

2020 INTERIM REPORT



Ruifeng Power Group Company Limited

瑞豐動力集團有限公司

(Incorporated in Cayman Islands with limited liability)

Stock code : 2025

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Ka Wai

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Meng Lianzhou
Mr. Wong Ka Wai

LEGAL ADVISORS

As to Hong Kong Law:

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

AUDITOR

KPMG

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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P.O. Box 2681
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KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN PRC

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Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
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HONG KONG SHARE REGISTRAR BRANCH

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Hong Kong

STOCK CODE

2025

WEBSITE

www.hbsgt.com

COMPANY OVERVIEW

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

Production of cylinder blocks in China has historically been split between internal production by manufacturers of automobiles and automobile engines and external outsourcing to specialized producers of automobile engine spare parts. The large-scale of our operations and significant production capacity allow us to secure the use of our products by some of the leading automobile manufacturers in China such as Jiangling Motors, Beiqi Foton Motor, Jiangxi Isuzu, JAC Motors and Great Wall Motors. During the six months ended 30 June 2020, we 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).

THE MAIN PRODUCTS ARE:

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

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

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

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

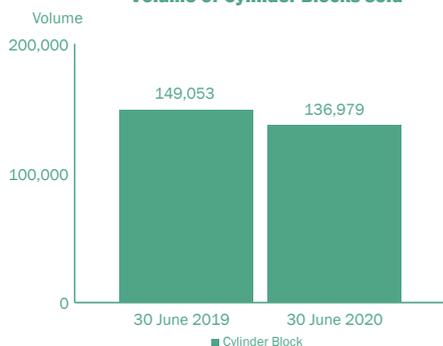
- The specialized manufacturer of cylinder blocks and an established producer of cylinder heads in China
- A high level of flexibility in production facilities and process to meet the specific needs of different customers
- Continuous optimization and innovation of production process and technologies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

FINANCIAL SUMMARY

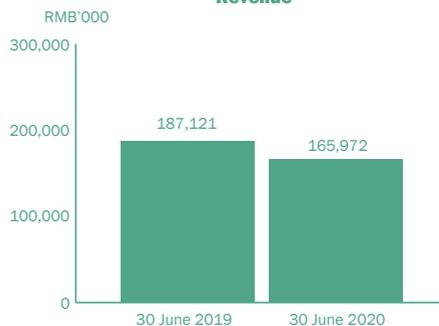
For six months ended 30 June

| | 2020 (Unaudited) | 2019 (Unaudited) |
|---|---------------------|---------------------|
| Major Items of Consolidated Statements of Profit or Loss and Other Comprehensive Income | | |
| Revenue (RMB'000) | 165,972 | 187,121 |
| Gross profit (RMB'000) | 35,676 | 43,486 |
| Gross profit margin | 21.5% | 23.2% |
| Profit for the period (RMB'000) | 15,262 | 19,304 |
| Net profit margin | 9.2% | 10.3% |
| Basic and diluted earnings per share (RMB cent) | 1.91 | 2.41 |

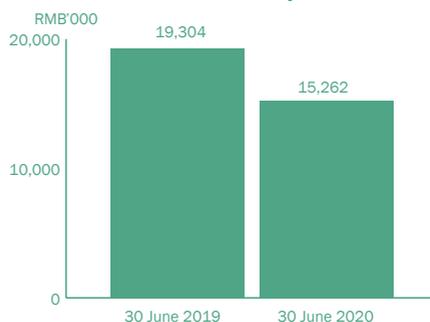
Volume of Cylinder Blocks sold



Revenue



Profit for the period



| | As at 30 June 2020 (Unaudited) | As at 31 December 2019 (Audited) |
|--|---|---|
| Major Items of Consolidated Statement of Financial Position | | |
| Non-current assets (RMB'000) | 812,494 | 797,345 |
| Current assets (RMB'000) | 515,327 | 522,000 |
| Current liabilities (RMB'000) | 313,748 | 317,225 |
| Net current assets (RMB'000) | 201,579 | 204,775 |
| Non-current liabilities (RMB'000) | 57,878 | 61,802 |
| Net assets (RMB'000) | 956,245 | 940,318 |
| Gearing ratio (Note 1) | 14.6% | 12.9% |

Notes

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2020, the world has been hit by the COVID-19 pandemic, 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 pandemic, 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 pandemic 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

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 its operations, including responding to the government's anti-pandemic 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 and New Products and Research and Development

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 pandemic 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 accounts receivable factoring being utilized by the Group.

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: RMB120.9 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 | 140,000 | 120,920 |

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 RMB'000 | Reallocation of unutilized net proceeds as at 24 November 2019 RMB'000 | Revised use of net proceeds from the Global Offering RMB'000 | Actual use of net proceeds as at 30 June 2020 RMB'000 | Unutilised net proceeds as at 30 June 2020 RMB'000 |
|--|-------|--|--|--|---|--|
| Optimisation of the smart manufacturing process | 43.3 | 114,600 | (67,144) | 47,456 | 27,456 | 20,000* |
| Purchase of equipment and other enhancements to strengthen collaboration with third-party industry partners | 8.5 | 22,497 | (22,497) | - | - | - |
| Repayment of short-term borrowings | 16.3 | 43,141 | 40,000 | 83,141 | 83,141 | - |
| Construction of new mechanical processing lines and purchase of additional machinery and equipment | 15.1 | 39,964 | - | 39,964 | 39,964 | - |
| Enhancement of research and development capabilities | 12.0 | 31,760 | - | 31,760 | 31,760 | - |
| Working capital and general corporate use | 4.8 | 12,704 | 11,641 | 24,345 | 24,345 | - |
| Settlement of the consideration under the cooperation agreement dated 22 November 2019 for the acquisition of 10.7% equity interest in Saint Jean Automotive System (Changshu) Co., Ltd by the Company ("Cooperation Agreement") | - | - | 38,000 | 38,000 | 38,000 | - |
| | 100.0 | 264,666 | - | 264,666 | 244,666 | 20,000 |

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

For more details on change in use of unutilised net proceeds and the details of the Cooperation Agreement, 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 report, the Company does not anticipate any change to its plan on the use of proceeds.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this report, 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 report.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2020 and up to the date of this report, 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.

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

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

| Name of Director | Name of Group member | Capacity/Nature of interest | Number and class of securities (Note 1) | Approximate percentage of shareholding |
|---|----------------------|------------------------------------|---|--|
| Meng Lianzhou ("Mr. LZ Meng") (Note 2) | The Company | Interest of controlled corporation | 411,042,000 Shares (L) | 51.38% |
| | Dragon Rise | Beneficial owner | 5,044 shares of US\$1.00 each (L) | 50.46% |

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

Notes:

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

DIRECTORS’ REPORT

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

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

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

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

Notes:

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

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

SHARE OPTION SCHEME

During the period under review, no option has been granted, exercised or cancelled and there has been no movement of any options granted (if any) under the share option scheme adopted by the Company on 11 December 2017.

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.

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

Shenzhen, the PRC, 24 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited
(Expressed in Renminbi (“RMB”))

| | Note | 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 |

The notes on pages 31 to 42 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited
(Expressed in RMB)

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| 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 |

The notes on pages 31 to 42 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited
(Expressed in RMB)

| | Note | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|--|-------|----------------------------------|--------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 687,601 | 671,419 |
| Right-of-use assets | 10 | 112,946 | 113,753 |
| Deferred tax assets | 16 | 11,947 | 12,173 |
| | | 812,494 | 797,345 |
| Current assets | | | |
| Inventories | 11 | 154,407 | 161,239 |
| Trade and other receivables | 12 | 322,100 | 304,231 |
| Prepaid income tax | | 5,344 | 7,247 |
| Cash and cash equivalents | 13 | 33,476 | 49,283 |
| | | 515,327 | 522,000 |
| Current liabilities | | | |
| Trade and other payables | 14 | 171,414 | 194,429 |
| Bank and other loans | 15(a) | 140,000 | 120,920 |
| Lease liabilities | | 488 | 67 |
| Provision for warranties | 17 | 1,846 | 1,809 |
| | | 313,748 | 317,225 |
| Net current assets | | 201,579 | 204,775 |
| Total assets less current liabilities | | 1,014,073 | 1,002,120 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited (continued)
(Expressed in RMB)

| | Note | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|--------------------------------|------|----------------------------------|--------------------------------------|
| Non-current liabilities | | | |
| Deferred income | 18 | 50,506 | 54,019 |
| Deferred tax liabilities | 16 | 4,857 | 4,857 |
| Provision for warranties | 17 | 2,465 | 2,926 |
| | | 57,828 | 61,802 |
| NET ASSETS | | 956,245 | 940,318 |
| CAPITAL AND RESERVES | 19 | | |
| Share capital | | 66,425 | 66,425 |
| Reserves | | 889,820 | 873,893 |
| TOTAL EQUITY | | 956,245 | 940,318 |

Approved and authorised for issue by the board of directors on 24 August 2020.

Meng Lianzhou
Chairman

Liu Enwang
Director

The notes on pages 31 to 42 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited
(Expressed in RMB)

| | Note | Attributable to equity shareholders of the Company | | | | Retained profits RMB'000 | Total equity RMB'000 |
|---|------|--|--------------------------|------------------------------|-----------------------------|-----------------------------|-------------------------|
| | | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Exchange reserve RMB'000 | | |
| Balance at 1 January 2019 | | 66,425 | 149,670 | 21,384 | 6,449 | 662,236 | 906,164 |
| Changes in equity for the six months ended 30 June 2019: | | | | | | | |
| Profit for the period | | - | - | - | - | 19,304 | 19,304 |
| Other comprehensive income for the period | | - | - | - | 462 | - | 462 |
| Total Comprehensive income | | - | - | - | 462 | 19,304 | 19,766 |
| Balance at 30 June 2019 | | 66,425 | 149,670 | 21,384 | 6,911 | 681,540 | 925,930 |
| Changes in equity for the six months ended 31 December 2019: | | | | | | | |
| Profit for the period | | - | - | - | - | 10,811 | 10,811 |
| Other comprehensive income for the period | | - | - | - | 3,577 | - | 3,577 |
| Total comprehensive income | | - | - | - | 3,577 | 10,811 | 14,388 |
| Appropriation to reserves | | - | - | 3,624 | - | (3,624) | - |
| Balance at 31 December 2019 | | 66,425 | 149,670 | 25,008 | 10,488 | 688,727 | 940,318 |

The notes on pages 31 to 42 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited (continued)

(Expressed in RMB)

| | Note | Attributable to equity shareholders of the Company | | | | Retained profits RMB'000 | Total equity RMB'000 |
|---|------|--|--------------------------|------------------------------|-----------------------------|-----------------------------|-------------------------|
| | | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Exchange reserve RMB'000 | | |
| Balance at 1 January 2020 | | 66,425 | 149,670 | 25,008 | 10,488 | 688,727 | 940,318 |
| Changes in equity for the six months ended 30 June 2020: | | | | | | | |
| Profit for the period | | - | - | - | - | 15,262 | 15,262 |
| Other comprehensive income for the period | | - | - | - | 665 | - | 665 |
| Total Comprehensive income | | - | - | - | 665 | 15,262 | 15,927 |
| Balance at 30 June 2020 | | 66,425 | 149,670 | 25,008 | 11,153 | 703,989 | 956,245 |

The notes on pages 31 to 42 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited
(Expressed in RMB)

| | Note | Six months ended 30 June | |
|---|-------|--------------------------|-----------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 34,763 | 50,881 |
| Income tax paid | | (897) | (3,655) |
| Net cash generated from operating activities | | 33,866 | 47,226 |
| Cash flows from investing activities | | | |
| Payments for acquisition of property, plant and equipment and lease prepayments | | (58,521) | (49,769) |
| Deposits paid for potential investments | 12(i) | (15,812) | – |
| Other cash flows arising from investing activities | | 692 | 1,091 |
| Net cash used in investing activities | | (73,641) | (48,678) |

The notes on pages 31 to 42 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited (continued)
(Expressed in RMB)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|-----------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Cash flows from financing activities | | | |
| Capital element of lease rentals paid | | (134) | (139) |
| Interest element of lease rentals paid | | (7) | (21) |
| Proceeds from bank and other loans | | 115,000 | 170,000 |
| Repayment of bank and other loans | | (87,920) | (162,400) |
| Other cash flows (used in)/arising from financing activities | | (2,883) | 15,231 |
| Net cash generated from financing activities | | 24,056 | 22,671 |
| Net (decrease)/increase in cash and cash equivalents | | (15,719) | 21,219 |
| Cash and cash equivalents at the beginning of the period | 13 | 49,283 | 170,036 |
| Effect of foreign exchange rate changes | | (88) | (464) |
| Cash and cash equivalents at the end of the period | 13 | 33,476 | 190,791 |

The notes on pages 31 to 42 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 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:

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 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 | 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 is presented.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

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.

| | Six months ended 30 June 2020 | | | Total RMB'000 |
|---|-------------------------------|---------------------------|--|------------------|
| | Cylinder blocks RMB'000 | Cylinder heads RMB'000 | Ancillary cylinder block components RMB'000 | |
| Revenue from external customers recognised at a point in time | 134,725 | 28,157 | 3,090 | 165,972 |
| Reportable segment gross profit | 26,735 | 7,876 | 1,065 | 35,676 |

| | Six months ended 30 June 2019 | | | Total RMB'000 |
|---|-------------------------------|---------------------------|--|------------------|
| | Cylinder blocks RMB'000 | Cylinder heads RMB'000 | Ancillary cylinder block components RMB'000 | |
| Revenue from external customers recognised at a point in time | 144,905 | 30,056 | 12,160 | 187,121 |
| Reportable segment gross profit | 32,255 | 10,216 | 1,015 | 43,486 |

(ii) Geographic information

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

5 OTHER INCOME

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Government grants (including amortisation of deferred income, see Note 18) | 17,133 | 20,212 |
| Interest income | 50 | 696 |
| Net (loss)/gain on disposal of property, plant and equipment | (27) | 3 |
| Others | 597 | 971 |
| | 17,753 | 21,882 |

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

| | Six months ended 30 June | |
|----------------------------------|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 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#

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 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.

6 PROFIT BEFORE TAXATION (continued)

(c) Other items

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Depreciation charge | | |
| – owned property, plant and equipment | 31,175 | 31,168 |
| – right-of-use assets | 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 (Note 17) | 52 | 175 |
| Research and development costs | 5,717 | 7,353 |
| Cost of inventories# (Note 11(b)) | 130,296 | 143,635 |

Cost of inventories for the six months ended 30 June 2020 include 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

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Current taxation – PRC Corporate Income Tax | 2,800 | 2,656 |
| Deferred taxation (Note 16) | 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 months ended 30 June 2020 (six months 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 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of RMB40,020,000 (six months ended 30 June 2019: RMB40,281,000). Items of plant and machinery with a net book value of RMB669,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2019: RMB1,010,000).

10 RIGHT-OF-USE ASSETS

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

11 INVENTORIES

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

| | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|---------------------------------|-------------------------------|-----------------------------------|
| Raw materials | 47,491 | 45,674 |
| Work in progress | 55,945 | 60,715 |
| Finished goods | 60,661 | 64,540 |
| | 164,097 | 170,929 |
| Less: Write-down of inventories | (9,690) | (9,690) |
| | 154,407 | 161,239 |

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

| | Six months ended 30 June | |
|-------------------------------------|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Carrying amount of inventories sold | 130,296 | 143,381 |
| Write-down of inventories | – | 254 |
| | 130,296 | 143,635 |

12 TRADE AND OTHER RECEIVABLES

| | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|--|-------------------------------|-----------------------------------|
| Trade receivables | 199,531 | 186,781 |
| Less: Loss allowance | (15,138) | (12,709) |
| | 184,393 | 174,072 |
| Bills receivables (Note (iii)) | 58,619 | 78,882 |
| Financial assets measured at amortised cost | 243,012 | 252,954 |
| Prepayment for an investment to a target company (Note (i)) | 39,257 | 23,446 |
| Prepayments and other deposits | 39,831 | 24,264 |
| Deductible value-added tax | - | 3,567 |
| | 332,100 | 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: RMB8,000,000) (see Note 15(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:

| | At 30 June 2020 RMB'000 | At 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 |
| | 243,012 | 252,954 |

13 CASH AND CASH EQUIVALENTS

| | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|--------------------------|-------------------------------|-----------------------------------|
| Cash on hand and at bank | 33,476 | 49,283 |

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

14 TRADE AND OTHER PAYABLES

| | At 30 June 2020 RMB'000 | At 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 |
| | 77,368 | 92,701 |
| Financial liabilities measured at amortised cost | 171,414 | 194,429 |

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:

| | At 30 June 2020 RMB'000 | At 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 |
| | 94,046 | 102,358 |

15 BANK AND OTHER LOANS

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

| | At 30 June 2020 RMB'000 | At 31 December 2019 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).

16 DEFERRED TAX ASSETS AND LIABILITIES

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

| | Assets | | | | Liabilities | |
|--|--|-------------------------------------|--------------------------------------|----------------------------------|---|------------------|
| | Government grants and subsequent amortisation RMB'000 | Provision for warranties RMB'000 | Write-down of inventories RMB'000 | Credit loss allowance RMB'000 | Retained profits to be distributed RMB'000 | Total RMB'000 |
| At 1 January 2019 | 8,295 | 831 | 992 | 100 | (4,857) | 5,361 |
| (Charged)/credited to the consolidated statement of profit or loss | (192) | (120) | 461 | 1,806 | – | 1,955 |
| At 31 December 2019 | 8,103 | 711 | 1,453 | 1,906 | (4,857) | 7,316 |
| (Charged)/credited to the consolidated statement of profit or loss | (528) | (63) | – | 365 | – | (226) |
| At 30 June 2020 | 7,575 | 648 | 1,453 | 2,271 | (4,857) | 7,090 |

17 PROVISION FOR WARRANTIES

| | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|---|-------------------------------|-----------------------------------|
| At the beginning of the period | 4,735 | 5,542 |
| Provisions made | 52 | 658 |
| Provisions utilised | (476) | (1,465) |
| At the end of the period | 4,311 | 4,735 |
| Less: Amount included under "current liabilities" | (1,846) | (1,809) |
| | 2,465 | 2,926 |

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

18 DEFERRED INCOME

| | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|--|-------------------------------|-----------------------------------|
| At the beginning of the period | 54,019 | 55,301 |
| Additions | - | 5,342 |
| Credited to the consolidated statement of profit or loss | (3,513) | (6,624) |
| At the end of the period | 50,506 | 54,019 |

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

19 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:

| | Six months ended 30 June 2020 | | Six months ended 30 June 2019 | |
|---|----------------------------------|---|----------------------------------|---|
| | Number of shares | Nominal value of Ordinary shares RMB'000 | Number of shares | Nominal value of Ordinary shares 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.

20 COMMITMENTS

(a) Capital commitments

| | At 30 June 2020 RMB'000 | At 31 December 2019 RMB'000 |
|--|-------------------------------|-----------------------------------|
| Commitments in respect of property, plant and equipment and land use rights: – Contracted for | 52,936 | 37,777 |

21 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and senior management, is as follows:

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Short-term employee benefits | 1,777 | 1,557 |
| Contributions to defined contribution retirement plan | 11 | 36 |
| | 1,788 | 1,593 |