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

2018

INTERIM REPORT

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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

As to PRC Law:
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing PRC

AUDITOR

KPMG

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN PRC

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
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Hong Kong

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

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 2018, we owned and operated a total of three precision casting lines and 19 mechanical processing lines (including 15 for cylinder blocks, 2 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.

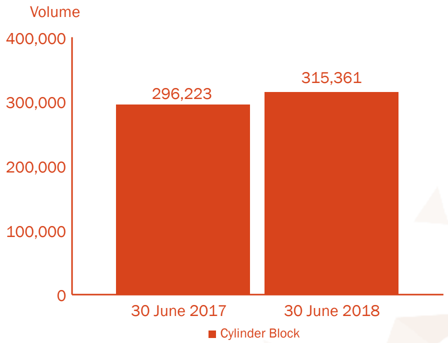
The board ("Board") of directors of the Company believes that the following competitive strengths of the Group can bring our customers the most economical and reliable products:

- The fourth largest 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

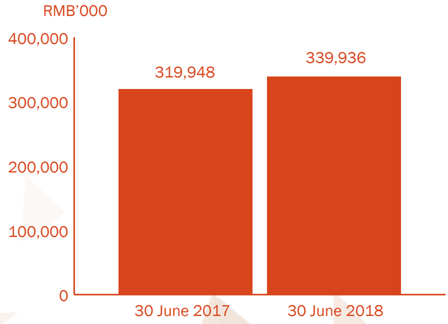
FINANCIAL SUMMARY

	For six months ended 30 June	
	2018	2017
Major Items of Consolidated Statements of Profit or Loss and Other Comprehensive Income		
Revenue (RMB'000)	**339,936**	319,948
Gross profit (RMB'000)	**103,085**	94,118
Gross profit margin	**30.3%**	29.4%
Profit for the period (RMB'000)	**49,416**	42,019
Net profit margin	**14.5%**	13.1%
Listing expenses (RMB'000)	**1,945**	6,373
Basic and diluted earnings per share (RMB cent)	**6.21**	7.00

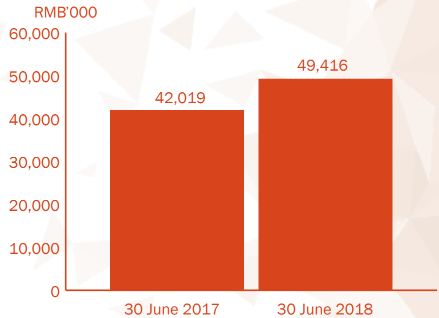
Volume of Cylinder Blocks sold



Revenue



Profit for the period



	As at 30 June 2018	As at 31 December 2017
Major Items of Consolidated Statement of Financial Position		
Non-current assets (RMB'000)	**765,793**	749,506
Current assets (RMB'000)	**702,699**	459,685
Current liabilities (RMB'000)	**511,711**	446,698
Net current assets (RMB'000)	**190,988**	12,987
Non-current liabilities (RMB'000)	**61,894**	180,786
Net assets (RMB'000)	**894,887**	581,707
Gearing ratio (Note 1)	**23.8%**	39.2%

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 OVERVIEW

Consumers' needs have changed from considering modes of transport to pursuing quality of automobiles in recent years amid China's rapid economic growth, continuing urbanization and increasing levels of household consumption. According to the data published by China Association of Automobile Manufacturers, in the first half of 2018, the production volume of China's passenger and commercial vehicles increased by approximately 3.2% and approximately 10.6% to 11.9 million and 2.2 million respectively as compared to the same period of last year.

China's automotive industry has moved from rapid growth stage to high quality development stage. It is expected that competition in the industry will become increasingly intense and manufacturers must be able to deliver high quality products in order to stand out from the competition. Meanwhile, on 1 April 2018, the Ministry of Industry and Information Technology of the PRC implemented the "Measures for the Parallel Administration of Credit Points for Average Fuel Consumption and New Energy Vehicles of Passenger Vehicle Enterprises" (the "PACPAFCNEVPVE" Measure) (乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法). Under the pressure of the double-credit-point policy, mainstream automakers are accelerating the launch of new energy vehicles. It is expected that at least 20 brand new or replacement models will be launched in 2018, including 11 pure electric vehicles and 9 plug-in hybrid electric vehicles. Automotive companies are already riding the wave of comprehensive planning for new energy vehicles, and it is also the trend of the times. In addition, in May 2018, the Ministry of Finance of the PRC officially announced that since 1 July 2018, the import tariffs on finished vehicles and parts have ushered in major adjustments. The tax rates of 135 tax codes with a finished vehicle tax rate of 25% and 4 tax codes with a tax rate of 20% are reduced to 15%, and the tax rates of a total of 79 tax codes with an auto spare parts tax rate of 8%, 10%, 15%, 20%, 25%, respectively are reduced to 6%. This adjustment will bring new challenges and opportunities for Chinese car companies and auto spare parts manufacturers.

During the period under review, despite the continuous introduction of new policies in the automobile market and the challenges of electric vehicles for traditional vehicles, the Group still adheres to customer-oriented and technology-oriented strategies, continuously improving its comprehensive competitiveness and providing high-quality services for traditional car companies. At the same time, the Group is gradually developing support measures for new energy vehicles while accurately grasping market trends, and improving production efficiency through internal technological transformation.

BUSINESS REVIEW AND PROSPECTS

During the period under review, the Group had been 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. In the first half of 2018, the Group recorded sales revenue and profit of approximately RMB339.9 million and RMB49.4 million respectively, representing an increase of approximately 6.2% and 17.6% respectively over the same period last year.

Over the past six months, the Group has strengthened its own foundation of development, including improving the quality management and monitoring system, continuing to promote lean management, and improving product quality and production efficiency. Simultaneously, through the following measures, the Group strived to enhance market competitiveness and improve economic efficiency.

Improvement of Casting Technology

The Group understands that in addition to technological advantages, cost advantages will be one of the important factors in industry competition. In order to realize cost advantages and quality assurance, the Group continued to strengthen its precision casting production lines. During the period under review, the Group's investment in precision casting production lines of RMB5.0 million was mainly used to add a low-pressure casting production line for design and manufacturing of lightweight and high-quality castings of new energy vehicles for production of aluminum cylinder block products. The production line is expected to officially commence operation in January 2019, which would enable the Group to further control the cost and quality of aluminum product production and enhance the competitiveness of the Group in aluminum products. Meanwhile, the rough cast products produced by the Group used in the production of cylinder blocks represented 72.3% of the total cylinder blocks the Group produced, a significant increase from 40.0% in the same period of last year. This helped improve the profitability of the Group.

New Energy Vehicle Business

The implementation of the "PACPAFCNEVPVE" Measure by the Ministry of Industry and Information Technology of the PRC would accelerate the industry development of pure electric vehicles and plug-in hybrid electric vehicles and the Group has taken actions in response to the demand. Since 2017, the Group has launched 2 cylinder blocks for commercial vehicles, 4D30 and VM2.5, which meet the new China VI emission standards. With an aim to further follow the trend of lightweight vehicles in the automotive industry, the Group has invested in rough cast aluminum casting production lines for future production of lightweight cylinder blocks and cylinder heads. Currently, the Group is carrying out research and development on 6 products to meet future demand. The Group has been seeking to develop new energy vehicle business and explore the possibility of developing spare parts for pure electric vehicles, including selecting suitable companies or partners for investment so as to achieve common development.

New Production Line

During the period under review, the Group has strengthened communication and cooperation with customers. In addition to the consolidation of the existing customer base, the Group continued to develop new businesses, including new investment and transformation of a total of 4 production lines. As at 30 June 2018, the Group owned and operated a total of 3 precision casting lines and 19 mechanical processing lines (including 15 for cylinder blocks, 2 for cylinder heads and 2 for other ancillary cylinder block components).

The Group primarily manufactures cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufactures cylinder heads as well as certain other structural components of cylinder blocks, primarily including main bearing caps and flywheels.

The following table sets forth the Group's revenue and sales volume by segment and major product type for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June					
	2018			2017		
	Revenue RMB'000	**As a percentage of total revenue %**	**Sales volume units**	Revenue RMB'000	As a percentage of total revenue %	Sales volume units
Cylinder blocks						
Cylinder blocks for passenger vehicles	**116,303**	**34.2**	**162,067**	124,446	38.9	170,314
Cylinder blocks for commercial vehicles	**140,476**	**41.3**	**123,380**	106,231	33.2	94,426
Cylinder blocks for industrial vehicles	**31,200**	**9.2**	**29,914**	31,882	10.0	31,483
Subtotal	**287,979**	**84.7**	**315,361**	262,559	82.1	296,223
Cylinder heads	**34,591**	**10.2**	**58,874**	45,611	14.2	77,721
Ancillary cylinder block components	**17,366**	**5.1**	**1,348,747**	11,778	3.7	1,088,689
Total	**339,936**	**100.0**		319,948	100.0	

Cylinder blocks for passenger vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0-1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. Revenue from sales of cylinder blocks for passenger vehicles decreased from approximately 47.4% of the total revenue from cylinder block sales for the six months ended 30 June 2017 to approximately 40.4% for the six months ended 30 June 2018. Sales volume of cylinder blocks for passenger vehicles decreased by approximately 4.8% from approximately 170,000 units for the six months ended 30 June 2017 to approximately 162,000 units for the six months ended 30 June 2018. The decrease was mainly due to the decrease in sales volume of aluminum alloy cylinder blocks from approximately 54,000 units for the six months ended 30 June 2017 to approximately 19,000 units for the six months ended 30 June 2018, which was partially offset by increase in sales volume of grey iron cylinder blocks from approximately 116,000 units for the six months ended 30 June 2017 to approximately 143,000 units for the six months ended 30 June 2018.

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 40.5% of total revenue from sales of cylinder blocks for the six months ended 30 June 2017 to approximately 48.8% for the six months ended 30 June 2018. Sales volume of cylinder blocks for commercial vehicles increased by approximately 30.7% from approximately 94,000 units for the six months ended 30 June 2017 to approximately 123,000 units for the six months ended 30 June 2018. The increase was mainly due to the successful development of the two new products 4D30 and VM2.5, in second half of 2017, which contributed sales amounting to approximately 29,000 units for the six months ended 30 June 2018.

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 12.1% of total revenue from sales of cylinder blocks for the six months ended 30 June 2017 to approximately 10.8% for the six months ended 30 June 2018. Sales volume of cylinder blocks for industrial vehicles decreased by approximately 5.0% from approximately 31,000 units for the six months ended 30 June 2017 to approximately 30,000 units for the six months ended 30 June 2018.

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 by approximately 24.2% from approximately 78,000 units for the six months ended 30 June 2017 to approximately 59,000 units for the six months ended 30 June 2018. Such decrease was a result of decrease in demand of 493 series cylinder blocks, which was replaced by new products, as it does not satisfy the new environmental requirements.

FINANCIAL REVIEW

Revenue

Revenue increased by 6.2% from RMB319.9 million for the six months ended 30 June 2017 to RMB339.9 million for the six months ended 30 June 2018. This increase was primarily attributable to an increase in revenue from sales of cylinder blocks and ancillary cylinder block components, partially offset by a decrease in revenue from sales of cylinder heads.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales increased by 9.7% from RMB262.6 million for the six months ended 30 June 2017 to RMB288.0 million for the six months ended 30 June 2018, primarily attributable to a substantial increase in sales volume from approximately 296,000 units for the six months ended 30 June 2017 to approximately 315,000 units for the six months ended 30 June 2018 driven by launch of new products in second half of 2017. With regard to product types, revenue from sales of cylinder blocks for passenger vehicles and industrial vehicles decreased by 6.5% and 2.1%, respectively, where revenue from sales of cylinder blocks for commercial vehicles increased by 32.2%. Demand for cylinder blocks for commercial vehicles is strong due to the Group's launch of two new products, 4D30 and VM2.5, in the second half of 2017, which replaced the products of 493 series of cylinder blocks gradually. The decrease in sales of cylinder block for passenger cars was mainly attributable to decreases in sales of aluminum alloy cylinder blocks as the Group did not have costs advantage in such products, however, the Group would make further investments in aluminum casting to enhance its competitiveness.

Sales of Cylinder Heads

Segment revenue from cylinder head sales decreased by 24.2% from RMB45.6 million for the six months ended 30 June 2017 to RMB34.6 million for the six months ended 30 June 2018. This decrease was primarily due to decrease in sales volume from approximately 78,000 units for the six months ended 30 June 2017 to approximately 59,000 units in the six months ended 30 June 2018, 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 sales of ancillary cylinder block components increased by 47.4% from RMB11.8 million for the six months ended 30 June 2017 to RMB17.4 million for the six months ended 30 June 2018. This increase was primarily attributable to an increase in the sales volume of the main bearing cap products.

Gross Profit and Gross Profit Margin

Gross profit increased by 9.5% from RMB94.1 million for the six months ended 30 June 2017 to RMB103.1 million for the six months ended 30 June 2018. This increase was primarily attributable to enhancement of the overall gross profit margin as well as an increase in revenue. The gross profit margin increased from 29.4% for the six months ended 30 June 2017 to 30.3% for the six months ended 30 June 2018. This increase was primarily due to an increase in use of the rough cast products which were produced by the Group. The rough cast products produced by the Group used in production of cylinder blocks represented 40.0% and 72.3%, respectively, of the total cylinder blocks that the Group produced for the six months ended 30 June 2017 and 2018.

Other Income

Other income increased by over 1 time or RMB10.7 million from RMB4.5 million for the six months ended 30 June 2017 to RMB15.2 million for the six months ended 30 June 2018. This increase was primarily due to an increase in government grants. During the six months ended 30 June 2018, the Group received a one-off government grant of approximately RMB10.6 million in relation to the innovation in technology.

Selling Expenses

Selling expenses decreased by 13.0% or RMB1.7 million from RMB13.0 million for the six months ended 30 June 2017 to RMB11.3 million for the six months ended 30 June 2018. The decrease was primarily due to (i) a decrease in products warranty provision during the period because the Group enhanced its quality control procedures as well as products quality and (ii) a decrease in business entertainment expenses during the period due to the costs control.

Administrative Expenses

Administrative expenses increased by 35.4% or RMB11.1 million from RMB31.3 million for the six months ended 30 June 2017 to RMB42.4 million for the six months ended 30 June 2018, primarily due to (i) an increase in research and development costs of RMB3.1 million to RMB12.6 million for the six months ended 30 June 2018 which was related to research and development activities in new products development and enhancement of production process; (ii) an increase in staff costs of RMB4.0 million to RMB8.8 million for the six months ended 30 June 2018 in relation to increase in number of management personnel and performance bonuses; and (iii) an increase in other expenses of RMB3.3 million to RMB5.0 million for the six months ended 30 June 2018 in relation to compensation and travelling and entertainment expenses.

Finance Costs

Finance costs increased by 5.6% or RMB0.3 million from RMB5.7 million for the six months ended 30 June 2017 to RMB6.0 million for the six months ended 30 June 2018, primarily due to an increase in average interest rate in bank and other loans of the Group.

Income Tax Expenses

Income tax expenses increased by 38.4% from RMB6.7 million for the six months ended 30 June 2017 to RMB9.2 million for the six months ended 30 June 2018 primarily because the change in deferred taxation from a tax credit of RMB2.1 million for the six months ended 30 June 2017 to an expense of RMB0.4 million for the six months ended 30 June 2018. Such change was a result of government grants of RMB17.4 million obtained by the Group for the six months ended 30 June 2017 which was recorded as deferred income in the liabilities. The effective tax rate increased from 13.7% for the six months ended 30 June 2017 to 15.7% for the six months ended 30 June 2018, such increase was primarily due to the fact that tax losses of certain subsidiaries and the Company have not been recognised as deferred assets for the six months ended 30 June 2018 as no such tax loss was incurred for the six months ended 30 June 2017.

Profit for the Period

As a result of the foregoing, the profit for the period increased by 17.6% from RMB42.0 million for the six months ended 30 June 2017 to RMB49.4 million for the six months ended 30 June 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations are primarily financed by cash generated from operating activities, net proceeds received from the global offering of the Company (the "Global Offering") completed in January 2018 and bank and other borrowings. As of 30 June 2018 and 31 December 2017, the Group had cash and cash equivalents of RMB205.9 million and RMB5.7 million, respectively.

The Group monitors the 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, 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 21.5% from RMB276.4 million as at 31 December 2017 to RMB335.9 million as at 30 June 2018. The trade and bills receivables turnover days increased from 134 days as at 31 December 2017 to 164 days as at 30 June 2018. Such increase was a result of an increase in use of bills receivable by the customers for settlement with the settlement period of around 6 months.

Trade and bills Payables

The trade and bills payables decreased by 18.0% from RMB180.3 million as at 31 December 2017 to RMB147.9 million as at 30 June 2018 primarily due to improvement of the liquidity of the Group. The trade and bills payables turnover days remained stable on 124 days and 125 days as at 31 December 2017 and 30 June 2018, respectively.

Borrowing and charge on assets

The bank and other loans slightly decreased from RMB228.0 million as at 31 December 2017 to RMB213.0 million as at 30 June 2018, primarily because the Group had sufficient operating capital after the listing. As at 30 June 2018, bank and other loans in the amounts of RMB153.0 million (31 December 2017: RMB78.0 million) were secured by buildings and land used rights pledged by the Group, which the aggregate carrying amount of such assets is RMB160,274,000 (31 December 2017: RMB75,184,000).

All bank and other loans as at 30 June 2018 and 31 December 2017 were denominated in Renminbi at fixed or floating interest rate.

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	153,000	62,000
After 1 year but within 2 years	–	16,000
	153,000	78,000
Other loans		
Within 1 year	60,000	50,000
After 1 year but within 2 years	–	100,000
	60,000	150,000
Total borrowings	213,000	228,000

Gearing Ratio

The gearing ratio decreased from 39.2% as at 31 December 2017 to 23.8% as at 30 June 2018, such decrease was a result of an increase of equity after the listing.

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

As at 30 June 2018, the capital expenditures were RMB50.6 million (31 December 2017: RMB134.3 million). The capital expenditure incurred for the six months ended 30 June 2018 primarily related to the implementation of the intelligent manufacturing systems, building of new mechanical processing lines for the new products and new precision casting lines for the aluminum alloy rough cast products and purchase of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 30 June 2018, the Group's commitments in respect of property, plant and equipment contracted amounted to RMB28.9 million (31 December 2017: RMB9.7 million).

Contingent liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities or guarantees (31 December 2017: 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. 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 2018.

EMPLOYEE AND REMUNERATION POLICIES

As of 30 June 2018, the Group had a total of 881 employees (31 December 2017: 869 employees). For the six months ended 30 June 2018, the Group incurred total staff costs of approximately RMB34.6 million (six months ended 30 June 2017: RMB33.1 million), representing an increase of approximately 4.6% as compared with those in six months ended 30 June 2017, which was as a result of an increase in number of management staff and salaries.

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, skill level and quality of its employees, the Group places a strong emphasis on training its 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 package annually according to industry benchmark and financial results as well as the individual performance of employees.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (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, which are intended to be applied in compliance with the intended use of proceeds set out in the section headed "Future Plans and Use of Proceeds" contained in the prospectus of the Company dated 19 December 2017 (the "Prospectus").

During the period from 5 January 2018 (the "Listing Date") and up to 30 June 2018, the Group has applied the net proceeds as follows:

	%	Budgeted amount as set out in the prospectus RMB'000	Actual usage up to 30 June 2018 RMB'000	Balance as at 30 June 2018 RMB'000
Use				
– Optimize the smart manufacturing processes	43.3	114,600	7,019	107,581
– Purchase equipment and other enhancements to strengthen cooperation with third-party industry partners	8.5	22,497	–	22,497
– Repay a portion of short-term borrowings	16.3	43,141	43,141	–
– New machining lines and machinery and equipment	15.1	39,964	13,868	26,096
– Strengthen the research and development capabilities	12.0	31,760	23,822	7,938
– Working capital and general corporate use	4.8	12,704	12,704	–
Total	100.0	264,666	100,554	164,112

As at 30 June 2018, the unused balance of the proceeds from the Global Offering of approximately RMB164.1 million was placed into short-term demand or time deposits in banks.

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

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this report, there are no major subsequent events to 30 June 2018 which would materially affect the Group's operating and financial performance as of the date of this report.

OTHER INFORMATION

INTERIM DIVIDEND

The board of directors of the Company resolved to declare an interim dividend of HK6.85 cents per share for the six months ended 30 June 2018. It is expected that the interim dividend will be paid on or around 19 October 2018 to those shareholders whose names are on the register of members on 28 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

From 26 September 2018 (Wednesday) to 28 September 2018 (Friday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the interim dividend. In order to establish entitlements to the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 24 September 2018 (Monday).

During the period mentioned above, no transfers of shares will be registered.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the Listing Date 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 period since the Listing Date to the date of this interim report, the Company has fully complied with the Code Provisions, except for the following deviations.

Pursuant to code provision A.2.1 of the CG code, the 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 since the Listing Date. Our Directors will review the Group's corporate governance policies and compliance with the CG Code each financial year.

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%
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%

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

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) Ms. Zhao is the spouse of Mr. Meng Lianzhou. Under the SFO, she is taken to be interested in the Shares in which Mr. Meng Lianzhou is interested.

(3) Ms. Meng Dongdong (孟冬冬) is the spouse of Mr. ZW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. ZW Liu is interested.

(4) Ms. Xiao Zhiru (肖智茹) is the spouse of Mr. YX Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. YX Zhang is interested.

(5) Ms. Wang Sujuan (王素娟) is the spouse of Mr. EW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. EW Liu is interested.

(6) These 67,868,000 Shares are beneficially owned by Radiant Path, which is wholly owned by Mr. Wang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Radiant Path.

(7) Ms. Yin is the spouse of Mr. Wang. Under the SFO, she is taken to be interested in the Shares in which Mr. Wang is interested.

(8) These 46,864,000 Shares are beneficially owned by Great Ally, which is wholly owned by Mr. ZB Zhang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Great Ally.

(9) Ms. Zhu Yunchuan (朱雲川) is the spouse of Mr. ZB Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. ZB Zhang is interested.

(10) These 46,864,000 Shares are beneficially owned by Rosy Raise, which is wholly owned by Ms. ML Liu. Under the SFO, she is taken to be interested in the Shares beneficially owned by Rosy Raise.

(11) Mr. Li Xunye (李訓業) is the spouse of Ms. ML Liu. Under the SFO, he is taken to be interested in the Shares in which Ms. ML Liu is interested.

Save as disclosed above, as at 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 audit committee of the Company, together with the management, and the external auditor of the Company 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 2018.

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

Shenzhou, the PRC, 31 August 2018

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
		2018	2017
			(Note)
	Note	**RMB'000**	RMB'000
Revenue	4	**339,936**	319,948
Cost of sales		**(236,851)**	(225,830)
Gross profit	4(b)	**103,085**	94,118
Other income	5	**15,203**	4,495
Selling expenses		**(11,272)**	(12,958)
Administrative expenses		**(42,381)**	(31,298)
Profit from operations		**64,635**	54,357
Finance costs	6(a)	**(5,982)**	(5,664)
Profit before taxation	6	**58,653**	48,693
Income tax	7	**(9,237)**	(6,674)
Profit attributable to equity shareholders of the Company for the period		**49,416**	42,019
Earnings per share			
Basic and diluted (RMB cent)	8	**6.21**	7.00
Profit for the period		**49,416**	42,019
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 of overseas entities		**(467)**	–
Total comprehensive income attributable to equity shareholders of the Company for the period		**48,949**	42,019

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

The notes on page 29 to 49 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited
(Expressed in RMB)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	9	651,005	633,288
Lease prepayments	10	104,633	105,732
Deferred tax assets	16	10,155	10,486
		765,793	749,506
Current assets			
Inventories	11	135,106	156,310
Trade and other receivables	12	352,690	297,660
Prepaid income tax		8,975	–
Cash and cash equivalents	13	205,928	5,715
		702,699	459,685
Current liabilities			
Trade and other payables	14	296,427	329,606
Bank and other loans	15(a)	213,000	112,000
Current taxation		–	2,621
Provision for warranties	17	2,284	2,471
		511,711	446,698
Net current assets		190,988	12,987
Total assets less current liabilities		956,781	762,493
Non-current liabilities			
Bank and other loans	15(b)	–	116,000
Deferred income	18	58,547	61,793
Provision for warranties	17	3,347	2,993
		61,894	180,786
NET ASSETS		894,887	581,707

The notes on page 29 to 49 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited (continued)
(Expressed in RMB)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
CAPITAL AND RESERVES	19		
Share capital		66,425	1
Reserves		828,462	581,706
TOTAL EQUITY		894,887	581,707

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

Approved and authorised for issue by the board of directors on 31 August 2018.

Meng Lianzhou
Chairman

Liu Enwang
Director

The notes on page 29 to 49 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2017	–	–	20,000	10,000	–	479,276	509,276
Changes in equity for the six months ended 30 June 2017:							
Issuance of shares	1	–	–	–	–	–	1
Profit and total comprehensive income for the period	–	–	–	–	–	42,019	42,019
Distributions in respect of previous year	–	–	–	–	–	(2,368)	(2,368)
Balance at 30 June 2017	1	–	20,000	10,000	–	518,927	548,928
Changes in equity for the six months ended 31 December 2017:							
Profit and total comprehensive income for the period	–	–	–	–	–	52,779	52,779
Effect on equity arising from a group reorganisation	–	–	(20,000)	–	–	–	(20,000)
Balance at 31 December 2017 (Note)	1	–	–	10,000	–	571,706	581,707

The notes on page 29 to 49 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited (continued)
(Expressed in RMB)

		Attributable to equity shareholders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 31 December 2017		1	–	–	10,000	–	571,706	581,707
Impact on initial application of IFRS 9		–	–	–	–	–	(435)	(435)
Adjusted balance at 1 January 2018		1	–	–	10,000	–	571,271	581,272
Changes in equity for the six months ended 30 June 2018:								
Profit for the period		–	–	–	–	–	49,416	49,416
Other comprehensive income for the period		–	–	–	–	(467)	–	(467)
Capitalisation issue	19(b)(i)	49,818	(49,818)	–	–	–	–	–
Issuance of shares by initial public offering	19(b)(ii)	16,606	248,060	–	–	–	–	264,666
Balance at 30 June 2018		66,425	198,242	–	10,000	(467)	620,687	894,887

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

The notes on page 29 to 49 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 – unaudited
(Expressed in RMB)

	Note	Six months ended 30 June 2018 RMB'000	2017 (Note) RMB'000
Cash flows from operating activities			
Cash generated from operations		**40,363**	76,411
Income tax paid		**(20,424)**	(11,407)
Net cash generated from operating activities		**19,939**	65,004
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment and lease prepayments		**(63,338)**	(96,744)
Government grants received		**–**	17,355
Other cash flows arising from investing activities		**677**	4,775
Net cash used in investing activities		**(62,661)**	(74,614)
Cash flows from financing activities			
Proceeds from issuance of shares by initial public offering, net of share issuance expenses	19(b)(ii)	**264,666**	–
Proceeds from bank and other loans		**136,000**	70,500
Repayment of bank and other loans		**(151,000)**	(48,000)
Other cash flows arising from financing activities		**(6,030)**	(6,288)
Net cash generated from financing activities		**243,636**	16,212
Net increase in cash and cash equivalents		**200,914**	6,602
Cash and cash equivalents at the beginning of the period	13	**5,715**	9,553
Effect of foreign exchange rate changes		**(701)**	–
Cash and cash equivalents at the end of the period	13	**205,928**	16,155

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

The notes on page 29 to 49 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 31 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these 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 2017 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 interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included on page 50.

The financial information relating to the financial year ended 31 December 2017 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 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 March 2018.

3 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by IFRS 9 in relation to measurement of credit losses. Details of the changes in accounting policies are discussed in Note 3(b) for IFRS 9 and Note 3(c) for IFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9:

	At 31 December 2017	Impact on initial application of IFRS 9 (Note 3(b))	At 1 January 2018
	RMB'000	RMB'000	RMB'000
Deferred tax assets	10,486	77	10,563
Total non-current assets	**749,506**	**77**	**749,583**
Trade and other receivables	297,660	(512)	297,148
Total current assets	**459,685**	**(512)**	**459,173**
Total assets	**1,209,191**	**(435)**	**1,208,756**
Reserves	581,706	(435)	581,271
Total equity	**581,707**	**(435)**	**581,272**

Further details of these changes are set out in sub-section (b) of this note.

(b) IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments* (continued)

The following table summarises the impact of transition to IFRS 9 on retained earnings and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on financial assets measured at amortised cost	512
Related tax	(77)
Net decrease in retained earnings at 1 January 2018	435

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

(i) Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments* (continued)

(i) Classification of financial assets and financial liabilities (continued)

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

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

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

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

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments* (continued)

(ii) Credit losses (continued)

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

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

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments* (continued)

(ii) Credit losses (continued)

Basis of calculation of interest income on credit-impaired financial assets

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB512,000, which decreased retained earnings by RMB435,000 and increased gross deferred tax assets by RMB77,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with IAS 39 at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	–
Additional credit loss recognised at 1 January 2018 on trade receivables	512
Loss allowance at 1 January 2018 under IFRS 9	512

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments* (continued)

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The assessments of the determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

This change in accounting policy had no material impact on opening balance at 1 January 2018.

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	
	2018	2017
	RMB'000	RMB'000
Disaggregated by major products		
– Cylinder blocks	287,979	262,559
– Cylinder heads	34,591	45,611
– Ancillary cylinder block components	17,366	11,778
	339,936	319,948

The revenue from sales of goods is recognised at a point in time upon the transfer of products.

(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.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results

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 2018 and 2017. 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.

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 2018 and 2017 is set out below.

	Six months ended 30 June 2018			
	Cylinder blocks RMB'000	**Cylinder heads RMB'000**	**Ancillary cylinder block components RMB'000**	**Total RMB'000**
Revenue from external customers	**287,979**	**34,591**	**17,366**	**339,936**
Reportable segment gross profit	**87,637**	**15,216**	**232**	**103,085**

	Six months ended 30 June 2017			
	Cylinder blocks RMB'000	Cylinder heads RMB'000	Ancillary cylinder block components RMB'000	Total RMB'000
Revenue from external customers	262,559	45,611	11,778	319,948
Reportable segment gross profit	73,327	19,898	893	94,118

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(ii) Geographic information

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

5 OTHER INCOME

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Government grants (including amortisation of deferred income, see Note 18)	**14,844**	4,010
Interest income	**402**	58
Dividend income from unquoted equity investments	**–**	380
Net (loss)/gain on disposal of property, plant and equipment	**(116)**	22
Others	**73**	25
	15,203	4,495

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Interest on bank and other loans	**5,852**	4,675
Bank charges and others	**130**	989
	5,982	5,664

No borrowing costs have been capitalised for the six months ended 30 June 2018 and 2017.

(b) Staff costs#

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	**31,653**	30,229
Contributions to defined contribution retirement plan	**2,940**	2,833
	34,593	33,062

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs# (continued)

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

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

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

(c) Other items

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Depreciation and amortisation#	**33,582**	26,085
Impairment losses on trade and other receivables	**436**	–
Operating lease charges in respect of temporary warehouse	**62**	54
Provision for warranties (Note 17)	**832**	1,342
Research and development costs	**12,598**	9,545
Cost of inventories# (Note 11(b))	**236,851**	225,830

Cost of inventories for the six months ended 30 June 2018 include RMB51,304,000 (six months ended 30 June 2017: RMB46,489,000) relating to staff costs, depreciation and amortisation, which amounts are 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	
	2018	2017
	RMB'000	RMB'000
Current taxation – PRC Corporate Income Tax	**8,829**	8,818
Deferred taxation (Note 16)	**408**	(2,144)
	9,237	6,674

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

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 2018 (six months ended 30 June 2017: 16.5%). The subsidiary has no assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB Nil).

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 2018 (six months ended 30 June 2017: 25%).

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. Pursuant to the approval, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for the years from 2015 to 2017. This subsidiary is in the process of applying for the same preferential tax rate for the calendar years 2018 to 2020, whereby the directors of the Company 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 2018. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 50% 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 RMB49,416,000 (six months ended 30 June 2017: RMB42,019,000) and the weighted average of 795,580,110 ordinary shares (six months ended 30 June 2017: 600,000,000) in issue during the interim period.

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

	Six months ended 30 June	
	2018	2017
Issued ordinary shares at 1 January	**9,999**	–
Issuance of share upon incorporation	**–**	1
Issuance of shares in May 2017	**–**	9,998
Effect of capitalisation issue (Note 19(b)(i))	**599,990,001**	599,990,001
Effect of shares issued on 5 January 2018 (Note 19(b)(ii))	**195,580,110**	–
Weighted average number of shares in issue	**795,580,110**	600,000,000

The Company was incorporated on 2 May 2017, and issued and allotted 9,999 shares in May 2017. In order to present a meaningful earnings per share, the above 9,999 shares are regarded as if they have been in issue since 1 January 2017. The capitalisation issue took place on 5 January 2018 (Note 19(b)(i)) is deemed to be completed on 1 January 2018 and the weighted average number of shares has been adjusted accordingly.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2018 and 2017.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of plant and machinery with a cost of RMB50,593,000 (six months ended 30 June 2017: RMB80,497,000). Items of plant and machinery with a net book value of RMB392,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB215,000).

10 LEASE PREPAYMENTS

Lease prepayments represent land use right premiums paid by the Group for land situated in the PRC. The lease terms are of 50 to 70 years.

11 INVENTORIES

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	44,753	52,983
Work in progress	25,394	23,961
Finished goods	67,541	82,019
	137,688	158,963
Less: Write-down of inventories	(2,582)	(2,653)
	135,106	156,310

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	236,922	226,449
Reversal of write-down of inventories	(71)	(619)
	236,851	225,830

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Trade receivables	216,028	207,021
Bills receivables	119,886	69,412
Trade and bills receivables, net of loss allowance	335,914	276,433
Prepayments, deposits and other receivables:		
– Prepayment for purchase of inventories	4,506	2,382
– Deposits for production performance	11,440	11,420
– Prepayments in connection with the initial listing of the Company's shares	–	6,550
– Others	830	875
	352,690	297,660

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

12 TRADE AND OTHER RECEIVABLES (continued)

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 2018 RMB'000	At 31 December 2017 RMB'000
Less than 1 month	98,589	168,716
1 to 3 months	122,689	77,474
3 to 6 months	113,816	28,468
Over 6 months	820	1,775
	335,914	276,433

13 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash on hand and at bank	205,928	5,715

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 2018 RMB'000	At 31 December 2017 RMB'000
Trade payables	147,874	180,270
Bills payables	25,870	–
Trade and bills payables	173,744	180,270
Payables for construction of property, plant and equipment	90,023	90,200
Payables for staff related costs	17,168	19,461
Payables for other taxes	3,334	13,060
Payables for costs incurred in connection with the initial listing of the Company's shares	–	13,708
Accrued expenses and other payables	12,158	12,907
	296,427	329,606

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

14 TRADE AND OTHER PAYABLES (continued)

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Less than 1 month	108,679	98,173
1 to 3 months	28,843	59,237
3 to 6 months	33,764	19,918
Over 6 months	2,458	2,942
	173,744	180,270

15 BANK AND OTHER LOANS

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Short-term bank loans:		
– secured	136,000	60,000
Add: current portion of long-term bank and other loans (Note 15(b))	77,000	52,000
	213,000	112,000

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Long-term bank loans:		
– secured	17,000	18,000
Loans from third parties:		
– unguaranteed and unsecured	60,000	150,000
	77,000	168,000
Less: current portion of long-term bank and other loans (Note 15(a))	(77,000)	(52,000)
	–	116,000

15 BANK AND OTHER LOANS (continued)

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

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
After 1 year but within 2 years	–	116,000

(c) At 30 June 2018, the aggregate carrying amount of property, plant and equipment and lease prepayments pledged for the Group's short-term and long-term bank loans is RMB160,274,000 (31 December 2017: RMB75,184,000).

16 DEFERRED TAX ASSETS

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

Deferred tax assets arising from:	Government grants and subsequent amortisation RMB'000	Provision for warranties RMB'000	Write-down of inventories RMB'000	Loss allowance for trade receivables RMB'000	Total RMB'000
At 1 January 2017	7,522	736	360	–	8,618
Credited to the consolidated statement of profit or loss	1,747	83	38	–	1,868
At 31 December 2017	9,269	819	398	–	10,486
Impact on initial application of IFRS 9	–	–	–	77	77
At 1 January 2018	9,269	819	398	77	10,563
(Charged)/credited to the consolidated statement of profit or loss (Note 7)	(487)	26	(11)	64	(408)
At 30 June 2018	8,782	845	387	141	10,155

17 PROVISION FOR WARRANTIES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
At the beginning of the period/year	**5,464**	4,911
Provisions made	**832**	3,099
Provisions utilised	**(665)**	(2,546)
At the end of the period/year	**5,631**	5,464
Less: Amount included under "current liabilities"	**(2,284)**	(2,471)
	3,347	2,993

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 2018 RMB'000	At 31 December 2017 RMB'000
At the beginning of the period/year	**61,793**	50,146
Additions	**–**	17,435
Credited to the consolidated statements of profit or loss and other comprehensive income	**(3,246)**	(5,788)
At the end of the period/year	**58,547**	61,793

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

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Interim dividend declared and paid after the interim period of HK$6.85 cents per share (six months ended 30 June 2017: HK$Nil per share)	**47,649**	–

The directors of the Company resolved on 31 August 2018 that HK$54,800,000, equivalent to approximately RMB47,649,000 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 2017.

(b) Share capital

	Number of shares	Nominal value of ordinary shares RMB'000
Ordinary shares, issued and fully paid:		
At 1 January 2018	9,999	1
Capitalisation issue (Note (i))	599,990,001	49,818
Issuance of shares on 5 January 2018 (Note (ii))	200,000,000	16,606
At 30 June 2018	800,000,000	66,425

Notes:

(i) On the Listing Date, the Company issued 599,990,001 ordinary shares at par value of HK$0.1 each to the equity shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 11 December 2017 by way of capitalisation of the sum of HK$59,999,000 (equivalent to approximately RMB49,818,000) standing to the credit of the share premium account of the Company.

(ii) On the Listing Date, the shares of the Company were listed on the Main Board of the Stock Exchange. 200,000,000 shares were issued by the Company at the offer price of HK$1.68 per share. The net proceeds from the above issuance amounted to approximately HK$318,756,000 (equivalent to approximately RMB264,666,000), of which HK$20,000,000 (equivalent to approximately RMB16,606,000) and HK$298,756,000 (equivalent to approximately RMB248,060,000) were recorded in the Company's share capital and share premium account respectively.

20 COMMITMENTS

(a) Capital commitments

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Commitments in respect of property, plant and equipment and land use rights:		
– Contracted for	**28,942**	9,702

(b) Operating lease commitments

At 30 June 2018, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**278**	50
1 to 2 years	**209**	–
	487	50

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	
	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**1,983**	933
Contributions to defined contribution retirement plan	**30**	28
	2,013	961

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of IFRS 16, *Leases*.

IFRS 16, *Leases*

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee. Upon the adoption of IFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for property which are currently classified as operating leases. As disclosed in Note 20(b), at 30 June 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB487,000 for certain office premises.

Upon the initial adoption of IFRS 16 at 1 January 2019, the present value of some of the future minimum lease payments will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16.

REVIEW REPORT TO THE BOARD OF DIRECTORS OF RUIFENG POWER GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 23 to 49 which comprises the consolidated statement of financial position of Ruifeng Power Group Company Limited (the "Company") as of 30 June 2018 and the related consolidated statements of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

31 August 2018