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Ruifeng Power Group Company Limited

瑞豐動力集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2025)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2020	2019	Change
Revenue (RMB'000)	433,475	355,049	22.1%
Gross Profit (RMB'000)	106,492	85,680	24.3%
<i>Gross profit margin</i>	24.6%	24.1%	0.5%
Profit for the year (RMB'000)	33,600	30,115	11.6%
<i>Net profit margin</i>	7.8%	8.5%	(0.7)%
Basic and diluted earnings per share (RMB)	0.042	0.038	

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Ruifeng Power Group Company Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 together with the comparative figures for the year ended 31 December 2019.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2020

(Expressed in Renminbi (“RMB”))

	<i>Note</i>	2020 RMB’000	2019 RMB’000
Revenue	3	433,475	355,049
Cost of sales		(326,983)	(269,369)
Gross profit	3(b)	106,492	85,680
Other income	4	21,989	39,658
Selling expenses		(12,156)	(10,929)
Administrative expenses		(53,705)	(56,740)
Impairment loss on trade receivables		(15,587)	(12,044)
Profit from operations		47,033	45,625
Finance costs		(7,501)	(10,660)
Profit before taxation	5	39,532	34,965
Income tax	6	(5,932)	(4,850)
Profit attributable to equity shareholders of the Company for the year		33,600	30,115
Earnings per share			
Basic and diluted (RMB)	7	0.042	0.038
Profit for the year		33,600	30,115
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 of the Company and a subsidiary into presentation currency		(2,024)	4,039
Total comprehensive income attributable to equity shareholders of the Company for the year		31,576	34,154

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Expressed in RMB)

	<i>Note</i>	2020	2019
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		710,157	671,419
Right-of-use assets		111,458	113,753
Deferred tax assets		13,624	12,173
		<hr/> 835,239 <hr/>	<hr/> 797,345 <hr/>
Current assets			
Inventories		197,094	161,239
Trade and other receivables	8	375,851	304,231
Prepaid income tax		6,171	7,247
Cash and cash equivalents		26,318	49,283
		<hr/> 605,434 <hr/>	<hr/> 522,000 <hr/>
Current liabilities			
Trade and other payables	9	265,433	194,429
Bank loans	10(a)	160,000	120,920
Lease liabilities		236	67
Provision for warranties		2,001	1,809
		<hr/> 427,670 <hr/>	<hr/> 317,225 <hr/>
Net current assets		<hr/> 177,764 <hr/>	<hr/> 204,775 <hr/>
Total assets less current liabilities		<hr/> 1,013,003 <hr/>	<hr/> 1,002,120 <hr/>
Non-current liabilities			
Deferred income		46,993	54,019
Lease liabilities		88	-
Provision for warranties		2,542	2,926
Deferred tax liabilities		5,121	4,857
		<hr/> 54,744 <hr/>	<hr/> 61,802 <hr/>
NET ASSETS		<hr/> 958,259 <hr/>	<hr/> 940,318 <hr/>
CAPITAL AND RESERVES			
Share capital		66,425	66,425
Reserves		891,834	873,893
TOTAL EQUITY		<hr/> 958,259 <hr/>	<hr/> 940,318 <hr/>

1. CORPORATE INFORMATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

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

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

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

The consolidated financial statements for the year ended 31 December 2020 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.

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.

(c) *Changes in accounting policies*

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of these amendments have had a material effect on how the Group's results and financial position for the current period have been prepared or presented. The Group has not yet applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
Sales of cylinder blocks	342,774	278,538
Sales of cylinder heads	84,546	60,319
Sales of ancillary cylinder block components	6,155	16,192
	<hr/> 433,475 <hr/>	<hr/> 355,049 <hr/>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical market is disclosed in Notes 3(b)(i) and 3(b)(ii).

(b) *Segment reporting*

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

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2020 and 2019. 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 2020 and 2019 is set out below:

	2020			Total RMB'000
	<i>Cylinder blocks</i> RMB'000	<i>Cylinder heads</i> RMB'000	<i>Ancillary cylinder block components</i> RMB'000	
Revenue from external customers recognised at a point in time	342,774	84,546	6,155	433,475
Reportable segment gross profit	81,955	24,037	500	106,492
	2019			Total RMB'000
	<i>Cylinder blocks</i> RMB'000	<i>Cylinder heads</i> RMB'000	<i>Ancillary cylinder block components</i> 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

(ii) Geographic information

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

4. OTHER INCOME

	2020	2019
	RMB'000	RMB'000
Government grants	21,544	36,686
Interest income	182	1,700
Net (loss)/gain on disposal of property, plant and equipment	(37)	79
Others	300	1,193
	21,989	39,658

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) *Finance costs*

	2020	2019
	RMB'000	RMB'000
Interest on bank loans	6,186	10,588
Bank charges and others	1,295	48
Interest on lease liabilities	20	24
	7,501	10,660

No borrowing costs have been capitalised for the year ended 31 December 2020 (2019: RMB Nil).

(b) *Staff costs*[#]

	2020	2019
	RMB'000	RMB'000
Salaries, wages and other benefits	61,584	58,913
Contributions to defined contribution retirement plan	316	4,593
	61,900	63,506

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. During the year ended 31 December 2020, the majority of the obligation to the defined contribution retirement schemes were waived by local governments authority considering the effect of COVID-19 outbreak.

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*

	2020 RMB’000	2019 RMB’000
Depreciation charge		
- owned property, plant and equipment	62,712	62,639
- right-of-use assets	2,810	2,834
Impairment losses on trade receivables	15,587	12,044
Short-term leases charges	254	383
Provision for warranties	673	658
Auditors’ remuneration	2,000	2,350
Research and development costs	16,059	13,370
Cost of inventories [#]	326,983	269,369

[#] Cost of inventories includes RMB95,101,000 (2019: RMB87,867,000) relating to staff costs, depreciation and lease expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2020 RMB'000	2019 RMB'000
Current taxation - PRC Corporate Income Tax		
Provision for the year	7,119	6,805
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Deferred taxation		
Origination and reversal of temporary differences	(1,451)	(1,955)
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	264	-
	-----	-----
	(1,187)	(1,955)
	-----	-----
	<u>5,932</u>	<u>4,850</u>

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

	2020 RMB'000	2019 RMB'000
Profit before taxation	<u>39,532</u>	<u>34,965</u>
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	10,336	9,987
Tax effect of non-deductible expenses	122	191
Tax concessions	(5,975)	(5,613)
Tax effect of withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	1,364	-
Tax effect of unused tax losses not recognised	85	285
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Actual tax expense	<u>5,932</u>	<u>4,850</u>

7. 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 RMB33,600,000 (2019: RMB30,115,000) and the weighted average of 800,000,000 ordinary shares in issue during the year (2019: 800,000,000 ordinary shares).

(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 2020 and 2019.

8. TRADE AND OTHER RECEIVABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	221,132	186,781
Less: loss allowance	(28,296)	(12,709)
	192,836	174,072
Bills receivables	89,860	78,882
Financial assets measured at amortised cost	282,696	252,954
Prepayments for an investment to a target company	37,378	23,446
Prepayments and deposits	55,777	24,264
Deductible value-added tax	-	3,567
	375,851	304,231

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:

	2020 RMB'000	2019 RMB'000
Less than 1 month	91,639	89,067
1 to 3 months	115,278	70,881
3 to 6 months	53,139	42,087
Over 6 months	22,640	50,919
	282,696	252,954

The Group's customers are mainly automobile and engine manufacturers in the PRC.

9. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	158,323	102,358
Payables for construction of property, plant and equipment	81,933	66,093
Payables for staff related costs	8,907	9,159
Others	13,269	14,329
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	262,432	191,939
Payables for other taxes	3,001	2,490
	<hr/>	<hr/>
	265,433	194,429
	<hr/> <hr/>	<hr/> <hr/>

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:

	2020 RMB'000	2019 RMB'000
Less than 1 month	127,982	34,775
1 to 3 months	11,749	27,402
3 to 6 months	4,499	23,407
Over 6 months	14,093	16,774
	<hr/>	<hr/>
	158,323	102,358
	<hr/> <hr/>	<hr/> <hr/>

10. BANK LOANS

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

	2020 RMB'000	2019 RMB'000
Secured by property, plant and equipment and right-of-use assets	160,000	112,920
Secured by bills receivable		8,000
	<hr/>	<hr/>
	160,000	120,920
	<hr/> <hr/>	<hr/> <hr/>

- (b) 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 loans is as follows:

	2020	2019
	RMB'000	RMB'000
Property, plant and equipment	84,571	145,230
Right-of-use assets	25,294	26,486
Bills receivable	-	8,000
	<u>109,865</u>	<u>179,716</u>

- (c) 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. At 31 December 2020, none of the covenants had been breached (2019: None).

11. DIVIDENDS

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

	2020	2019
	RMB'000	RMB'000
Interim dividend declared and paid of HK\$2.0 cents per ordinary share (2019: HK\$0 cents per ordinary share)	13,635	-
	<u>13,635</u>	<u>-</u>

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: 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 did not recommend the payment of a dividend in respect of the year ended 31 December 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The PRC's automobile market experienced an extraordinary year in 2020. In the first quarter of 2020, due to the outbreak of the COVID-19 pandemic across the PRC, both the production volume and sales volume of automobiles plummeted to the bottom as a result of the measures taken by the PRC government to prevent the spread of the pandemic. Fortunately, the automobile market started to recover in mid-2020, and both the production volume and sales volume of automobiles showed an upward trend. With the gradual control of the pandemic by the PRC government, the automobile industry has also turned around as a whole. Data reflected that in 2020, the sales volume of automobiles in the PRC reached 25.311 million units, representing a year-on-year decrease of only 1.9%, which was significantly decreased by 6.3 percentage points as compared to 2019, ranking the first in the world in terms of sales volume for 12 years in a row. In particular, the sales volume of new energy vehicles reached 1.367 million units, representing a year-on-year increase of 10.9%, achieving a record high. In general, the automobile industry in the PRC performed better than expected in 2020, mainly due to the strong support of national and local policies, the unremitting efforts of enterprises in the industry and the strong recovery of market consumption demand.

Currently, the development of new energy vehicles has risen to a high level in the national development strategy. In 2020, the government issued a number of policies to encourage the development of new energy vehicles, which lowered the entry barrier for new energy enterprises, raised product requirements, improved mandatory standards and extended the financial subsidies to new energy vehicles manufacturers. The development of new energy vehicles and the research and development and production of parts and components are key priorities. In October of 2020, the General Office of the State Council issued the Development Plan of New Energy Automobile Industry (2021-2035), which provided great support for the development of the new energy automobile, and proposed measures to promote the improvement of the research and development capability of the basic core components and key basic materials of new energy vehicles.

From the perspective of the development trend of the automobile industry, with the steady recovery of the national economy and the accelerated recovery of consumer demand, coupled with the huge potential of the PRC's automobile market, the rebound trend is expected to continue in 2021. In the post-pandemic era, the survival of the fittest in all fields of the automobile industry will be magnified, and the post-crisis period will be the best opportunity for enterprises in the automobile industry chain to reform and innovate.

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.

In the first half of 2020, the Group was affected by the pandemic and faced unprecedented difficulties in operations, including the anti-pandemic requirements adopted by the government such as the temporary restriction from resuming work, and the suspension of production by customers and suppliers. However, in the second half of 2020, with the effective control of the pandemic by the Chinese government, the production and sales of the Group resumed to normal, and the consumer demand also increased steadily. We responded to the crisis caused by the pandemic by continuously optimizing our customer structure and product portfolio, actively innovating and transforming, and achieved steady business development by leveraging our leading position in the specialized cylinder block manufacturing industry in the PRC.

The Group primarily manufactures cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufactures cylinder heads as well as certain other structural components of cylinder blocks, primarily including main bearing caps and flywheels. The following table sets forth the revenue and sales volume by segment and major product type for the years ended 31 December 2020 and 2019:

	For the year ended 31 December					
	2020			2019		
	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	48,228	11.1	56,470	48,009	13.5	58,155
Cylinder blocks for commercial vehicles	238,306	55.0	236,107	180,633	50.9	180,038
Cylinder blocks for industrial vehicles	56,240	13.0	52,037	49,896	14.1	46,148
Subtotal	342,774	79.1	344,614	278,538	78.5	284,341
Cylinder heads	84,546	19.5	131,846	60,319	17.0	107,639
Ancillary cylinder block components	6,155	1.4	78,466	16,192	4.5	709,282
Total	433,475	100.00		355,049	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 13.5% of our total revenue from cylinder block sales for the year ended 31 December 2019 to approximately 11.1% for the year ended 31 December 2020. Sales volume of cylinder blocks for passenger vehicles decreased by approximately 2.9% from approximately 58,000 units for the year ended 31 December 2019 to approximately 56,000 units for the year ended 31 December 2020. The decrease was mainly due to the suspension of production of a customer and the return of the Group's sold products, which decreased the sales volume and sales amount by approximately 6,000 units and RMB4.2 million respectively. In addition to this factor, the Group re-integrated its customer portfolio during the year ended 31 December 2020 to halt the production of products with less demand and increase the sales of new products, such as the provision of new models of cylinder blocks to China FAW Group Corporation Limited ("**China FAW**"), a new customer.

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 50.9% of total revenue from sales of cylinder blocks for the year ended 31 December 2019 to approximately 55.0% for the year ended 31 December 2020. Sales volume of cylinder blocks for commercial vehicles increased by approximately 31.1% from approximately 180,000 units for the year ended 31 December 2019 to approximately 236,000 units for the year ended 31 December 2020. Such increase was primarily due to a significant increase in demand for 493 cylinder block products sold to a customer, which resulted in an increase in sales volume and sales amount of 43,000 units and RMB53.1 million respectively.

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 14.1% of total revenue from sales of cylinder blocks for the year ended 31 December 2019 to approximately 13.0% for the year ended 31 December 2020. Sales volume of cylinder blocks for industrial vehicles increased by approximately 12.8% from approximately 46,000 units for the year ended 31 December 2019 to approximately 52,000 units for the year ended 31 December 2020. Such increase was mainly due to the increase in demand from customers.

In the second half of 2019, the Group successfully entered into the supplier list of Deutz AG and was the only supplier of cylinder blocks and cylinder heads to the company in Asia. In 2020, the Group completed the submission of samples of 2.9L and 6.1L mechanical cylinder blocks and cylinder heads of Deutz, which are expected to commence mass production in 2021.

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 increased by approximately 22.5% from approximately 108,000 units for the year ended 31 December 2019 to approximately 132,000 units for the year ended 31 December 2020. Such increase was primarily due to an increase in sales volume of our 493 cylinder blocks.

Expanding the Lightweight Automobile Market with China FAW Group

Driven by the policies on energy conservation and emission reduction and the acceleration of electrification, the development of lightweight vehicles is accelerating. The “Made in China 2025” campaign emphasized that “light weight is still the top priority” in the overall planning of automobile development. According to China’s automobile lightweight technology roadmap and development goals, the Company strives to reduce the weight of finished vehicles by 20% on average in 2025 as compared to 2015. In November 2019, the Group has opened the channel to tap into the lightweight automotive market through cooperation with Saint Jean Industries S.A.S.. As at 31 December 2020, the Group has established low-pressure casting and high-pressure casting for aluminum casting, and has completed the submission of samples for some new energy vehicle customers.

The Group has newly added China FAW as an important customer in 2020, and both parties will carry out in-depth cooperation in lightweight automobile series, including cooperation with China FAW Group in the production of aluminum cylinder blocks. FAW 4GB products meet China 6B emission standards and can meet the regulatory requirements for 2025. The platform design includes the fuel version and the hybrid version, and finished vehicles cover brands like “Hong Qi” and “Bestune”. It is planned that this project can meet the demand of 150,000 units of cylinder block, with the Group as the exclusive cylinder block supplier for China FAW. China FAW was formerly known as First Automobile Works, which operated a well-known automobile brand “Hong Qi”. In 2020, China FAW sold 3.7 million vehicles and realized operating revenue of RMB695 billion, representing a year-on-year increase of 12.5%.

Production Facilities and New Products and Research and Development

All production facilities of the Group are located in Shenzhou, Hebei Province, the PRC. As at 31 December 2020, 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 2020, the Group was building 9 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 expected to be completed before the end of 2021. After completion of the 9 processing lines, the Group will enhance its production efficiency and provide over 7 new products, especially for cylinder blocks for industrial and passenger vehicles.

FINANCIAL REVIEW

Revenue

Revenue increased by approximately 22.1% from approximately RMB355.0 million for the year ended 31 December 2019 to approximately RMB433.5 million for the year ended 31 December 2020, primarily attributable to an increase in revenue from sales of cylinder blocks and cylinder heads. Such increase was mainly affected by the upturn in the automotive industry and change in combination of our customers.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales increased by approximately 23.1% from approximately RMB278.5 million for the year ended 31 December 2019 to approximately RMB342.8 million for the year ended 31 December 2020, primarily attributable to an increase in sales volume from approximately 284,000 units for the year ended 31 December 2019 to approximately 345,000 units for the year ended 31 December 2020 driven by an increase in demand for the 493 series of cylinder blocks and change in combination of our customers.

Sales of Cylinder Heads

Segment revenue from cylinder head sales increased by approximately 40.2% from approximately RMB60.3 million for the year ended 31 December 2019 to approximately RMB84.5 million for the year ended 31 December 2020. This increase was primarily due to increase in demand for the 493 series of cylinder blocks, which was consistent with the increased sales of the same series of cylinder blocks during the year ended 31 December 2020. Therefore, the sales volume of cylinder heads increased from approximately 108,000 units for the year ended 31 December 2019 to approximately 132,000 units in the year ended 31 December 2020.

Sales of Ancillary Cylinder Block Components

Segment revenue from ancillary cylinder block components sales decreased by approximately 62.0% from approximately RMB16.2 million for the year ended 31 December 2019 to approximately RMB6.2 million for the year ended 31 December 2020. This decrease was primarily attributable to a decrease in demand from our customers.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately 24.3% from approximately RMB85.7 million for the year ended 31 December 2019 to approximately RMB106.5 million for the year ended 31 December 2020. This increase was in line with increase in revenue. The gross profit margin increased from approximately 24.1% for the year ended 31 December 2019 to approximately 24.6% for the year ended 31 December 2020, such an increase in gross profit margin was primarily due to an increase in production efficiency as the demand increased sharply.

Other Income

Other income decreased by approximately 44.6% from approximately RMB39.7 million for the year ended 31 December 2019 to approximately RMB22.0 million for the year ended 31 December 2020. 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 increased by approximately 11.2% from approximately RMB10.9 million for the year ended 31 December 2019 to approximately RMB12.2 million for the year ended 31 December 2020. This increase was primarily due to the increase in transportation expenses as demands for our products were increased.

Administrative Expenses

Administrative expenses decreased by approximately 5.3% from approximately RMB56.7 million for the year ended 31 December 2019 to approximately RMB53.7 million for the year ended 31 December 2020. This decrease was primarily due to a decrease in professional fee of approximately RMB2.3 million for the year ended 31 December 2020.

Impairment loss on trade receivables

Impairment loss on trade receivables increased by approximately 29.4% from approximately RMB 12.0 million for the year ended 31 December 2019 to approximately RMB15.6 million for the year ended 31 December 2020. This increase was primarily due to one of our customers went bankrupt and was unable to repay the trade receivables for the year ended 31 December 2020.

Finance Costs

Finance costs decreased by approximately 29.6% from approximately RMB10.7 million for the year ended 31 December 2019 to approximately RMB7.5 million for the year ended 31 December 2020. This decrease was primarily due to a decrease in bank loans balance which was partially offset by an increase in using of the discounting bills and factoring for financing.

Income Tax Expenses

Income tax expenses increased by approximately 20.4% from approximately RMB4.9 million for the year ended 31 December 2019 to approximately RMB5.9 million for the year ended 31 December 2020. This increase was primarily due to a provision of withholding tax in connection with the retained profits to be distributed by a subsidiary was made for the year ended 31 December 2020.

Profit for the Year

As a result of the foregoing, the profit for the year increased by approximately 11.6% from approximately RMB30.1 million for the year ended 31 December 2019 to approximately RMB33.6 million for the year ended 31 December 2020. The net profit margin decreased from approximately 8.5% for the year ended 31 December 2019 to approximately 7.8% for the year ended 31 December 2020, which was mainly attributable to a decrease in other income.

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 loans. As of 31 December 2020 and 2019, the Group had cash and cash equivalents of approximately RMB26.3 million and approximately RMB49.3 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 loans. Other than normal bank loans that the Group obtains from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

Trade and Bills Receivables

The trade and bills receivables increased by approximately 11.8% from approximately RMB253.0 million as at 31 December 2019 to approximately RMB282.7 million as at 31 December 2020. This increase was primarily due to an increase in revenue. The trade and bills receivables turnover days decreased from 204 days as at 31 December 2019 to 152 days as at 31 December 2020. Such decrease was resulted from the timely settlement of our billings by our customers due to the recovery of 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 increased from approximately RMB12.7 million as at 31 December 2019 to approximately RMB28.3 million as at 31 December 2020, such increase was primarily due to an increase in expected loss rate and the bankruptcy of one of our customers.

Trade Payables

The trade payables increased by approximately 54.7% from approximately RMB102.4 million as at 31 December 2019 to approximately RMB158.3 million as at 31 December 2020. This increase was primarily due to increase in purchase of raw materials in November and December 2020 as the demands on our products increased sharply. The trade payables turnover days increased from 138 days as at 31 December 2019 to 144 days as at 31 December 2020.

Bank Loans

The bank loans increased from approximately RMB120.9 million as at 31 December 2019 to approximately RMB160.0 million as at 31 December 2020, primarily due to general working capital needs as the automobile industry was recovering. As at 31 December 2020, bank loans were pledged by property, plant and equipment, right-of-use assets and bills receivables of the Group, the aggregate carrying amount of which was approximately RMB109.9 million (2019: RMB179.7 million).

All bank loans as at 31 December 2020 and 31 December 2019 were denominated in RMB at fixed or floating interest rate and are repayable within 1 year.

Gearing Ratio

The gearing ratio increased from approximately 12.9% as at 31 December 2019 to approximately 16.7% as at 31 December 2020, such increase was a result of a increase in bank loans of approximately RMB39.1 million.

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

Capital Expenditure

For the year ended 31 December 2020, the capital expenditure was approximately RMB102.8 million (2019: RMB92.6 million). The capital expenditure incurred for the year ended 31 December 2020 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 2020, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB22.4 million (2019: RMB37.8 million).

Contingent liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees (2019: 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

Saved as disclosed in this announcement, the Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2020.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2020, the Group had total of 760 employees (2019: 747 employees). For the year ended 31 December 2020, the Group has incurred a total staff costs of approximately RMB61.9 million (2019: RMB63.5 million), representing a decrease of approximately 2.5% as compared with those for the year ended 31 December 2019, which was a result of decrease in social insurance due to the relief proposed by the government under the COVID-19 epidemic.

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 the director's salary for the year ended 31 December 2020 and agreed to receive the director's salary of RMB40,000 per annum with effect from 1 January 2020. No emoluments were paid by the Group to the directors during the year ended 31 December 2020 as an inducement to join or upon joining the Group or as compensation for loss of office.

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 from the Global 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 of the Company dated 19 December 2017	%	Original amount of net proceeds from the Global Offering allocated <i>RMB'000</i>	Reallocation of unutilized net proceeds as at 24 November 2019 <i>RMB'000</i>	Revised use of net proceeds from the Global Offering <i>RMB'000</i>	Actual use of net proceeds as at 31 December 2020 <i>RMB'000</i>	Unutilised net proceeds as at 31 December 2020 <i>RMB'000</i>
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 for the cooperation agreement entered between the Company and Saint Jean Industries in respect of the acquisition of Saint Jean Automotive System (Changshu) Co., Ltd. ("Cooperative Agreement")	-	-	38,000	38,000	38,000	-
	100.0	264,666	-	264,666	244,666	20,000

* The Group expected to fully utilize the net proceeds on or before end of 2021.

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

As at 31 December 2020, the unused balance of the net 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 announcement, the Company does not anticipate any change to its plan on the use of proceeds.

FUTURE PROSPECTS

Looking forward to 2021, it is expected that the PRC's automobile industry will recover as a whole. New energy vehicles will continue to develop with ongoing growth bringing impact to the 2025 target. According to the development vision of the national plan, the sales volume of new energy vehicles may exceed 5 million units in 2025. As consumers are sensitive to the mileage and charging time, lightweight is especially important for new energy vehicles. With the increasing popularity of new energy vehicles in the future, the expanding coverage of charging facilities and the increasing demand for energy conservation and environmental protection, the market for lightweight new energy vehicles is huge.

The Group still adheres to customer-oriented and technology-oriented strategies, continues to improve its competitiveness as well as adjust and optimize the customer structure, and further improve the corporate management level and operation quality. In 2021, the Group will focus on the business development of new energy vehicles, lightweight vehicles and non-motor vehicle parts, and look for the direction for the new generation of automobile accessories in the field of research and development or cooperation. In addition, we will strengthen the in-depth cooperation with large automobile manufacturers such as China FAW Group to jointly explore the development opportunities of new energy and lightweight automobiles.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, there are no major subsequent events to 31 December 2020 which would materially affect the Group's operating and financial performance as of the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2020 and up to the date of this announcement, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2020, the Company has fully complied with the Code Provisions, except for the following deviations.

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

Save as disclosed above, the Company has strictly complied with the CG Code during the year ended 31 December 2020. Our Directors will review the Group's corporate governance policies and compliance with the CG Code each financial year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct of the Company governing Directors' securities transactions throughout the year ended 31 December 2020.

DIVIDEND

An interim dividend of HK\$2.0 cents per share (2019: Nil) was paid on 23 October 2020.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the shareholder's entitlement to attend and vote at the annual general meeting of the Company to be held on 28 May 2021 ("**AGM**"), the register of members of the Company will be closed from 25 May 2021 to 28 May 2021, 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 24 May 2021, being the business day before the first day of closure of the register of members.

AUDITOR

KPMG was appointed as the auditor for the financial statements of the Group prepared in accordance with the IFRSs for the year ended 31 December 2020. The figures in respect of the Group's financial statements set out in this announcement are consistent with those in the financial statements which have been audited by KPMG.

ANNUAL GENERAL MEETING

The AGM will be held on 28 May 2021. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

AUDIT COMMITTEE

The audit committee of the Company had reviewed together with the management and external auditor of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the annual results of the Group for the year ended 31 December 2020.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hbsgt.com and the annual report for the year ended 31 December 2020 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the aforesaid websites of the Stock Exchange and the Company in due course.

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

Shenzhen, the PRC, 26 March 2021

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