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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2020	2019	Change
Revenue (RMB'000)	165,972	187,121	(11.3%)
Gross profit (RMB'000)	35,676	43,486	(18.0%)
<i>Gross profit margin</i>	<i>21.5%</i>	23.2%	(1.7%)
Profit for the period (RMB'000)	15,262	19,304	(20.9%)
<i>Net profit margin</i>	<i>9.2%</i>	10.3%	(1.1%)
Basic and diluted earnings per share (RMB cent)	1.91	2.41	

The Board resolved to declare an interim dividend of HK\$2.0 cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Ruifeng Power Group Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the six months ended 30 June 2019. The interim results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

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

*For the six months ended 30 June
(Expressed in Renminbi (“RMB”))*

	<i>Note</i>	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	4	165,972	187,121
Cost of sales		(130,296)	(143,635)
Gross profit	4(b)	35,676	43,486
Other income	5	17,753	21,882
Selling expenses		(4,978)	(5,414)
Administrative expenses		(25,291)	(31,097)
Profit from operations		23,160	28,857
Finance costs	6(a)	(4,872)	(6,412)
Profit before taxation	6	18,288	22,445
Income tax	7	(3,026)	(3,141)
Profit attributable to equity shareholders of the Company for the period		15,262	19,304
Earnings per share			
Basic and diluted (RMB cent)	8	1.91	2.41
Profit for the period		15,262	19,304
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss			
- Exchange differences on translation of financial statements into presentation currency		665	462
Total comprehensive income attributable to equity shareholders of the Company for the period		15,927	19,766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED

As at 30 June 2020

(Expressed in RMB)

		At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment		687,601	671,419
Lease prepayments		485	-
Right-of-use assets		112,461	113,753
Deferred tax assets		11,947	12,173
		<u>812,494</u>	<u>797,345</u>
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Current assets			
Inventories		154,407	161,239
Trade and other receivables	9	322,100	304,231
Prepaid income tax		5,344	7,247
Cash and cash equivalents		33,476	49,283
		<u>515,327</u>	<u>522,000</u>
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Current liabilities			
Trade and other payables	10	171,414	194,429
Bank and other loans	11	140,000	120,920
Lease liabilities		488	67
Provision for warranties		1,846	1,809
		<u>313,748</u>	<u>317,225</u>
		-----	-----
Net current assets		<u>201,579</u>	<u>204,775</u>
		-----	-----
Total assets less current liabilities		<u>1,014,073</u>	<u>1,002,120</u>
		-----	-----
Non-current liabilities			
Deferred income		50,506	54,019
Deferred tax liabilities		4,857	4,857
Provision for warranties		2,465	2,926
		<u>57,828</u>	<u>61,802</u>
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NET ASSETS		<u>956,245</u>	<u>940,318</u>
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CAPITAL AND RESERVES			
Share capital		66,425	66,425
Reserves		889,820	873,893
		<u>956,245</u>	<u>940,318</u>
TOTAL EQUITY		<u>956,245</u>	<u>940,318</u>
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1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 24 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2020.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new or revised IFRSs that are first effective for the current accounting period of the Group. Of these, the followings are relevant to the Group.

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 16	Covid-19-Related Rent Concessions
Conceptual Framework for Financial Reporting (Revised)	

The application of the new or amended IFRSs did not have any significant impact on the Group's accounting policies.

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:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
- Sales of cylinder blocks	134,725	144,905
- Sales of cylinder heads	28,157	30,056
- Sales of ancillary cylinder block components	3,090	12,160
	165,972	187,121

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

(b) Segment reporting

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

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 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 are presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 is set out below:

	<i>Six months ended 30 June 2020</i>			
	<i>Cylinder blocks</i> RMB'000	<i>Cylinder heads</i> RMB'000	<i>Ancillary cylinder block components</i> RMB'000	<i>Total</i> RMB'000
Revenue from external customers recognised at a point in time	<u>134,725</u>	<u>28,157</u>	<u>3,090</u>	<u>165,972</u>
Reportable segment gross profit	<u>26,735</u>	<u>7,876</u>	<u>1,065</u>	<u>35,676</u>
	<i>Six months ended 30 June 2019</i>			
	<i>Cylinder blocks</i> RMB'000	<i>Cylinder heads</i> RMB'000	<i>Ancillary cylinder block components</i> RMB'000	<i>Total</i> RMB'000
Revenue from external customers recognised at a point in time	<u>144,905</u>	<u>30,056</u>	<u>12,160</u>	<u>187,121</u>
Reportable segment gross profit	<u>32,255</u>	<u>10,216</u>	<u>1,015</u>	<u>43,486</u>

(ii) Geographic information

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

5. OTHER INCOME

	<i>Six months ended 30 June</i>	
	<i>2020</i> RMB'000	<i>2019</i> RMB'000
Government grants (including amortisation of deferred income)	17,133	20,212
Interest income	50	696
Net (loss)/gain on disposal of property, plant and equipment	(27)	3
Others	597	971
	<u>17,753</u>	<u>21,882</u>

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	RMB'000	RMB'000
Interest on bank and other loans	3,845	5,484
Bank charges and others	1,020	907
Interest on lease liabilities	7	21
	4,872	6,412

No borrowing costs have been capitalised for the six months ended 30 June 2020 and 2019.

(b) Staff costs#

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	RMB'000	RMB'000
Salaries, wages and other benefits	26,392	28,225
Contributions to defined contribution retirement plan	346	2,844
	26,738	31,069

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

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	RMB'000	RMB'000
Depreciation charge		
- owned property, plant and equipment	31,175	31,168
- land use rights and leased office premises	1,362	1,415
Impairment losses on trade and other receivables	2,429	135
Operating lease charges of short-term leases	58	55
Provision for warranties	52	175
Research and development costs	5,717	7,353
Cost of inventories #	130,296	143,635

Cost of inventories for the six months ended 30 June 2020 includes RMB44,471,000 (six months ended 30 June 2019: RMB46,956,000) relating to staff costs, and depreciation and amortisation, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	RMB'000	RMB'000
Current taxation - PRC Corporate Income Tax	2,800	2,656
Deferred taxation	226	485
	3,026	3,141

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

The Company and a subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the six month ended 30 June 2020 (six month ended 30 June 2019: 16.5%).

The companies of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: 25%).

In 2018, one of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise for the calendar years from 2015 to 2020. Pursuant to the relevant tax regulations this subsidiary is entitled to a preferential tax rate of 15%. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 75% of the qualified research and development costs incurred by this subsidiary.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB15,262,000 (six months ended 30 June 2019: RMB19,304,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2019: 800,000,000) in issue during the interim period.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2020 and 2019.

9. TRADE AND OTHER RECEIVABLES

	<i>As at</i> 30 June <i>2020</i> RMB'000	<i>As at</i> <i>31 December</i> <i>2019</i> RMB'000
Trade receivables	199,531	186,781
Less: loss allowance	(15,138)	(12,709)
	184,393	174,072
Bills receivables	58,619	78,882
Financial assets measured at amortised cost	243,012	252,954
Prepayments for an investment to a target company	39,257	23,446
Prepayments and deposits	39,831	24,264
Deductible value-added tax ("VAT")	-	3,567
	322,100	304,231

- (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 Group paid an further deposits amounting to EUR2,000,000 (equivalent to RMB15,812,000) 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 30 June 2020, the aggregate carrying amounts of bills receivable pledged for the Group's loans is Nil (31 December 2019: RMB 8,000,000) (see Note 11(b)).

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:

	<i>As at</i> 30 June 2020 RMB'000	<i>As at</i> 31 December 2019 RMB'000
Less than 1 month	93,654	89,067
1 to 3 months	64,932	70,881
3 to 6 months	50,745	42,087
Over 6 months	33,681	50,919
	<u>243,012</u>	<u>252,954</u>

10. TRADE AND OTHER PAYABLES

	<i>As at</i> 30 June 2020 RMB'000	<i>As at</i> 31 December 2019 RMB'000
Trade payables	94,046	102,358
Payables for construction of property, plant and equipment	56,651	66,093
Payables for staff related costs	5,960	9,159
Payables for other taxes	1,225	2,490
Others	13,532	14,329
	<u>77,368</u>	<u>92,071</u>
Financial liabilities measured at amortised cost	<u>171,414</u>	<u>194,429</u>

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:

	<i>As at</i> 30 June 2020 RMB'000	<i>As at</i> 31 December 2019 RMB'000
Less than 1 month	29,917	34,775
1 to 3 months	29,521	27,402
3 to 6 months	18,401	23,407
Over 6 months	16,207	16,774
	<u>94,046</u>	<u>102,358</u>

11. BANK AND OTHER LOANS

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

	<i>As at</i> 30 June <i>2020</i> RMB'000	<i>As at</i> <i>31 December</i> <i>2019</i> RMB'000
Short-term bank loans:		
– secured by property, plant and equipment and lease prepayments	140,000	112,920
– secured by bills receivable	-	8,000
	140,000	120,920

(b) At 30 June 2020, the aggregate carrying amount of property, plant and equipment, right-of-use assets and trade receivables pledged for the Group's short-term bank loans is RMB82,636,000 (31 December 2019: RMB179,716,000).

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The Board resolved on 24 August 2020 that an interim dividend of HK\$2.0 cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil) is to be distributed to the equity shareholders of the Company. The interim dividend has not been recognised as a liability at the end of the reporting period.

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

The directors of the Company did not recommend the payment of a dividend in respect of year ended 31 December 2019.

(b) Share capital

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

	<i>Six months ended 30 June 2020</i>		<i>Six months ended 30 June 2019</i>	
	<i>Number of shares</i>	<i>Nominal value of Ordinary shares</i> RMB'000	<i>Number of shares</i>	<i>Nominal value of Ordinary shares</i> RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	800,000,000	66,425	800,000,000	66,425
At 30 June	800,000,000	66,425	800,000,000	66,425

(c) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher 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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2020, the world has been hit by the COVID-19 epidemic, economies across the globe were severely hampered. For the first time since 1994, China has not set an official economic growth target for 2020, which bespeaks an acute challenge for the economy. Amid continued impact of the epidemic, China's Gross Domestic Product (GDP) in the second quarter grew by 3.2% year-on-year, comparing favorably with the 6.8% year-on-year decline in the first quarter GDP, during which production and consumption have also been recovering.

China's economy was essentially suspended in the first quarter, which has also wrought considerable damage to China's automobile industry. In the first half of 2020, 10.1 million and 10.3 million vehicles were produced and sold respectively, representing an overall decline in production and sales volume of 16.8% and 16.9% respectively over the same period of the previous year. However, the automobile market in the PRC began to display rapid recovery from April 2020 onwards, which was mainly due to gradual improvement in the control of COVID-19 epidemic and preventive measures imposed by the government, a series of favourable policies launched by the central and local governments, as well as gradual recovery of production and operation of automobile enterprises, all of which propelled production back to the level of the same period of the previous year. In June 2020, 2.3 million and 2.3 million vehicles were produced and sold in China respectively, representing a year-on-year increase of 22.5% and 11.6% respectively in overall production and sales volume.

The automobile industry has always been an integral part of economic growth in Mainland China, it is believed that the Mainland government will introduce policies which are beneficial to the industry to stimulate purchases of automobiles, promote industry development and maintain economic growth.

BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in the design, development, production and sales of cylinder blocks, as well as cylinder heads and certain cylinder block components, to automobile manufacturers and engine manufacturers in China. The Group works closely with 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 epidemic and faced unprecedented difficulties in its operations, including responding to the government's anti-epidemic requirements for enterprises to resume production and the suspension of production of its customers and suppliers. At present, having found its way out of the predicament, the Group's production and sales have already returned to normal. As a result of the economic downturn and the decrease in customer orders, a number of small and medium-sized cylinder blocks manufacturers are on the verge of bankruptcy, thereby driving consolidation within the industry to phase out weaker participants. At the same time, large automobile manufacturers are also trying to save costs, reduce capital expenditures, and are willing to cooperate with established cylinder blocks manufacturers. The Group is one of the few listed companies in the cylinder blocks manufacturing industry, with a debt ratio that has always been at a relatively low level, coupled with its leading position amongst professional cylinder manufacturers in the PRC as well as cooperation with several foreign companies since last year, all of which has contributed to the continuous expansion of new businesses of the Group during the period.

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 six months ended 30 June 2020 and 2019:

	For the six months ended 30 June					
	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						
- Passenger vehicles	18,272	11.0	22,532	36,579	19.5	46,037
- Commercial vehicles	85,123	51.3	85,297	83,100	44.4	79,716
- Industrial vehicles	31,330	18.9	29,150	25,226	13.5	23,300
Subtotal	134,725	81.2	136,979	144,905	77.4	149,053
Cylinder heads	28,157	17.0	50,456	30,056	16.1	52,941
Ancillary cylinder block components	3,090	1.8	91,726	12,160	6.5	608,350
Total	165,972	100.0		187,121	100.0	

For the six months ended 30 June 2020, the automobile manufacturers were significantly affected by the COVID-19 pandemic, most of them have not yet recovered to their normal operation until late of May 2020. As a result, the sale and business performance of the Group were affected. For the six months ended 30 June 2020, the demands of the cylinder blocks, cylinder heads and ancillary cylinder block components of the Group from the customers decreased, as a result, the revenue and the profit of the Group decreased by 11.3% and 20.9%, respectively to RMB166.0 million and RMB15.3 million.

Cylinder blocks for passenger vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0-1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. Revenue from sales of cylinder blocks for passenger vehicles decreased from approximately 19.5% of our total revenue for the six months ended 30 June 2019 to approximately 11.0% for the six months ended 30 June 2020, such decrease was due to an decrease in revenue contributed from sales of cylinder blocks for passenger vehicles. Sales volume of cylinder blocks for passenger vehicles decreased approximately 51.1% from approximately 46,000 units for the six months ended 30 June 2019 to approximately 22,500 units for the six months ended 30 June 2020. The decrease was mainly due to the impact of the COVID-19 pandemic, demands from the existing customers were decreased, which offsetting the Group in offering a new cylinder block product of approximately 10,000 units to a new customer during the six months ended 30 June 2020.

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 44.4% of total revenue for the six months ended 30 June 2019 to approximately 51.3% for the six months ended 30 June 2020, such increase was due to a decrease in revenue contributed by sales of cylinder blocks for passenger vehicles. Sales volume of cylinder blocks for commercial vehicles increased approximately 7.0% from approximately 80,000 units for the six months ended 30 June 2019 to approximately 85,000 units for the six months ended 30 June 2020. The increase was primarily due to the slowdown in demands from 493 series, meanwhile, demands of VM2.5 model and of a new product called M9T were increased by approximately 7,700 units and 8,200 units, respectively, for the periods.

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 13.5% of total revenue for the six months ended 30 June 2019 to approximately 18.9% for the six months ended 30 June 2020, such increase was mainly due to increase in revenue contributed by sales of cylinder blocks for industrial vehicles. Sales volume of cylinder blocks for industrial vehicles increased approximately 25.1% from approximately 23,000 units for the six months ended 30 June 2019 to approximately 29,000 units for the six months ended 30 June 2020. The increase was primarily due to the increase in demand from a customer in our products.

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 4.7% from approximately 53,000 units for the six months ended 30 June 2019 to approximately 50,000 units for the six months ended 30 June 2020. Such decrease was as a result of decrease in demand on 493 series of cylinder heads.

Production Facilities

All production facilities of the Group are located in Shenzhou City, Hebei Province, the PRC. As at 30 June 2020, the Group owned and operated a total of 3 precision casting lines and 20 mechanical processing lines (including 14 for cylinder blocks, 4 for cylinder heads and 2 for other ancillary cylinder block components).

During the six months ended 30 June 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. The construction for the majority of the new production lines is expected to be completed before end of 2020. After completion of the 9 processing lines, the Group will be able to enhance its production efficiency and it expected that the Group can offer 7 additional new products, especially for cylinder blocks for industrial and passenger vehicles.

PROSPECTS

On 28 April 2020, 11 ministries and commissions including National Development and Reform Commission, Ministry of Science and Technology, Ministry of Industry and Information Technology and Ministry of Ecology and Environment jointly issued the "Notice on Measures to Stabilize and Expand the Consumption of Automobiles", in which five major measures were proposed, including the adjustment of the implementation requirements of the China VI standards, optimization of the relevant fiscal and taxation support policies for the purchase of new energy vehicles, acceleration of the scrapping of obsolete diesel trucks, unblocking of the circulation and trading of second-hand cars and utilization of automobile consumption finance, all of which are important issues to the development of the automobile industry at present. If these issues are effectively resolved, the negative impact of the epidemic on the automobile industry can be largely mitigated. The solutions may also prove vital to the stable and healthy development, as well as the promotion of consumption of the automobile industry in the future. With the improvement of consumers' standard of living and their pursuit of higher taste, a major consolidation is expected to make its foray into the domestic automobile market this year and there will be a round of knockouts to eliminate weaker players in the industry. The Group will maintain its existing advantages, strengthen internal management, further optimize costs and actively seek new cooperation opportunities with automobile manufacturers.

FINANCIAL REVIEW

Revenue

Revenue decreased by 11.3% from RMB187.1 million for the six months ended 30 June 2019 to RMB166.0 million for the six months ended 30 June 2020. This decrease was primarily attributable to a decrease in revenue from sales of cylinder blocks, cylinder heads and ancillary cylinder block components. Such decrease was mainly affected by the outbreak of COVID-19 pandemic in early 2020 which resulted in the decrease in market demand for the products of the Group.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales decreased by 7.0% from RMB144.9 million for the six months ended 30 June 2019 to RMB134.7 million for the six months ended 30 June 2020, primarily attributable to a decrease in sales volume from approximately 149,000 units for the six months ended 30 June 2019 to approximately 137,000 units for the six months ended 30 June 2020 driven by decrease in revenue from sales of cylinder block for passenger vehicles by approximately RMB18.3 million, which was offset by the increase in revenue from sales of cylinder block for commercial vehicles and industrial vehicles by approximately RMB2.0 million and RMB6.1 million, respectively, for the six months ended 30 June 2020 as compared with the corresponding period in last year.

Sales of Cylinder Heads

Segment revenue from cylinder head sales decreased by 6.3% from RMB30.1 million for the six months ended 30 June 2019 to RMB28.2 million for the six months ended 30 June 2020. This decrease was primarily due to decrease in demand from our customers. The sales volume of cylinder heads decreased from approximately 53,000 units for the six months ended 30 June 2019 to approximately 50,000 units for the six months ended 30 June 2020, primarily related to decreased sales of the 493 series of cylinder heads, which was consistent with the decreased sales of the same series of cylinder blocks over the period.

Sales of Ancillary Cylinder Block Components

Segment revenue from ancillary cylinder block components sales decreased by 74.6% from RMB12.2 million for the six months ended 30 June 2019 to RMB3.1 million for the six months ended 30 June 2020. This decrease was primarily attributable to a significant decrease in demand from our customers.

Gross Profit and Gross Profit Margin

Gross profit decreased by 18.0% from RMB43.5 million for the six months ended 30 June 2019 to RMB35.7 million for the six months ended 30 June 2020. This decrease was in line with decrease in revenue of the Group. The gross profit margin decreased from 23.2% for the six months ended 30 June 2019 to 21.5% for the six months ended 30 June 2020, such decrease in gross profit margin was primarily due to an increase in usage of roughcast products which were provided by our customers for processing, especially for the new model namely M9T.

Other Income

Other income decreased by 18.9% from RMB21.9 million for the six months ended 30 June 2019 to RMB17.8 million for the six months ended 30 June 2020. This decrease was primarily due to a decrease in government grants received. During the six months ended 30 June 2020, the Group recognised government grants of RMB13.6 million, as compared with government grants of RMB17.0 million for the six months ended 30 June 2019, in relation to the contribution of the Group in technological innovation. The government grants related to the expansion of the production facilities and purchase of new production equipment which are recorded as deferred income and amortised over the periods.

Selling Expenses

Selling expenses decreased by 8.1% from RMB5.4 million for the six months ended 30 June 2019 to RMB5.0 million for the six months ended 30 June 2020. The decrease was primarily due to (i) a decrease in salaries and staff benefits in relation to sales personnel and (ii) decrease in sales activities due to the travel restriction implemented by the government during the first half of 2020 as a result of the COVID-19 pandemic.

Administrative Expenses

Administrative expenses decreased by 18.7% from RMB31.1 million for the six months ended 30 June 2019 to RMB25.3 million for the six months ended 30 June 2020, primarily due to cost control measures adopted by the Group under the impact of the COVID-19 pandemic. The decrease in administrative expenses were attributing to (i) a decrease in research and development costs of RMB1.6 million to RMB5.7 million for the six months ended 30 June 2020; (ii) a decrease in salaries and staff benefits of RMB2.1 million to RMB6.4 million and (iii) a decrease in professional fee of RMB2.7 million to RMB2.7 million, which offset by an increase in provision of accounts receivables of RMB2.3 million to RMB2.4 million, for the six months ended 30 June 2020 as compared with the corresponding period in last year.

Finance Costs

Finance costs decreased by 24.0% from RMB6.4 million for the six months ended 30 June 2019 to RMB4.9 million for the six months ended 30 June 2020, primarily due to the decreased discounting bills and factoring being utilized by the Group for financing.

Income Tax Expenses

Income tax expenses decreased by 3.7% from RMB3.1 million for the six months ended 30 June 2019 to RMB3.0 million for the six months ended 30 June 2020 primarily due to a decrease in our taxable profits. The effective tax rate increased from 14.0% for the six months ended 30 June 2019 to 16.5% for the six months ended 30 June 2020, such decrease was primarily due to decrease in research and development costs. As a result, the amount of additional tax deductible allowance which of the Group can claim has decreased accordingly.

Profit for the Period

As a result of the foregoing, the profit for the period decreased significantly by 20.9% from RMB19.3 million for the six months ended 30 June 2019 to RMB15.3 million for the six months ended 30 June 2020. The net profit margin decreased from 10.3% for the six months ended 30 June 2019 to 9.2% for six months ended 30 June 2020, which was mainly attributable to a decrease in gross profit margin which offset by a decrease in finance costs.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The operation of the Group is primarily financed by cash generated from operating activities, net proceeds received from the global offering of the Company (the “**Global Offering**”) completed in January 2018 and bank and other borrowings. As of 30 June 2020 and 31 December 2019, the Group had cash and cash equivalents of RMB33.5 million and 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 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 3.9% from RMB253.0 million as at 31 December 2019 to RMB243.0 million as at 30 June 2020, primarily due to decrease in revenue. The trade and bills receivables turnover days increased from 277 days as at 31 December 2019 to 281 days as at 30 June 2020. Such increase was resulted from the impact of the COVID-19 pandemic and certain customers delayed to settle the bills. The Group will strengthen customer credit risk management to guard against the increase in impairment loss on trade receivables. The impairment losses on trade receivables was slightly increased from RMB12.7 million as at 31 December 2019 to RMB15.1 million as at 30 June 2020.

Trade Payables

The trade payables decreased by 8.1% from RMB102.4 million as at 31 December 2019 to RMB94.0 million as at 30 June 2020 primarily due to decrease in purchase of raw materials for production. The trade payables turnover days as at 31 December 2019 and 30 June 2020 were almost stable at 138 days.

Bank and Other Loans

The bank and other loans slightly increased from RMB120.9 million as at 31 December 2019 to RMB140.0 million as at 30 June 2020, primarily due to increase in the general working capital. As at 30 June 2020, bank and other loans in the amounts of RMB140.0 million (2019: RMB 120.9 million) were pledged by property, plant and equipment, right-of-use assets and trade receivables of the Group, the aggregate carrying amount of which such assets was RMB82.6 million (31 December 2019: RMB179.7 million).

All bank and other loans as at 30 June 2020 and 31 December 2019 were denominated in RMB at fixed or floating interest rate. The following table sets forth the amount of indebtedness of the Group as at the date indicated:

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	<u><u>140,000</u></u>	<u><u>120,920</u></u>

Gearing Ratio

The gearing ratio increased slightly from 12.9% as at 31 December 2019 to 14.6% as at 30 June 2020, such increase was a result of an increase of bank loans and other borrowings of RMB19.1 million.

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

Capital Expenditure

For the six months ended 30 June 2020, the capital expenditure of the Group was RMB40.0 million (31 December 2019: RMB92.6 million). The capital expenditure incurred for the six months ended 30 June 2020 primarily related to the construction of new mechanical processing lines for the new products and new precision casting lines for the aluminum alloy rough cast products, purchases of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 30 June 2020, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for RMB52.9 million (31 December 2019: RMB37.8 million).

Contingent liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities or guarantees (31 December 2019: Nil).

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

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

SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2020.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2020, the Group had a total of 705 employees (31 December 2019: 747 employees). For the six months ended 30 June 2020, the Group has incurred a total staff costs of approximately RMB26.7 million (six months ended 30 June 2019: RMB31.1 million), representing a decrease of approximately 13.9% as compared with those for six months ended 30 June 2019, which was a result of decrease in our production due to the impact of the COVID-19 pandemic.

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 impact of the COVID-19 pandemic, the executive Directors agreed to waive part of director's salary for the year ending 31 December 2020 and agreed to receive the director's salary of RMB40,000 per annum with effect from 1 January 2020.

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 30 June 2020 <i>RMB'000</i>	Unutilised net proceeds as at 30 June 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 under the Cooperative Agreement	-	-	38,000	38,000	38,000	-
	100.0	<u>264,666</u>	<u>-</u>	<u>264,666</u>	<u>244,666</u>	<u>20,000</u>

* 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 at 30 June 2020, the unused balance of the proceeds from the Global Offering of approximately RMB20.0 million was placed into short-term demand deposits 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.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, there are no major subsequent events to 30 June 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 six months ended 30 June 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 protecting the interests of its Shareholders in an open manner.

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 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 should be separated and should not be performed by the same individual. However, Mr. Meng Lianzhou currently performs the roles of chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board regularly reviews the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the six months ended 30 June 2020.

INTERIM DIVIDEND

The board of directors of the Company resolved to declare an interim dividend of HK2.0 cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil). It is expected that the interim dividend will be paid on or around 23 October 2020 to those shareholders whose names are on the register of members of the Company on 25 September 2020.

In order to reward the shareholders for their support and trust in the Company, the Board will consider to declare HK\$3 cents per share in the form of a year-end dividend or special dividend when the financial and operating conditions of the Company are suitable for dividend payment along with economic development and market conditions in the second half of the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods: from 23 September 2020 (Wednesday) to 25 September 2020 (Friday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the interim dividend. In order to establish entitlements to the interim dividend, the shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 22 September 2020 (Tuesday). During the period mentioned above, no transfers of shares will be registered.

AUDIT COMMITTEE

The Company has established an audit committee ("**Audit Committee**") which comprises three independent non-executive Directors.

The Audit Committee, together with the management have reviewed the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the interim results of the Group for the six months ended 30 June 2020.

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

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hbsgt.com and the interim report for the six months ended 30 June 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, 24 August 2020

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.