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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 2021

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2021	2020	Change
Revenue (RMB'000)	371,669	165,972	123.9%
Gross profit (RMB'000)	83,370	35,676	133.7%
<i>Gross profit margin</i>	<i>22.4%</i>	<i>21.5%</i>	<i>0.9%</i>
Profit for the period (RMB'000)	32,962	15,262	116.0%
<i>Net profit margin</i>	<i>8.9%</i>	<i>9.2%</i>	<i>(0.3)%</i>
Basic and diluted earnings per share (RMB cent)	4.12	1.91	

The Board resolved to declare an interim dividend of HK\$3.0 cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$2.0 cents).

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 2021 together with the comparative figures for the six months ended 30 June 2020. 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”))*

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	RMB’000	RMB’000
Revenue	4	371,669	165,972
Cost of sales		(288,299)	(130,296)
Gross profit	4(b)	83,370	35,676
Other income	5	8,201	17,753
Selling expenses		(12,043)	(4,978)
Administrative expenses		(38,572)	(25,291)
Profit from operations		40,956	23,160
Finance costs	6(a)	(3,453)	(4,872)
Profit before taxation	6	37,503	18,288
Income tax	7	(4,541)	(3,026)
Profit attributable to equity shareholders of the Company for the period		32,962	15,262
Earnings per share			
Basic and diluted (RMB cent)	8	4.12	1.91
Profit for the period		32,962	15,262
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		(504)	665
Total comprehensive income attributable to equity shareholders of the Company for the period		32,458	15,927

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED

As at 30 June 2021
(Expressed in RMB)

		At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment		749,212	710,157
Right-of-use assets		110,054	111,458
Deferred tax assets		13,366	13,624
		872,632	835,239
		-----	-----
Current assets			
Inventories		223,949	197,094
Trade and other receivables	9	414,611	375,851
Prepaid income tax		8,356	6,171
Cash and cash equivalents		46,243	26,318
		693,159	605,434
		-----	-----
Current liabilities			
Trade and other payables	10	366,342	265,433
Bank loans	11	155,000	160,000
Lease liabilities		195	236
Provision for warranties		2,059	2,001
		523,596	427,670
		-----	-----
Net current assets		169,563	177,764
		-----	-----
Total assets less current liabilities		1,042,195	1,013,003
		-----	-----
Non-current liabilities			
Deferred income		43,480	46,993
Lease liabilities		-	88
Deferred tax liabilities		5,121	5,121
Provision for warranties		2,877	2,542
		51,478	54,744
		-----	-----
NET ASSETS		990,717	958,259
		-----	-----
CAPITAL AND RESERVES			
Share capital		66,425	66,425
Reserves		924,292	891,834
		990,717	958,259
TOTAL EQUITY		990,717	958,259

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 27 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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 2020 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 2020 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 2020 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 2021.

3. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- Amendment to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021
- Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest rate benchmark reform

Other than the amendment to IFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

Amendment to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in IFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The adoption of the amendments does not have a significant impact on the consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest rate benchmark reform – phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR reform**”).

The amendments do not have an impact on this interim financial report as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

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>2021</i>	<i>2020</i>
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
– Sales of cylinder blocks	274,161	134,725
– Sales of cylinder heads	93,178	28,157
– Sales of ancillary cylinder block components	4,330	3,090
	371,669	165,972

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 2021 and 2020. 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 2021 and 2020 is set out below:

	<i>Six months ended 30 June 2021</i>			
	<i>Cylinder blocks</i>	<i>Cylinder heads</i>	<i>Ancillary cylinder block components</i>	<i>Total</i>
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers recognised at a point in time	274,161	93,178	4,330	371,669
Reportable segment gross profit	58,268	24,692	410	83,370

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

(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>2021</i> RMB'000	<i>2020</i> RMB'000
Government grants (including amortisation of deferred income)	7,095	17,133
Interest income	58	50
Net gain/(loss) on disposal of property, plant and equipment	106	(27)
Others	942	597
	8,201	17,753

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	<i>Six months ended 30 June</i>	
	<i>2021</i> RMB'000	<i>2020</i> RMB'000
Interest on bank and other loans	3,270	3,845
Bank charges and others	177	1,020
Interest on lease liabilities	6	7
	3,453	4,872

No borrowing costs have been capitalised for the six months ended 30 June 2021 and 2020.

(b) Staff costs#

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	RMB'000	RMB'000
Salaries, wages and other benefits	40,076	26,392
Contributions to defined contribution retirement plan	2,072	346
	42,148	26,738

The employees of the PRC subsidiaries of the Group (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 Hong Kong. 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>2021</i>	<i>2020</i>
	RMB'000	RMB'000
Depreciation charge		
– owned property, plant and equipment	31,278	31,175
– right-of-use assets	1,401	1,362
Impairment losses on trade and other receivables	1,404	2,429
Operating lease charges of short-term leases	117	58
Provision for warranties	1,818	52
Research and development costs	11,560	5,717
Cost of inventories #	288,299	130,296

Cost of inventories for the six months ended 30 June 2021 includes RMB55,818,000 (six months ended 30 June 2020: RMB44,471,000) 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>2021</i>	<i>2020</i>
	RMB'000	RMB'000
Current taxation - PRC Corporate Income Tax	4,284	2,800
Deferred taxation	257	226
	4,541	3,026

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 2021 (six months ended 30 June 2020: 16.5%).

The subsidiaries 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 2021 (six months ended 30 June 2020: 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. This subsidiary is in the process of applying for the same preferential tax rate for the calendar years 2021 to 2023, whereby the Directors consider this subsidiary has satisfied the conditions of being an advanced and new technology enterprise according to the relevant tax rules and regulations, and therefore adopted 15% as the preferential PRC Corporate Income Tax rate in derivation of the income tax payable for the six months ended 30 June 2021. 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 RMB32,962,000 (six months ended 30 June 2020: RMB15,262,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2020: 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 2021 and 2020.

9. TRADE AND OTHER RECEIVABLES

	<i>As at 30 June 2021 RMB'000</i>	<i>As at 31 December 2020 RMB'000</i>
Trade receivables	204,706	221,132
Less: loss allowance	(29,700)	(28,296)
	<hr/> 175,006	<hr/> 192,836
Bills receivables	146,686	89,860
	<hr/> 321,692	<hr/> 282,696
Financial assets measured at amortised cost	37,378	37,378
Prepayments for an investment to a target company	50,245	55,777
Prepayments and deposits	5,296	-
Deductible value-added tax ("VAT")	5,296	-
	<hr/> 414,611	<hr/> 375,851
	<hr/> 414,611	<hr/> 375,851

- (i) All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

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 2021 RMB'000	<i>As at</i> 31 December 2020 RMB'000
Less than 1 month	156,648	91,639
1 to 3 months	93,282	115,278
3 to 6 months	59,795	53,139
Over 6 months	11,967	22,640
	<hr/> 321,692 <hr/>	<hr/> 282,696 <hr/>

10. TRADE AND OTHER PAYABLES

	<i>As at</i> 30 June 2021 RMB'000	<i>As at</i> 31 December 2020 RMB'000
Trade payables	203,227	158,323
Bills payables	40,000	-
	<hr/> 243,227 <hr/>	<hr/> 158,323 <hr/>
Payables for construction of property, plant and equipment	88,896	81,933
Payables for staff related costs	8,428	8,907
Payables for other taxes	55	3,001
Others	25,736	13,269
	<hr/> 123,115 <hr/>	<hr/> 107,110 <hr/>
	<hr/> 366,342 <hr/>	<hr/> 265,433 <hr/>

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

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

	<i>As at</i> 30 June 2021 RMB'000	<i>As at</i> 31 December 2020 RMB'000
Less than 1 month	169,902	127,982
1 to 3 months	13,023	11,749
3 to 6 months	5,447	4,499
Over 6 months	14,855	14,093
	<hr/> 203,227 <hr/>	<hr/> 158,323 <hr/>

11. BANK LOANS

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

	<i>As at</i> 30 June <i>2021</i> RMB'000	<i>As at</i> <i>31 December</i> <i>2020</i> RMB'000
Short-term bank loans:		
– secured by property, plant and equipment and lease prepayments	155,000	160,000

(b) At 30 June 2021, the aggregate carrying amount of property, plant and equipment and right-of-use assets pledged for the Group's short-term bank loans is RMB139,821,000 (31 December 2020: RMB109,865,000).

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The Board resolved on 30 August 2021 that an interim dividend of HK\$3.0 cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$2.0 cents) is to be distributed to the 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 2020.

(b) Share capital

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

	<i>Six months ended 30 June 2021</i>		<i>Six months ended 30 June 2020</i>	
	<i>Number of</i> <i>shares</i>	<i>Nominal value</i> <i>of Ordinary</i> <i>shares</i> RMB'000	<i>Number of</i> <i>shares</i>	<i>Nominal value</i> <i>of Ordinary</i> <i>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 regularly reviews and manages its capital structure to maintain a balance between the higher shareholder 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 2021, amid the ongoing threat of the novel coronavirus (**COVID-19**) pandemic around the world and the spread of COVID-19 mutant strains, the path to global economic recovery become more and more complicated. As China's gross domestic product (GDP) grew by 7.9% year-on-year in the second quarter of 2021, China's economy continued to recover and entered into a stage of normal growth gradually.

As the China's overall pandemic prevention and control measures as well as economic and social development achieved continued success, the demand for automobiles increased steadily after the pandemic. In the first half of 2021, approximately 12.6 million and 12.9 million vehicles were produced and sold respectively, representing an overall increase in production and sales volume of approximately 24.2% and 25.6% respectively over the same period of the previous year. As for the automobile market in the first half of the year, despite numerous unfavorable factors such as the shortage of chips and rising raw material prices, the sales volume of automobiles still exceeded 10 million units, which proved that the market sales demand remained robust. In addition, the sales volume of new energy vehicles accumulated over 1 million units in the first half of the year, exceeding the annual sales volume in 2019. The market share for new energy vehicles also increased from 5.4% at the beginning of this year to 9.4% in the first half of this year, demonstrating the gradual growth in the sales volume of new energy vehicles.

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 2021, as the Group benefited from the recovery of the automobile industry from the COVID-19 pandemic, the customer demand for cylinder blocks and cylinder heads increased due to the grow in demand for vehicles in China, and the Group put continuous efforts to develop new products, the sales and profit of the Group record a significant improvement. During the six months ended 30 June 2021, the revenue and profit of the Group were RMB371.7 million and RMB33.0 million respectively, representing an increase of 123.9% and 116.0%, as compared with the corresponding period in last year.

During the six months ended 30 June 2021, the Group was principally engaged in the manufacturing of 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 2021 and 2020:

	For the six months ended 30 June					
	2021			2020		
	Revenue	As a percentage of total revenue	Sales volume	Revenue	As a percentage of total revenue	Sales volume
	RMB'000	%	units	RMB'000	%	units
Cylinder blocks						
- Passenger vehicles	115,552	31.1	115,361	18,272	11.0	22,532
- Commercial vehicles	125,281	33.7	132,240	85,123	51.3	85,297
- Industrial vehicles	33,328	9.0	32,450	31,330	18.9	29,150
Subtotal	274,161	73.8	280,051	134,725	81.2	136,979
Cylinder heads	93,178	25.0	144,615	28,157	17.0	50,456
Ancillary cylinder block components	4,330	1.2	111,998	3,090	1.8	91,726
Total	371,669	100.0		165,972	100.0	

Cylinder blocks for passenger vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0-1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. Revenue from sales of cylinder blocks for passenger vehicles increased significantly from approximately 11.0% of our total revenue for the six months ended 30 June 2020 to approximately 31.1% for the six months ended 30 June 2021, such increase due to revenue contributed from sales of cylinder blocks for passenger vehicles was increased significantly by approximately 5.3 times. Sales volume of cylinder blocks for passenger vehicles increased approximately 4.1 times from approximately 23,000 units for the six months ended 30 June 2020 to approximately 115,000 units for the six months ended 30 June 2021, such increase was due to i) an increase in demand from our customers, especially from JMC and FAW, a domestic automobile manufacturer; and ii) the launch of new product, RZ4E model.

Cylinder Blocks for Commercial Vehicles

The cylinder blocks for commercial vehicles are normally used in engines of 1.5 liters or above. The cylinder blocks for commercial vehicles are made from grey cast iron alloy. Revenue from sales of cylinder blocks for commercial vehicles decreased from approximately 51.3% of total revenue for the six months ended 30 June 2020 to approximately 33.7% for the six months ended 30 June 2021, such decrease was due to a significant increase in revenue contributed by sales of cylinder blocks for passenger vehicles. Sales volume of cylinder blocks for commercial vehicles increased approximately 55.0% from approximately 85,000 units for the six months ended 30 June 2020 to approximately 132,000 units for the six months ended 30 June 2021. The increase was primarily due to an increase in demands from 493 series and launch of a new model of 493 series with 6 cylinder blocks.

Cylinder Blocks for Industrial Vehicles

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. Revenue from sales of cylinder blocks for industrial vehicles decreased from approximately 18.9% of total revenue for the six months ended 30 June 2020 to approximately 9.0% for the six months ended 30 June 2021, such decrease was mainly due to revenue contributed by sales of cylinder blocks for industrial vehicles were stable as sales of cylinder blocks for passenger vehicles and commercial vehicles were increased significantly. Sales volume of cylinder blocks for industrial vehicles increased approximately 11.3% from approximately 29,000 units for the six months ended 30 June 2020 to approximately 32,000 units for the six months ended 30 June 2021. 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 increased approximately 1.9 times from approximately 50,000 units for the six months ended 30 June 2020 to approximately 145,000 units for the six months ended 30 June 2021. Such increase was as a result of an increase 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 2021, the Group owned and operated a total of 3 precision casting lines and 24 mechanical processing lines (including 17 for cylinder blocks, 5 for cylinder heads and 2 for other ancillary cylinder block components).

During the six months ended 30 June 2021, the Group was building 6 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 2021. After completion of the 5 processing lines, the Group will be able to enhance its production capacities and it is expected that the Group can offer 3 additional new products, especially for cylinder blocks for industrial and passenger vehicles.

PROSPECTS

The development of new energy vehicles has become a major consensus for the future development of the automotive industry. The Group has increased resources to develop and expand into this new market, including co-operation with BYD for manufacturing of the hybrid cylinder block, motor shell and hybrid transmission shell for new energy vehicles. It is expected that the maximum production capacities of each project can be reached an annual output of approximately 50,000 to 100,000 units. In addition, the Group has been negotiating with some of the leading domestic commercial and industrial vehicle enterprises for cooperation to develop heavy truck cylinders and small excavator cylinders in line with the China VI emissions standard. The Group believes that through developing new energy vehicle related products and accelerating investment in the non-automotive industry, we will effectively differentiate our existing focus on the passenger vehicles and light truck market and gradually transform to a rapid development market.

FINANCIAL REVIEW

Revenue

Revenue increased significantly by approximately 123.9% from RMB166.0 million for the six months ended 30 June 2020 to RMB372.0 million for the six months ended 30 June 2021. This increase was primarily attributable to a significant increase in revenue from sales of cylinder blocks and cylinder heads. The automotive industry in China has recovered from the COVID-19 pandemic, which resulted in the increase in demand from our customers for cylinder blocks and cylinder heads.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales increased by approximately 103.5% from RMB134.7 million for the six months ended 30 June 2020 to RMB274.2 million for the six months ended 30 June 2021, primarily attributable to an increase in sales volume from approximately 136,979 units for the six months ended 30 June 2020 to approximately 280,051 units for the six months ended 30 June 2021 driven by increase in revenue from sales of cylinder block for passenger vehicles and commercial vehicles by approximately RMB97.3 million and RMB40.2 million for the six months ended 30 June 2021 as compared with the corresponding period in last year.

Sales of Cylinder Heads

Segment revenue from cylinder head sales increased by approximately 230.9% from RMB28.2 million for the six months ended 30 June 2020 to RMB93.2 million for the six months ended 30 June 2021. This increase was primarily due to increase in demand from our customers. The sales volume of cylinder heads increased from approximately 50,000 units for the six months ended 30 June 2020 to approximately 145,000 units for the six months ended 30 June 2021, primarily related to increased sales of the 493 series of cylinder heads, which was consistent with the increased 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 increased by approximately 40.1% from RMB3.1 million for the six months ended 30 June 2020 to RMB4.3 million for the six months ended 30 June 2021. This increase was primarily attributable to a significant increase in demand from our customers.

Gross Profit and Gross Profit Margin

Gross profit increased significantly by approximately 133.7% from RMB35.7 million for the six months ended 30 June 2020 to RMB83.4 million for the six months ended 30 June 2021. This increase was in line with increase in revenue of the Group and improvement of gross profit margin. The gross profit margin increased from 21.5% for the six months ended 30 June 2020 to 22.4% for the six months ended 30 June 2021, such increase was primarily due to an increase in gross profit margin of sales of cylinder blocks, especially for the cylinder blocks for the commercial vehicle.

Other Income

Other income decreased by approximately 53.8% from RMB17.8 million for the six months ended 30 June 2020 to RMB8.2 million for the six months ended 30 June 2021. This decrease was primarily due to a decrease in government grants received. During the six months ended 30 June 2021, the Group recognised government grants of RMB3.6million, as compared with government grants of RMB13.6 million for the six months ended 30 June 2020, 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 increased by approximately 141.9% from RMB5.0 million for the six months ended 30 June 2020 to RMB12.0 million for the six months ended 30 June 2021. The increase was primarily due to an increase in transportation costs and after-sales service to the customers which are in line with an increase in revenue.

Administrative Expenses

Administrative expenses increased by approximately 52.5% from RMB25.3 million for the six months ended 30 June 2020 to RMB38.6 million for the six months ended 30 June 2021, primarily due to cost control measures adopted by the Group under the impact of the COVID-19 pandemic. The increase in administrative expenses were attributing to (i) an increase in research and development costs of RMB5.7 million to RMB11.6 million for the six months ended 30 June 2021; and (ii) an increase in salaries and staff benefits of RMB6.4 million to RMB10.7 million.

Finance Costs

Finance costs decreased by approximately 29.1% from RMB4.9 million for the six months ended 30 June 2020 to RMB3.5 million for the six months ended 30 June 2021, primarily due to the decrease in discounting bills and factoring being utilized by the Group for financing during the period.

Income Tax Expenses

Income tax expenses increased by approximately 50.1% from RMB3.0 million for the six months ended 30 June 2020 to RMB4.5 million for the six months ended 30 June 2021 primarily due to an increase in our taxable profits as the performance of the Group were significantly improved. The effective tax rate decreased from 16.5% for the six months ended 30 June 2020 to 12.1% for the six months ended 30 June 2021, such decrease was primarily due to increase in research and development costs during the period. As a result, the amount of additional tax deductible allowance which of the Group can claim has increased accordingly.

Profit for the Period

As a result of the foregoing, the profit for the period increased significantly by approximately 116.0% from RMB15.3 million for the six months ended 30 June 2020 to RMB33.0 million for the six months ended 30 June 2021. However, the net profit margin decreased from 9.2% for the six months ended 30 June 2020 to 8.9% for six months ended 30 June 2021, which was mainly attributable to a decrease in other income which offset by a decrease in proportion of administrative costs and finance costs to revenue.

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 2021 and 31 December 2020, cash and cash equivalents of the Group amounted to approximately RMB46.2 million and RMB26.3 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 increased by approximately 13.8% from RMB282.7 million as at 31 December 2020 to RMB321.7 million as at 30 June 2021, primarily due to increase in revenue. The trade and bills receivables turnover days was 152 days and 148 days as at 31 December 2020 and as at 30 June 2021 respectively, which is remain stable. 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 RMB28.3 million as at 31 December 2020 to RMB29.7 million as at 30 June 2021.

Trade Payables

The trade payables increased by approximately 53.6% from RMB158.3 million as at 31 December 2020 to RMB243.2 million as at 30 June 2021 primarily due to increase in purchase of raw materials for production. The trade payables turnover days decreased from 144 days as at 31 December 2020 to 127 days as at 30 June 2021.

Bank Loans

The bank loans were stable at approximately RMB160.0 million and RMB155.0 million as at 31 December 2020 and 30 June 2021, respectively. As at 30 June 2021, bank loans in the amounts of RMB155.0 million (2020: RMB160.0 million) were pledged by property, plant and equipment and right-of-use of the Group, the aggregate carrying amount of which such assets was RMB139.8 million (31 December 2020: RMB109.9 million).

All bank loans as at 30 June 2021 and 31 December 2020 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 2021 RMB'000	As at 31 December 2020 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	<u>155,000</u>	<u>160,000</u>

Gearing Ratio

The gearing ratio decreased slightly from approximately 16.7% as at 31 December 2020 to approximately 15.6% as at 30 June 2021, such decrease was a result of an decrease of bank loans and other borrowings of RMB5.0 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 2021, the capital expenditure of the Group was approximately RMB37.8 million (31 December 2020: RMB102.8 million). The capital expenditure incurred for the six months ended 30 June 2021 primarily related to the construction of new mechanical processing lines for the new products and purchases of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 30 June 2021, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB40.5 million (31 December 2020: RMB22.4 million).

Contingent liabilities

As at 30 June 2021, the Group did not have any material contingent liabilities or guarantees (31 December 2020: 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 2021.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2021, the Group had a total of 745 employees (31 December 2020: 760 employees). For the six months ended 30 June 2021, the Group has incurred total staff costs of approximately RMB42.1 million (six months ended 30 June 2020: RMB26.7 million), representing an increase of approximately 57.6% as compared with those for six months ended 30 June 2020, which was due to increase in our production after the recovery from 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

The executive Directors agreed to waive part of director's salary for the year ending 31 December 2021 and agreed to receive the director's salary of RMB40,000 per annum with effect from 1 January 2021.

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 2021 <i>RMB '000</i>	Unutilised net proceeds as at 30 June 2021 <i>RMB '000</i>
Optimisation of the smart manufacturing process	43.3	114,600	(67,144)	47,456	38,728	8,728*
Purchase of equipment and other enhancements to strengthen collaboration with third-party industry partners	8.5	22,497	(22,497)	-	-	-
Repayment of short-term borrowings	16.3	43,141	40,000	83,141	83,141	-
Construction of new mechanical processing lines and purchase of additional machinery and equipment	15.1	39,964	-	39,964	39,964	-
Enhancement of research and development capabilities	12.0	31,760	-	31,760	31,760	-
Working capital and general corporate use	4.8	12,704	11,641	24,345	24,345	-
Settlement of the consideration under the Cooperative Agreement	-	-	38,000	38,000	38,000	-
	100.0	264,666	-	264,666	255,938	8,728

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

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

As at 30 June 2021, the unused balance of the proceeds from the Global Offering of approximately RMB8.7 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 after 30 June 2021 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 2021 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 2021, 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 from time to time.

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 2021.

INTERIM DIVIDEND

The board of directors of the Company resolved to declare an interim dividend of HK3.0 cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: HK2.0 cents). It is expected that the interim dividend will be paid on or around 22 October 2021 to those shareholders whose names are on the register of members of the Company on 30 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods: from 27 September 2021 (Monday) to 30 September 2021 (Thursday), 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 24 September 2021 (Friday). 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, namely Mr. Ren Keqiang, Mr. Yu Chun Kau and Mr. Wan Ming.

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 2021.

PUBLICATION OF THE CONSOLIDATED INTERIM RESULTS AND 2021 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 2021 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, 30 August 2021

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