924)	–	(12,924)
Depreciation	(2,548)	(286)	(2,834)
At 31 December 2019	(15,472)	(286)	(15,758)
Net book value:			
At 31 December 2019	113,687	66	113,753
At 1 January 2019	116,235	352	116,587

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Land use rights	2,548	2,334
– Leased office	286	–
	2,834	2,334
Interest on lease liabilities	24	–
Expense relating to short-term leases	383	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	692	637

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

12 RIGHT-OF-USE ASSETS *(Continued)*

So far as the impact of the adoption of IFRS 16 on leases previously classified as lease prepayments is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, the depreciated carrying amount of the corresponding lease prepayments is identified as a right-of-use asset.

The right-of-use assets represent the premiums paid by the Group for use of land situated in the PRC and the leased office premises in Hong Kong. The lease terms of land use rights range from 50 to 70 years and leased office is 2 years.

At 31 December 2019, lease prepayments of the Group with carrying amount of RMB26,486,000 (2018: RMB38,653,000) have been pledged as collateral for the Group's short-term bank and other loans (see Note 18(c)).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 16(c) and Note 19, respectively.

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

- (i) The English translation of the names are for identification only. The official names of these entities are in Chinese.
- (ii) This entity was registered as a limited liability company under the laws and regulations in the PRC.
- (iii) According to the revised Article of this entity, the registered capital of this entity was increased from RMB110,000,000 to RMB200,000,000 on 11 October 2019, and the paid-up capital was increased from RMB20,000,000 to RMB190,924,000.
- (iv) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. On 29 July 2019, the registered capital of this entity was increased from HK\$110,000,000 to HK\$200,000,000, and the paid-up capital was increased from HK\$Nil to HK\$200,000,000.

14 INVENTORIES

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

	2019 RMB'000	2018 RMB'000
Raw materials	45,674	48,090
Work in progress	60,715	41,228
Finished goods	64,540	61,172
	170,929	150,490
Less: Write-down of inventories	(9,690)	(6,614)
	161,239	143,876

(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:

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	266,293	416,722
Write-down of inventories	3,076	3,961
	269,369	420,683

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Trade receivables (Note(iii))	186,781	229,669
Less: loss allowance (Note 24(a))	(12,709)	(665)
	174,072	229,004
Bills receivables (Note(iii))	78,882	64,781
Financial assets measured at amortised cost	252,954	293,785
Prepayment for an investment to a target company (Note(i))	23,446	-
Prepayments and other deposits	24,264	18,119
Deductible value-added tax	3,567	-
	304,231	311,904

Notes:

- (i) On 22 November 2019, the Company entered into a Cooperation Agreement, pursuant to which the Company would acquire the 10.7% equity interest of a target company which is mainly engaged in design and manufacturing of power systems, braking systems, vehicle spare parts and components. The consideration for the acquisition was EUR5,000,000 and was settled by two instalments. On 18 December 2019, the first instalment amounting to EUR3,000,000 was paid by the Company and was recognised as a prepayment. The second instalment amounting to EUR2,000,000 was settled in January 2020. The Company shall enjoy and assume all rights and obligations in connection with share interests in the target company after completing the registration of industrial and commercial changes and the procedures for business filing for the target company.
- (ii) All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.
- (iii) At 31 December 2019, the aggregate carrying amounts of trade receivables and bills receivable pledged for the Group's loans are RMB Nil and RMB8,000,000, respectively (2018: RMB22,400,000 and RMB Nil) (see Note 18(c)).

(a) Ageing analysis

The ageing analysis of trade and bills receivables, included in trade and other receivables, based on the invoice date and net of loss allowance of the Group is as follows:

	2019 RMB'000	2018 RMB'000
Less than 1 month	89,067	125,063
1 to 3 months	70,881	55,644
3 to 6 months	42,087	67,272
Over 6 months	50,919	45,806
	252,954	293,785

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis *(Continued)*

The Group's customers are mainly automobile and engine manufacturers in the PRC. Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in Note 24(a).

(b) Transfer of financial assets

The Group receives short-term bank acceptance notes from its customers as a method of settlement of goods sold. The Group is entitled to receive the full face values from the issuing banks upon the maturities of these notes, which generally range from 3 to 12 months from the dates of issuance.

At 31 December 2019, the Group had discounted certain of the bank acceptance notes at banks, and endorsed certain of the bank acceptance notes to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group assessed that the discounted and endorsed bank acceptance notes were issued by highly-rated banks, the credit risks were relatively insignificant and the Group was not exposed to the relative interest risk. At 31 December 2019, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to RMB36,004,000 (2018: RMB101,850,000).

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 RMB'000
Cash on hand and at bank	49,283	170,036

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

(b) Reconciliation of liabilities arising from financing activities

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

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

	Bank and other loans RMB'000 (Note 18)	Interest payables RMB'000	Lease liabilities RMB'000 (Note 19)	Total RMB'000
At 31 December 2018	209,400	879	–	210,279
Impact on initial application of IFRS 16 (Note 2(c))	–	–	352	352
At 1 January 2019	209,400	879	352	210,631
Changes from financing cash flows:				
Proceeds from new bank and other loans	203,000	–	–	203,000
Repayment of bank and other loans	(291,480)	–	–	(291,480)
Capital element of lease rentals paid	–	–	(285)	(285)
Interest element of lease rentals paid	–	–	(24)	(24)
Finance costs paid	–	(11,348)	–	(11,348)
Total changes from financing cash flows	(88,480)	(11,348)	(309)	(100,137)
Other change:				
Finance costs (Note 6(a))	–	10,636	24	10,660
At 31 December 2019	120,920	167	67	121,154

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See Note 2(c).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

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

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

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows		
– Lease rentals paid relating to short-term leases and leases of low-value assets	(383)	(637)
Within investing cash flows		
– Purchase of land use rights	–	(12,838)
Within financing cash flows		
– Lease rentals paid	(309)	–
	(692)	(13,475)

Note: As explained in the note to Note 16(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

17 TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	102,358	103,783
Payables for construction of property, plant and equipment	66,093	80,845
Payables for staff related costs	9,159	17,288
Payables for other taxes	2,490	7,715
Others	14,329	17,488
	92,071	123,336
Financial liabilities measured at amortised cost	194,429	227,119

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

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

	2019 RMB'000	2018 RMB'000
Less than 1 month	34,775	28,839
1 to 3 months	27,402	39,000
3 to 6 months	23,407	27,907
Over 6 months	16,774	8,037
	102,358	103,783

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

18 BANK AND OTHER LOANS

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

	2019 RMB'000	2018 RMB'000
Short-term bank loans:		
– secured by property, plant and equipment and right-of-use assets	112,920	127,000
– secured by bills receivable	8,000	–
Loans from third parties:		
– secured by trade receivables	–	22,400
	120,920	149,400
Add: current portion of long-term bank and other loans (Note 18(b))	–	60,000
	120,920	209,400

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

	2019 RMB'000	2018 RMB'000
Loans from third parties:		
– unguaranteed and unsecured	–	60,000
	–	60,000
Less: current portion of long-term bank and other loans (Note 18(a))	–	(60,000)
	–	–

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

18 BANK AND OTHER LOANS *(Continued)*

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

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

	2019 RMB'000	2018 RMB'000
Within 1 year or on demand	–	60,000

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

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	145,230	79,182
Lease prepayments	–	38,653
Right-of-use assets	26,486	–
Bills receivable	8,000	–
Trade receivables	–	22,400
	179,716	140,235

(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 24(b). At 31 December 2019, none of the covenants had been breached (2018: None).

Notes to the financial statements

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19 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	At 31 December 2019		At 1 January 2019 (Note)	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	67	68	264	283
After 1 year but within 2 years	–	–	88	94
	67	68	352	377
Less: total future interest expenses		(1)		(25)
Present value of lease liabilities		67		352

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Prepaid income tax in the consolidated statement of financial position represents:

	2019 RMB'000	2018 RMB'000
(Prepaid income tax)/income tax payable at 1 January	(12,123)	2,621
Provision for the year (Note 7(a))	6,805	17,059
Income tax paid	(1,929)	(31,803)
Prepaid income tax at 31 December	(7,247)	(12,123)

(b) Deferred tax assets and liabilities recognised

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

	Assets			Liabilities		Total RMB'000
	Government grants and subsequent amortisation RMB'000	Provision for warranties RMB'000	Write-down of inventories RMB'000	Credit loss allowance RMB'000	Retained profits to be distributed RMB'000	
At 1 January 2018	9,269	819	398	77	-	10,563
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(974)	12	594	23	(4,857)	(5,202)
At 1 January 2019	8,295	831	992	100	(4,857)	5,361
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(192)	(120)	461	1,806	-	1,955
At 31 December 2019	8,103	711	1,453	1,906	(4,857)	7,316

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), at 31 December 2019, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB3,959,000 (2018: RMB2,183,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognised

Except for deferred tax liabilities recognised in Note 20(b), taxable temporary differences relating to undistributed profits of subsidiaries of the Group established in the PRC amounted to RMB658,117,000 at 31 December 2019 (2018: RMB625,472,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

21 DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
At 1 January	55,301	61,793
Additions	5,342	–
Credited to the consolidated statement of profit or loss	(6,624)	(6,492)
At 31 December	54,019	55,301

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.

Notes to the financial statements

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22 PROVISION FOR WARRANTIES

	2019	2018
	RMB'000	RMB'000
At 1 January	5,542	5,464
Provisions made (Note 6(c))	658	1,255
Provisions utilised	(1,465)	(1,177)
At 31 December	4,735	5,542
Less: amount included under “current liabilities”	(1,809)	(2,093)
	2,926	3,449

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.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS

(a) Movements in components of equity

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

	Share capital RMB'000 (Note 23(b))	Share premium RMB'000 (Note 23(d)(i))	Exchange reserve RMB'000 (Note 23(d)(iii))	Accumulated losses RMB'000	Total equity RMB'000
Balance at 2 May 2017 (date of incorporation)	–	–	–	–	–
Issuance of shares	1	–	–	–	1
Balance at 31 December 2017 and 1 January 2018	1	–	–	–	1
Loss for the year	–	–	–	(4,811)	(4,811)
Other comprehensive income	–	–	14,028	–	14,028
Total comprehensive income	–	–	14,028	(4,811)	9,217
Capitalisation issue (Note 23(b)(ii))	49,818	(49,818)	–	–	–
Issuance of shares by initial public offering (Note 23(b)(iii))	16,606	248,060	–	–	264,666
Interim dividends declared and paid in respect of the current year (Note 23(c)(i))	–	(48,572)	–	–	(48,572)
	66,424	149,670	–	–	216,094
Balance at 31 December 2018 and 1 January 2019	66,425	149,670	14,028	(4,811)	225,312
Loss for the year	–	–	–	(4,379)	(4,379)
Other comprehensive income	–	–	4,794	–	4,794
Total comprehensive income	–	–	4,794	(4,379)	415
Balance at 31 December 2019	66,425	149,670	18,822	(9,190)	225,727

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(b) Share capital

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

	2019		2018	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	800,000,000	66,425	9,999	1
Capitalisation issue (Note 23(b)(ii))	–	–	599,990,001	49,818
Issuance of shares by initial public offering (Note 23(b)(iii))	–	–	200,000,000	16,606
At 31 December	800,000,000	66,425	800,000,000	66,425

Notes:

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 May 2017. Its initial authorised share capital was HK\$380,000 divided into 3,800,000 shares with a par value of HK\$0.10 per share. On 11 December 2017, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each. In May 2017, the Company issued and allotted/transferred 1 share and 9,998 shares, respectively, at par value for cash to Dragon Rise Ventures Limited ("Dragon Rise") and other investment companies, the proceeds of HK\$999.9 (equivalent to approximately RMB796) were credited to the Company's share capital account.
- (ii) On the Listing Date, the Company issued 599,990,001 ordinary shares at par value of HK\$0.1 each to the equity shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 11 December 2017 by way of capitalisation of the sum of HK\$59,999,000 (equivalent to approximately RMB49,818,000) standing to the credit of the share premium of the Company.
- (iii) On the Listing Date, the shares of the Company were listed on the Main Board of the Stock Exchange. 200,000,000 shares were issued by the Company at the offer price of HK\$1.68 per share. The net proceeds from the above issuance amounted to approximately HK\$318,756,000 (equivalent to approximately RMB264,666,000), of which HK\$20,000,000 (equivalent to approximately RMB16,606,000) and HK\$298,756,000 (equivalent to approximately RMB248,060,000) were recorded in the Company's share capital and share premium respectively.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

23 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS (Continued)

(c) Dividends

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

	2019 RMB'000	2018 RMB'000
Interim dividend declared and paid of HK\$Nil cents per ordinary share (2018: HK\$6.85 cents per ordinary share)	-	48,572

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: RMB Nil).

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

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

(d) Nature and purpose of reserves

(i) **Share premium**

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

(ii) **Statutory reserve**

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

(iii) **Exchange reserve**

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(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.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

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

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 20.4% (2018: 12.2%) and 73.2% (2018: 76.8%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(a) Credit risk *(Continued)*

Trade receivables *(Continued)*

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

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

	Expected loss rate %	2019 Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.07%	98,017	(1,049)
Less than 1 year past due	7.65%	67,905	(5,192)
1 to 2 years past due	30.00%	20,558	(6,167)
Over 2 years past due	100.00%	301	(301)
		186,781	(12,709)
	Expected loss rate %	2018 Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.02%	128,977	(30)
Less than 1 year past due	0.49%	99,952	(487)
1 to 2 years past due	20.00%	740	(148)
Over 2 years past due	100.00%	–	–
		229,669	(665)

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(a) Credit risk *(Continued)*

Trade receivables *(Continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	665	512
Credit losses recognised during the year	12,044	153
At 31 December	12,709	665

(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:

	2019 Contractual undiscounted cash flow within 1 year or on demand RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost	194,429	194,429
Bank and other loans	123,564	120,920
Lease liabilities (Note)	68	67
	318,061	315,416

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See Note 2(c).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(b) Liquidity risk *(Continued)*

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

(c) Interest rate risk

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

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

	2019		2018	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
– Lease liabilities (Note)	4.93%	67	–	–
– Bank loans	4.57% ~ 8.15%	80,920	4.92%	30,000
– Loans from third parties	–	–	4.04% ~ 8.00%	82,400
		80,987		112,400
Variable rate borrowings:				
– Bank loans	4.83%	40,000	4.83% ~ 5.22%	97,000
		120,987		209,400
Fixed rate borrowings as a percentage of total borrowings		67%		54%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See Note 2(c).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

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

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2019, 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 RMB340,000 (2018: RMB825,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The analysis is performed on the same basis as 2018.

(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 amortised cost are not materially different from their fair values at 31 December 2019 and 2018.

25 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Commitments in respect of property, plant and equipment:		
– Contracted for	37,777	6,784

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

25 COMMITMENTS *(Continued)*

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

	Leased office RMB'000
Within 1 year	283
Over 1 year but within 2 years	94
	377

The Group leases certain office premises which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 2(f), and the details regarding the Group's future lease payments are disclosed in Note 19. None of the leases includes contingent rentals.

26 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	3,569	4,554
Contributions to defined contribution retirement plan	26	72
	3,595	4,626

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

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 RMB'000	2018 RMB'000
Non-current asset			
Interests in a subsidiary	13	198,896	109,243
Current assets			
Other receivables and prepayments		23,997	337
Cash and cash equivalents		4,789	116,953
		28,786	117,290
Current liability			
Other payables		1,955	1,221
NET ASSETS		225,727	225,312
CAPITAL AND RESERVES			
Share capital	23	66,425	66,425
Reserves		159,302	158,887
TOTAL EQUITY		225,727	225,312

Approved and authorised for issue by the board of directors on 31 March 2020.

Meng Lianzhou
Director

Liu Enwang
Director

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The outbreak of Coronavirus Disease 2019 (“COVID-19”) in the PRC since early 2020 has brought about uncertainties in the Group’s operating. A number of provinces in the PRC have taken emergency public health measures and various actions to prevent the spread of the COVID-19.

To the best of the Directors’ knowledge and belief, the outbreak of the COVID-19 has caused, among others, (i) temporary suspension of work in the production facilities of the Group due to the shortage of workforce; (ii) delay in delivery of raw materials to the Group due to the disruption to the local logistics network; and (iii) extensive disruption to the normal operation of the businesses in the PRC, including most of our customers i.e. automobile manufactures and engine manufactures, and thereby may affect the Group’s sales. The Group has been closely monitoring the impact from the outbreak of the COVID-19 on the Group’s businesses and has commenced to put in place various contingency measures. The directors of the Company confirm that these contingency measures include but not limited to gradually resuming the production since March 2020, reassessing the adequacy and suitability of the Group’s existing inventory level, negotiating with customers about production plans and possible delivery timetable and logistics arrangement. The Group will keep the contingency measures under review as the outbreak of the COVID-19 situation evolves.

As far as the Group’s businesses are concerned, the outbreak of the COVID-19 may cause production delays, but the directors of the Company consider that such impact could be reduced by increasing the number of production days by adjusting our maintenance frequency and arranging production during public holidays after the resumption of work to catch up with the production schedule. The outbreak of the COVID-19 may impact the repayment abilities of the Groups debtors, which may increase the liquidity risk to the Group. As at 31 December 2019, the Group has net current assets of approximately RMB204,775,000, the directors of the Company estimate that cash and cash equivalents and bills receivable as at 31 December 2019 are sufficient to maintain Group’s financial viability for the coming 12 months in settling estimated monthly fixed costs (including staff costs and other expenses), trade payables and bank borrowings outstanding as at 31 December 2019, and taking into consideration of the undrawn available banking facilities amounting to approximately RMB112,080,000, the Group are expected to refinance short-term borrowings and also consider alternative sources of financing, where applicable and when needed. Therefore, the directors of the Company are of the opinion that the Group will be able to meet its liabilities as and when they fall due within the next 12 months.

The possible impact on the additional impairment issue on trade receivables has not been reflected in the consolidated financial statement as at 31 December 2019. The actual impacts may differ from current estimates as the outbreak of the COVID-19 continues to evolve, and the Group will keep continuous attention on change of situation and make timely response and adjustments in the future.

29 COMPARATIVES FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors of the Company consider the immediate parent of the Group to be Dragon Rise, which is incorporated in the BVI. This entity does not produce financial statements available for public use. The directors of the Company consider the ultimate holding parties of the Group to be Mr Meng Lianzhou, Mr Liu Zhanwen, Mr Zhang Yuxuan and Mr Liu Enwang.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2019 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
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, <i>Interest rate benchmark reform</i>	1 January 2020
Amendments to IFRS 3, <i>Business Combination, Definition of a business</i>	1 January 2020
Amendments to IAS1, <i>Presentation of financial statements</i> , and IAS8, <i>Accounting policies, changes in accounting estimates and errors, Definition of a material</i>	1 January 2020
IFRS 17, <i>Insurance contracts</i>	1 January 2021
Amendments to IAS 1, <i>Classification of liabilities as current or non-current</i>	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.