Annual Report 2020

Ruifeng Power Group Company Limited
瑞豐動力集團有限公司

(Incorporated in Cayman Islands with limited liability)
Stock code : 2025

Contents

Corporate Information

DIRECTORS

Executive Directors

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

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 ADVISER

As to Hong Kong Law:
Chiu & Partners
40/F, Jardine House,
1 Connaught Place
Central
Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

COMPLIANCE ADVISER

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Cricket Square,
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN PRC

Middle of East Taishan Road
Shenzhou
Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 619A, 6/F, Block B
New Mandarin Plaza
14 Science Museum Road
Tsim Sha Tsui
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR BRANCH

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

2025

WEBSITE

www.hbsgt.com

Company Overview

Ruifeng Power Group Company Limited (the "Company" and, together with its subsidiaries, the "Group") is a specialized manufacturer of cylinder blocks, a major structure in automobile engines, based in Shenzhou, Hebei, 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 year ended 31 December 2020, we owned and operated a total of 3 precision casting lines and 18 mechanical processing lines (including 14 for cylinder blocks, 3 for cylinder heads and 1 for other ancillary cylinder block components).

THE MAIN PRODUCTS ARE:

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

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

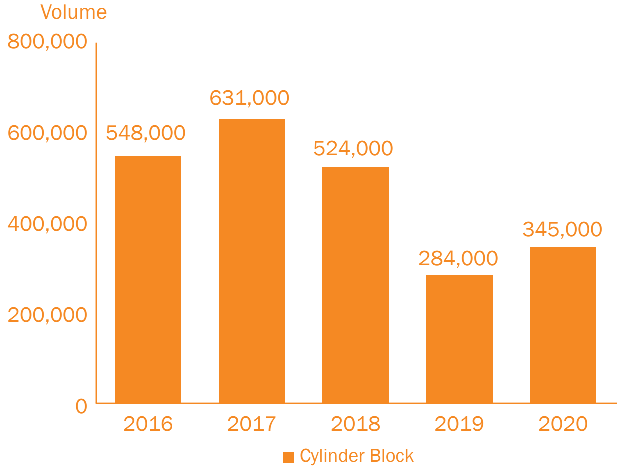
Ancillary Cylinder Block Components – including main bearing cap and flywheel. Main bearing caps are used in piston engines to secure the crankshaft against the cylinder block. Our main bearing caps help prevent the forces created by the piston and transmitted to the crankshaft by forcing the crank to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

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

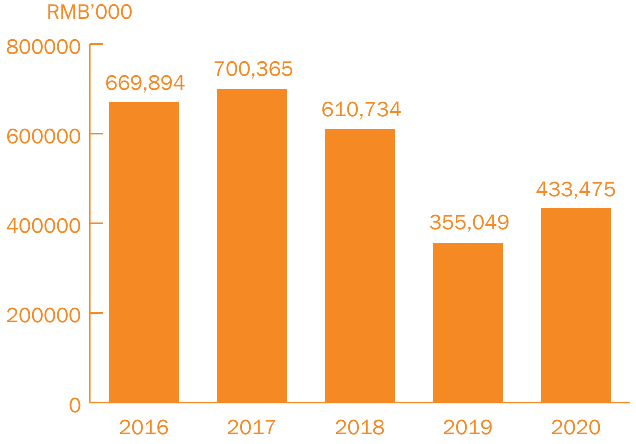
- The specialized manufacturer of cylinder blocks and an established producer of cylinder heads in China
- A high level of flexibility in production facilities and process to meet the specific needs of different customers
- Continuous optimization and innovation of production process and technologies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

Year ended 31 December	2020	2019	2018	2017	2016 (Note 1)
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue (RMB'000)	**433,475**	355,049	610,734	700,365	669,894
Gross profit (RMB'000)	**106,492**	85,680	190,051	217,400	193,101
Gross profit margin	**24.6%**	24.1%	31.1%	31.0%	28.8%
Profit for the year (RMB'000)	**33,600**	30,115	102,349	94,798	93,725
Net profit margin	**7.8%**	8.5%	16.8%	13.5%	14.0%
Basic and diluted earnings per share (RMB)	**0.042**	0.038	0.128	0.158	0.156

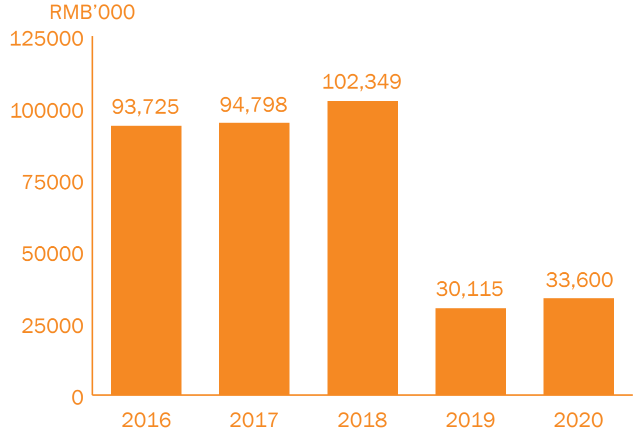
Sales of Cylinder Blocks



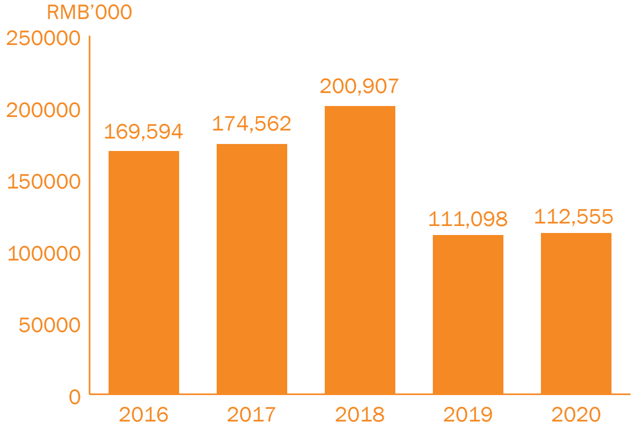
Revenue



Profit for the year



Adjusted EBITDA



Financial Summary

As at 31 December	2020	2019	2018	2017	2016 (Note 1)
Major Items of Consolidated Statement of Financial Position					
Non-current assets (RMB'000)	**835,239**	797,345	770,444	749,506	670,730
Current assets (RMB'000)	**605,434**	522,000	637,939	459,685	377,772
Current liabilities (RMB'000)	**427,670**	317,225	438,612	446,698	376,253
Net current assets/(liabilities) (RMB'000)	**177,764**	204,775	199,327	12,987	1,519
Non-current liabilities (RMB'000)	**54,744**	61,802	63,607	180,786	162,973
Net assets (RMB'000)	**958,259**	940,318	906,164	581,707	509,276
Gearing ratio (Note 2)	**16.7%**	12.9%	23.1%	39.2%	39.4%

Notes

(1) The results and summary of assets and liabilities for the years ended 31 December 2016 which were extracted from the prospectus of the Company dated 19 December 2017 (the "Prospectus").

(2) 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.

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Ruifeng Power Group Company Limited (the "Company" or "Ruifeng Power"), I am going to present to the shareholders the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020 ("2020" or the "Year").

During the Year, in view of challenges brought by the pandemic to the automobile industry, all employees of the Group maintained firm confidence, overcame difficulties, actively implemented pandemic prevention and control measures, and resumed operation and production. This did not only resolve the difficulties and crisis but also achieved growth in results. For the year ended 31 December 2020, the Group's revenue and gross profit for the Year increased by 22.1% and 24.3% to RMB433.5 million and RMB106.5 million respectively, as compared to the year ended 31 December 2019.

After more than two decades of rapid growth in the automobile industry and betting on the development of new energy vehicles by all parties, there are more than 100 automobile brands in the PRC automobile market. The production and sales volume of many of the automobile manufacturers are far below the reasonable scale or level, which is not a healthy and sustainable development. Nowadays, the era of rapid growth of the automobile industry has come to an end, and the automobile market in the PRC will enter the stage of stock competition in the future. Poorly managed automobile brands are bound to be eliminated from the market. The Group has been concerned about this phenomenon and understands that some automobile manufacturers have experienced a rapid decline in sales volume and are facing a difficult operating crisis. One of the Group's customer experienced financial difficulties as well and had filed for bankruptcy, resulting in an additional provision for bad debts of approximately RMB 13.5 million in 2020. In order to reduce the operational risks brought to the Group by survival of customers in the future, we have been adjusting and optimizing the customer structure since last year, actively identifying new high-quality and well-known automobile manufacturers with core competitiveness in the market and preparing to eliminate some of the underperforming customers with declining sales volume, so as to improve the overall operating capacity of the Company. The Group has added China FAW Group as an important customer in 2020, and both parties will expand their cooperation in lightweight automobile series.

According to the Development Plan of New Energy Automobile Industry (2021-2035) issued by the General Office of the State Council in October 2020, the development of new energy vehicles is the only way for the PRC to transform from a large automobile country to a strong automobile country. The Group will follow the general trend of the development of new energy vehicles and actively explore the sustainable development path suitable for its own characteristics. On one hand, we will focus on the development and innovation of new energy vehicles, cooperate with relevant enterprises in the production of motor shells, and look for cooperation opportunities for products such as hybrid cylinder blocks. In addition, the Group will increase its investment in the production of automotive lightweight products with its partners, such as cooperation with China FAW Group in the production of aluminum cylinder blocks. Finally, as non-road mobile machineries and other diesel-powered vehicles or machineries are restricted by technologies, they still rely on diesel-powered engines to generate power and are in the fourth stage of emission. Due to the slight impact of new energy, the Group will continue to strengthen its cooperation with industrial vehicle enterprises. In the field of diesel cylinder block products, we have completed the submission of Deutz samples in 2020 and expect to commence mass production in 2021.

Chairman's Statement

The Group will respond to the ever-changing industry through matrix development and portfolio of products.

The coordinated development of the Beijing-Tianjin-Hebei region has become a national strategy of the PRC. This regional source has continuously attracted the input of automobile industry chain resources and creative talents, which have become the driving force for the innovation of the automobile industry, promoted the coordinated development, transformation and upgrades of the regional automobile industry, and enabled the automobile industry in the Beijing-Tianjin-Hebei region to take a leading position in comprehensive competitiveness across the country. The Group is based in Shenzhou, Hebei Province, the PRC, which is approximately 250 km from Beijing and 170 km from Xiong'an New Area respectively which the Board considers to be beneficial for the Group to cooperate with science research institutions and universities in these regions, attract talents, and find out the direction for the new generation of automobile accessories in the field of research and development or cooperation.

2021 is the first year of the PRC's 14th Five-Year Plan, and the economic development of China is facing more severe challenges both externally and internally. However, opportunities and challenges co-exist. In 2021, the Group will focus on the business development of new energy vehicles, lightweight vehicles and non-motor vehicle parts, and look for the direction for the new generation of automobile parts in the field of research and development or cooperation. At the same time, the Group will further improve its corporate management level and operation quality, and strive to create more outstanding results.

Finally, on behalf of the Board, I would like to sincerely show our appreciation to all the staff for their outstanding contributions to the development of the Group. We would also like to thank the shareholders, our customers and partners for their great support. The Group will continue its efforts to achieve its business objectives for 2021 and maximize profit and returns for shareholders and other stakeholders.

Meng Lianzhou
Chairman

Shenzhou, the PRC
24 March 2021

DIRECTORS

Executive Directors

Mr. Meng Lianzhou (孟連周), aged 60, is the executive Director, chief executive officer and chairman of the Group who is responsible for the overall strategic development and business development of the Group. Mr. Meng was appointed as a Director on 2 May 2017 and re-designated as an executive Director on 10 August 2017. Mr. Meng is also a director of Hebei Ruifeng Cylinder Block Company Limited* (河北瑞豐動力缸體有限公司) ("Hebei Ruifeng"), an indirect wholly-owned subsidiary of the Company. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Meng is one of the founders of the Group and one of the controlling shareholders of the Company (the "Controlling Shareholders"). Mr. Meng graduated from Hebei Radio and TV University (河北廣播電視大學) with a certificate in corporate management in July 1988. Mr. Meng joined Hebei Cylinder Block Factory* (河北省內燃機缸體廠) ("Hebei Cylinder Block Factory") in March 1995 as a tooling workshop operator and had held various positions including power workshop director and the director of the finance division. He was promoted to be the plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002 and our chairman since October 2003. Mr. Meng was named a "Model Worker in Hebei Province" (河北省職工勞動模範) by Hebei Municipal Government and Hebei Federation of Trade Unions of Shenzhou City (河北省人民政府、河北省總工會) in 2009. Furthermore, Mr. Meng has also held offices as the vice president of the Union of Returned Overseas Chinese in Hengshui City* (衡水市歸國華僑聯合會) since 2012 and the vice president of the Industry and Commerce Union in Hengshui City* (衡水市工商業聯合會) since 2016. Mr. Meng is a director of Dragon Rise Ventures Limited ("Dragon Rise"), one of the Controlling Shareholders. Mr. Meng's interest in the shares of the Company ("Shares") and its associated corporations as at 31 December 2020 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

Mr. Liu Zhanwen (劉占穩), aged 68, is the executive Director who is responsible for the overall business operation of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Liu is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a sales department officer until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Liu has been a director of the Group since June 2002 and had held various positions including assistant of general manager, deputy general manager and sales manager in the Group. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2020 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

Biographical Details of Directors and Senior Management

Mr. Zhang Yuexuan (張躍選), aged 72, is the executive Director who is responsible for the overall product research and development of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Zhang is also a director of Hebei Ruifeng. He has over 20 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Zhang is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a processing line director and was later promoted to be the vice plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Zhang has been a director of the Group since June 2002. From October 2003 until the dissolution of Hebei Ruifeng Internal Combustion Engine Cylinder Block Company Limited* (河北瑞豐內燃機缸體有限公司) ("Hebei Ruifeng Engine") in December 2009, he had held various positions in Hebei Ruifeng Engine including vice chairman, deputy general manager and general manager. He was the deputy general manager of Hebei Ruifeng from March 2016 to February 2017. Since February 2017, he has been the executive general manager of Hebei Ruifeng, mainly responsible for the product research and development. Mr. Zhang is a director of Dragon Rise. Mr. Zhang's interest in the shares of the Company and its associated corporations as at 31 December 2020 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

Mr. Liu Enwang (劉恩旺), aged 59, is the executive Director who is responsible for the overall financial management of the Group. He was appointed as an executive Director on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He is one of the founders of the Group and one of our Controlling Shareholders. Mr. Liu graduated from School of Agriculture and Mechanization, Hengshui* (衡水地區農業機械化學校) (currently known as Hengshui Industrial School* (衡水工業學校)) with a major in machinery maintenance in May 1981. Mr. Liu joined Hebei Cylinder Block Factory in March 1995 as an accountant and was later promoted to be the deputy section manager in July 1995 and the section manager in May 1997, until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002. He had been the financial director of Hebei Ruifeng Engine from October 2003 to July 2007. Since August 2007, he has been the financial director and deputy general manager of Hebei Ruifeng, mainly responsible for financial management. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2020 is disclosed under the paragraph headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures".

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wei Anli (魏安力), aged 68, is our independent non-executive Director. Mr. Wei was appointed as an independent non-executive Director on 11 December 2017. Mr. Wei graduated from Jilin University of Technology (吉林工業大學) (currently known as Jilin University) with a certificate in automotive engineering (internal combustion engine) in March 1980. From January 1980 to June 1982, Mr. Wei was the technician in the Standards Department of the Technology Bureau, Ministry of Agriculture and Machinery* (農機部科技局標準處). From July 1982 to September 1986, he was employed as the assistant engineer in the quality technology department of Agriculture and Machinery Administration, Ministry of Machinery* (機械部農機總局質量工藝處). From October 1986 to October 1988, he was the engineer in the technology department of the Agricultural Equipment Division, Machinery Committee* (機械委農業裝備司科技處). Mr. Wei was the engineer from November 1988 to December 1990 in the technology department, Engineering and Agricultural Machinery Division, Ministry of Machinery and Electronics* (機械電子部工程農機司科技處). He was the engineer and deputy director from December 1990 to May 1992 in the internal combustion engine department of the Engineering and Agricultural Machinery Division, Ministry of Machinery* (機械部工程農機司內燃機處). From May 1990 to October 1997, Mr. Wei had held various positions including engineer, deputy director, director, senior engineer in the Office of Internal Combustion Engine Industry Planning, the State Council* (國務院內燃機大行業規劃辦公室). From August 1997 until present, Mr. Wei has been working in China Internal Combustion Engine Industry Association* (中國內燃機工業協會) and has held various positions including chairman consultant, secretary-general and deputy secretary-general. He has been the duty secretary-general since July 2008 and is mainly responsible for the research on industry-related matters including industry structure, internal combustion engine products development and industry- related policies and regulations. Mr. Wei is currently an independent director of Tianrun Crankshaft Co., Ltd. (天潤曲軸股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 002283), Shandong Binzhou Bohai Piston Co., Ltd. (山東濱州渤海活塞股份有限公司) (listed on the Shanghai Stock Exchange: stock code: 600960) and Henan Province Xixia Automobile Water Pump Co., Ltd. (河南省西峽汽車水泵股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 002536). Mr. Wei also served as an independent director of Kangyue Technology Co., Ltd. (康躍科技股份有限公司) (listed on the Shenzhen Stock Exchange: stock code: 300391) from August 2010 to August 2016 and Zhejiang Dehong Automotive Electronic & Electrical Co., Ltd. (浙江德宏汽車電子電器股份有限公司) (listed on the Shanghai Stock Exchange: stock code: 603701) from December 2010 to December 2016.

Mr. Ren Keqiang (任克強), aged 47, is our independent non-executive Director. He was appointed as an independent non-executive Director on 11 December 2017. Mr. Ren graduated from High School of Longkou Mining Bureau, Longkou City, Yantai City, Shandong Province* (山東省煙台市龍口市龍口礦務局高中) (currently known as Longkou School, Longkou City* (龍口市龍礦學校)) in July 1992. He has over 13 years of experience in the investment and management field. From October 1995 to November 2014 and since July 2018, Mr. Ren held various positions at Langfang Huari Furniture Co., Ltd.* (廊坊華日家具股份有限公司), a company principally engaged in the sale and manufacturing of furniture in the PRC: he was the purchasing officer and deputy manager of the purchasing department from October 1995 to June 1997; the officer manger from July 1997 to October 2003; the investment manager from October 2003 to December 2011; the general manager of office furniture division and the assistant of the chairman from January 2012 to November 2014; the general manager of the investment department since July 2018, mainly responsible for investment, asset management, and merger and acquisition. From 2015 to July 2018, Mr. Ren is the general manager of Shenzhen Ren Intelligent Investment Co., Ltd* (深圳仁智慧投資有限公司), a company principally engaged in equity investment and secondary stock market investment, and is mainly responsible for investment, assets management and mergers. From December 2014 until present, Mr. Ren is still the supervisor of Shenzhen Ren Intelligent Investment Co., Ltd. Since December 2019, he has been a director of Celebrity International Holdings Ltd., Since January 2020, he has been a director of Huayun Company Limited.

Mr. Yu Chun Kau (余振球), aged 48, is our independent non-executive Director. Mr. Yu was appointed as an independent non-executive Director on 11 December 2017. Mr. Yu has over 25 years of experience in accounting, corporate finance, compliance and auditing. Mr. Yu graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree with first class honours in December 1994. In June 2005, he also obtained a Master of Corporate Governance Degree from The Open University of Hong Kong. Mr. Yu was admitted as a fellow member of The Association of Chartered Certified Accountants in November 2002. He was admitted as a fellow member and was registered as a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in July 2005 and in October 2002, respectively. In March 2007, he was admitted as a senior international finance manager in the International Financial Management Association. In April 2015, he was also admitted as a fellow member of The Institute of Chartered Accountants in England and Wales. In September 2016, he was admitted as both a fellow member of The Hong Kong Institute of Chartered Secretaries and as a fellow member of Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). He started his career at a major international accounting firm in 1994 and then worked for various Hong Kong listed companies and multinational corporations as executive director, chief financial officer and company secretary. Mr. Yu has been an independent non-executive director of Forward Fashion (International) Holdings Company Limited, a company listed on the Main Board of The Stock Exchange (stock code: 2528) since December 2019 and an independent non-executive director of JiaChen Holding Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1937) since December 2019. He is the chief financial officer of Jacobson Pharma Corporation Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2633) since January 2019 and has appointed as the Company Secretary since April 2021.

SENIOR MANAGEMENT

Mr. Wei Xilai (位喜來), aged 36, is the secretary to chairman who is responsible for the overall administration work of the Group. Mr. Wei joined the Group as an office clerk in 6 September 2006 and was promoted to be the secretary to chairman in February 2012. Mr. Wei graduated from Central Radio and Television University* (中央廣播電視大學) (currently known as The Open University of China* (國家開放大學)) with a diploma in Chinese linguistics and literatures in July 2011.

Mr. Xie Fei (謝飛), aged 46, is the executive deputy general manager who is responsible for the overall management of business operations of the Group. Mr. Xie graduated from Shenxian No. 2 Senior Vocational and Technical Secondary School* (深縣第二高級職業技術中學) in May 1994. Mr. Xie joined Hebei Cylinder Block Factory in March 1995 as a tooling workshop worker until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. He joined the Group in October 2003 as a workshop supervisor. Mr. Xie was the production officer of Hebei Ruifeng Engine from May 2006 to July 2006, the vice plant manager of Hebei Ruifeng Engine from July 2006 to August 2007, the deputy minister of production of Hebei Ruifeng Engine from August 2007 to December 2009, the deputy minister of production of Hebei Ruifeng from December 2009 to May 2011, the production minister of Hebei Ruifeng from May 2011 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the executive deputy general manager of the Group.

Mr. Wen Qingwei (文清威), aged 49, is the deputy general manager who is responsible for the overall product development and quality control of the Group. Mr. Wen graduated from Hengshui Vocational and Technical College of Hebei Province* (河北省衡水勞動技工學院) (currently known as Hengshui Senior Technical School of Hebei Province* (河北省衡水高級技工學校)) with a technician diploma in July 1992. Mr. Wen joined Hebei Cylinder Block Factory as a tooling workshop worker in July 1995 and was later promoted to be the trainee deputy technology manager in September 2001, until the restructuring of Hebei Cylinder Block Factory in 25 October 2003. Mr. Wen joined the Group in October 2003 as a trainee deputy technology manager. He was the quality control manager of Hebei Ruifeng Engine from August 2005 to December 2009, the quality control manager of Hebei Ruifeng from December 2009 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since 1 February 2017, he has been the deputy general manager of the Group.

Mr. Wong Ka Wai (王加威), aged 41, is the chief financial officer and company secretary of the Group. He was appointed as our chief financial officer and company secretary in 1 May 2017. He is responsible for overseeing the Group's financial and banking management and company secretarial work. Mr. Wong graduated from the City University of Hong Kong with a bachelor of business administration in accountancy in November 2001 and is currently a member of the Association of Chartered Certified Accountants. Mr. Wong has also obtained a bachelor of laws from the University of London in August 2007.Prior to joining the Group, Mr. Wong has over 10 years of experience in the tax and accounting field. From September 2001 to May 2004 and from April 2005 to July 2006, Mr. Wong was employed as the tax consultant of KPMG. From July 2006 to January 2008, Mr. Wong was the senior accountant in the tax department of Ernest & Young and was subsequently transferred to the tax department of the Shanghai office as manager until May 2010. From November 2010 to September 2011, he was the manager of BASF East Asia Regional Headquarters Limited, a chemical company principally engaged in chemicals, glues, and electronic chemicals. From November 2011 to December 2012, Mr. Wong was employed as a manager of the individual tax business unit in PricewaterhouseCoopers. From January 2013 to March 2017, Mr. Wong was a chairman of Jai Dam Distribution (Hong Kong) Co. Ltd, a company principally engaged in distributorship of a European fashion and jewellery brand, and was responsible for business development and management of a French jewellery brand in China region. From February 2017 to June 2017, Mr. Wong was an independent non-executive director of Green International Holdings Limited (listed on the Main Board of the Stock Exchange: stock code: 2700). Mr. Wong is an independent non-executive director of Jujiang Construction Group Co., Ltd. (listed on the Main Board of the Stock Exchange: stock code: 1459) since August 2015.

COMPANY SECRETARY

The company secretary is Mr. Wong Ka Wai. He is employed by us on a full-time basis. Please refer to his biographical details in the sub-section headed "Senior Management" above.

INDUSTRY OVERVIEW

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

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

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

BUSINESS REVIEW

The Group is principally engaged in the design, development, production and sales of cylinder blocks, as well as cylinder heads and certain cylinder block components, to automobile manufacturers and engine manufacturers in China. The Group works closely with its customers to provide a set of high-quality and customized products. The Group conducts manufacturing operations for the major products through a closely-integrated cycle.

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

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

	For the years ended 31 December					
	2020			2019		
	Revenue RMB'000	**As a percentage of total revenue %**	**Sales volume units**	Revenue RMB'000	As a percentage of total revenue %	Sales volume units
Cylinder blocks						
Cylinder blocks for passenger vehicles	**48,228**	**11.1**	**56,470**	48,009	13.5	58,155
Cylinder blocks for commercial vehicles	**238,306**	**55.0**	**236,107**	180,633	50.9	180,038
Cylinder blocks for industrial vehicles	**56,240**	**13.0**	**52,037**	49,896	14.1	46,148
Subtotal	**342,774**	**79.1**	**344,614**	278,538	78.5	284,341
Cylinder Heads	**84,546**	**19.5**	**131,846**	60,319	17.0	107,639
Ancillary cylinder block components	**6,155**	**1.4**	**78,466**	16,192	4.5	709,282
Total	**433,475**	**100.0**		355,049	100.0	

Cylinder Blocks for Passenger Vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0-1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. Revenue from sales of cylinder blocks for passenger vehicles decreased from approximately 13.5% of our total revenue from cylinder block sales for the year ended 31 December 2019 to approximately 11.1% for the year ended 31 December 2020. Sales volume of cylinder blocks for passenger vehicles decreased by approximately 2.9% from approximately 58,000 units for the year ended 31 December 2019 to approximately 56,000 units for the year ended 31 December 2020. The decrease was mainly due to the suspension of production of a customer and the return of the Group's sold products, which decreased the sales volume and sales amount by approximately 6,000 units and RMB4.2 million respectively. In addition to this factor, the Group re-integrated its customer portfolio during the year ended 31 December 2020 to halt the production of products with less demand and increase the sales of new products, such as the provision of new models of cylinder blocks to China FAW Group Corporation Limited ("China FAW"), a new customer.

Cylinder Blocks for Commercial Vehicles

The cylinder blocks for commercial vehicles are normally used in engines of 1.5 liters or above. The cylinder blocks for commercial vehicles are made from grey cast iron alloy. Revenue from sales of cylinder blocks for commercial vehicles increased from approximately 50.9% of total revenue from sales of cylinder blocks for the year ended 31 December 2019 to approximately 55.0% for the year ended 31 December 2020. Sales volume of cylinder blocks for commercial vehicles increased by approximately 31.1% from approximately 180,000 units for the year ended 31 December 2019 to approximately 236,000 units for the year ended 31 December 2020. Such increase was primarily due to a significant increase in demand for 493 cylinder block products sold to a customer, which resulted in an increase in sales volume and sales amount of 43,000 units and RMB53.1 million respectively.

Cylinder Blocks for Industrial Vehicles

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. Revenue from sales of cylinder blocks for industrial vehicles decreased from approximately 14.1% of total revenue from sales of cylinder blocks for the year ended 31 December 2019 to approximately 13.0% for the year ended 31 December 2020. Sales volume of cylinder blocks for industrial vehicles increased by approximately 12.8% from approximately 46,000 units for the year ended 31 December 2019 to approximately 52,000 units for the year ended 31 December 2020. Such increase was mainly due to the increase in demand from customers.

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

Cylinder Heads

The cylinder heads are primarily used in commercial vehicles and often sold together with cylinder blocks to automobile manufacturers and engine manufacturers in China. Sales volume of cylinder heads increased by approximately 22.5% from approximately 108,000 units for the year ended 31 December 2019 to approximately 132,000 units for the year ended 31 December 2020. Such increase was primarily due to an increase in sales volume of our 493 cylinder blocks.

Expanding the Lightweight Automobile Market with China FAW Group

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

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

Production Facilities and New Products and Research and Development

All production facilities of the Group are located in Shenzhou, Hebei Province, the PRC. As at 31 December 2020, the Group owned and operated a total of 3 precision casting lines and 18 mechanical processing lines (including 14 for cylinder blocks, 3 for cylinder heads and 1 for other ancillary cylinder block components).

During the year ended 31 December 2020, the Group was building 9 new mechanical processing lines and a precision casting lines by using the renovation of the existing production line or investing a new production line. Most of the new production lines are expected to be completed before the end of 2021. After completion of the 9 processing lines, the Group will enhance its production efficiency and provide over 12 new products, especially for cylinder blocks for industrial and passenger vehicles.

PROSPECTS

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

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

FINANCIAL REVIEW

Revenue

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

Sales of Cylinder Blocks

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

Sales of Cylinder Heads

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

Sales of Ancillary Cylinder Block Components

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

Gross Profit and Gross Profit Margin

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

Other Income

Other income decreased by approximately 44.6% from approximately RMB39.7 million for the year ended 31 December 2019 to approximately RMB22.0 million for the year ended 31 December 2020. This decrease was primarily due to a decrease in government grants. The government subsidies related to the expansion of the production facilities and purchase of new production equipment which are recorded as deferred income and amortised during the year.

Selling Expenses

Selling expenses increased by approximately 11.2% from approximately RMB10.9 million for the year ended 31 December 2019 to approximately RMB12.2 million for the year ended 31 December 2020. This increase was primarily due to the increase in transportation expenses as demands for our products were increased.

Administrative Expenses

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

Impairment loss on trade receivables

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

Finance Costs

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

Income Tax Expenses

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

Profit for the Year

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations are primarily financed by cash generated from operating activities, net proceeds received from the global offering of the Company completed on 5 January 2018 (the "Global Offering") and bank loans. As of 31 December 2020 and 2019, the Group had cash and cash equivalents of approximately RMB26.3 million and approximately RMB49.3 million, respectively.

The Group monitors its cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities, as well as bank loans. Other than normal bank loans that the Group obtains from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

Trade and Bills Receivables

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

Trade Payables

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

Bank Loans

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

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

Gearing Ratio

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

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

Capital Expenditure

For the year ended 31 December 2020, the capital expenditure was approximately RMB102.8 million (2019: RMB92.6 million). The capital expenditure incurred for the year ended 31 December 2020 primarily related to the building of new mechanical processing lines for the new products and purchases of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 31 December 2020, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB22.4 million (2019: RMB37.8 million).

Contingent liabilities

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

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

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

SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

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

EMPLOYEE AND REMUNERATION POLICIES

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

The Group believes its success depends on its employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge and skill level of its employees, the Group places a strong emphasis on training for employees. In addition, the Group offers a competitive remuneration package to retain elite employees, including basic salary and performance-based monthly and annual bonuses, and reviews the remuneration package annually according to industry benchmark, financial results of the Group as well as the individual performance of employees.

Waiver of directors' remuneration

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Stock Exchange on 5 January 2018. The net proceeds from the Company's issue of new shares in the Global Offering amounted to approximately RMB264.7 million. On 24 November 2019, the Company has resolved to change the use of net proceeds from the Global Offering. Details of the revised allocation of the change in use of net proceeds are set out as follows:

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

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

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

As at 31 December 2020, the unused balance of the net proceeds from the Global Offering of approximately RMB20.0 million was placed into short-term demand or time deposits.

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

MAJOR SUBSEQUENT EVENTS

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

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 May 2017 under the Companies Law of the Cayman Islands. The Company is an investment holding company. The principal activities of the Group are design, manufacture and sale of cylinder blocks and cylinder heads.

Further discussion and analysis of these activities for the year ended 31 December 2020 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 14 to 23 of this annual report.

KEY RISKS AND UNCERTAINTIES

The main activities of the Group include production and sales of cylinder blocks and cylinder heads. The business operation of the Group is exposed to a variety of risks including operational, financial and market risks. Details of the above risks as below:

Operational risks

The top five customers of the Group, which primarily include large automobile manufacturers and engine producers located in China, accounted for approximately 80.9%, of the total revenue for the year ended 31 December 2020. For the year ended 31 December 2020, the largest customer of the Group accounted for approximately 34.0% of the total revenue. The largest customer for the year ended 31 December 2020 was an automobile manufacturer. The loss of a small number of our large customers, or the decrease in sales with one or more of these major customers, could have a significant adverse impact on our financial results.

Financial risks

The major financial risks faced by the Group are interest risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks, the financial risk management policies are set out in note 24 to the consolidated financial statement.

Market risks

The Group operate in a market characterized by evolving industry standards, frequent new product launches and updates, rapidly-developing technologies, and changing customer demands and expectations. The continuing popularity of our products depends on the ability of the Group to adapt to these rapidly-changing technologies and industry standards as well as our ability to continually innovate in response to evolving customer demands and expectations and intense market competition. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business and operating results.

The Group has put in place a set of internal control and risk management protocols to address various operational, financial and market risks. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board of Directors has the general power to manage the operations and the overall risks of the Company and is responsible for considering, reviewing and approving any significant business decision involving material risk exposures. After due consideration, our Directors are of the view that our current risk management measures are adequate and effective.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest and five largest customers for the year ended 31 December 2020 accounted for approximately 34.0% (2019: 24.7%) and 80.9% (31 December 2019: 77.0%), respectively, of the Group's total revenue from sales operations.

The aggregate purchases attributable to the Group's largest and five largest suppliers for the year ended 31 December 2020 accounted for approximately 24.4% (2019: 11.9%) and 46.1%, respectively (31 December 2019: 28.9%).

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Further discussion of the key relationship with employees, customers and suppliers is set out in the section head "Environment, Social and Governance Report" on pages 47 to 59 of this annual report.

FINAL DIVIDEND

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

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

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") to allow shareholders of the Company (the "Shareholders") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to the discretion of the Board, taking into consideration the criteria described below. The remaining net profits will be used for Group's development and operations. This dividend policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties.

Approval and Payment Procedures

Details of the procedures on dividend and other payments of the Company have been set out in Articles 133 to 142 of the Company's Articles of Association posted on the website of the Company.

Review and Monitor of this Policy

The form, frequency and amount of dividend payment by the Company are subject to any restrictions under the Cayman Islands laws and the Company's Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time, and this dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in note 23 to the consolidated financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2020, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ANNUAL GENERAL MEETING

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

CLOSURE OF REGISTER OF MEMBERS

For determining the shareholder's entitlement to attend and vote at the AGM to be held on 28 May 2021, the register of members of the Company will be closed from 25 May 2021 to 28 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 24 May 2021, being the business day before the first day of closure of the register of members.

ENVIRONMENTAL PROTECTION

The Group uphold the concept of sustainable development, and actively promote environmental awareness among the staff of the Group.

The Company considers the staff, shareholders and potential investors, government authorities, and suppliers as the key stakeholders, and values highly the expectations and opinions from the stakeholders on environment protection. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an environmental, social and governance report has been published.

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the section headed "Environment, Social and Governance Report" on pages 47 to 59 in this annual report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on the business operation of the Group. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

RESERVES

As at 31 December 2020, reserves available for distribution of the Company amounted to RMB136.0 million.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report were as follows:

Executive Directors

Mr. Meng Lianzhou *(Chairman)*
Mr. Liu Zhanwen
Mr. Zhang Yuexuan
Mr. Liu Enwang

Independent Non-Executive Directors

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

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors, and Senior Management" on pages 9 to 13 in this annual report.

All the directors of the Company are subject to retirement by rotation as required by the Articles of Association. In accordance with Articles 84 of the Articles, Mr. Meng Lianzhou, Mr. Wei Anli, Mr. Yu Chun Kau will retire at the AGM of the Company to be held on 28 May 2021 and, being eligible, will offer themselves for re-election at the AGM.

SERVICE CONTRACTS WITH DIRECTORS

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 11 December 2017.The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from 11 December 2017 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other.

Except for the above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2020.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors of the Company and five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements. The emoluments of the Directors and the salaries of the senior management are determined with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of the Group.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2020.

DIRECTORS' COMPETING INTERESTS

None of the Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the Group's business.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of corporate governance practice adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

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

As at 31 December 2020, 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 Directors	Name of Group members	Capacity/Nature of interest	Number and class of securities	Approximate percentage of shareholding
			(Note 1)	
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%
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.

Save as disclosed above, as at 31 December 2020, 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 31 December 2020, 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 31 December 2020, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in the 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.

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2020, other than the Share Option Scheme as set out in the paragraph headed "Share Option Scheme" below, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year ended 31 December 2020.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 11 December 2017. The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group's operations. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "General Scheme Limit"). As at the date of this Directors' Report, the total number of Shares available for issue under the Share Option Scheme was 80,000,000 Shares, representing 10% of the issued share capital of the Company. The Company may renew the General Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

No share options have been granted, exercised or cancelled by the Company under the Share Option Scheme since its adoption and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date (i.e. 17 April 2021) prior to the issue of the annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

INDEMNITY OF DIRECTORS

Under the Articles of Association of the Company, a permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the Directors of the Company is currently in force and was in force throughout this year, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. During the year ended 31 December 2020, no claims were made against the Directors.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 26 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2020 or at any time during the year ended 31 December 2020.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the consolidated financial statements, no Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2020.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in note 18 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 to 6 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2020, the Group acquired additional property, plant and equipment of approximately RMB102.8 million. Details of the movements are set out in note 11 to the consolidated financial statements.

RETIREMENT BENEFIT PLAN

The Group participates in defined contribution retirement benefit plan managed by the PRC local government authorities for the Group's eligible employees in the PRC. Particulars of these retirement plans are set out in note 6 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 26 to the consolidated financial statements. None of the related party transactions disclosed in note 26 to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2020. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Dragon Rise, Mr. LZ Meng, Mr. ZW Liu, Mr. YX Zhang and Mr. EW Liu (the "Covenantors") in respect of the compliance with the terms of the non-compete undertaking (the "Non-compete Undertaking"), entered into between the Covenantors and the Company as set out in the section headed "Relationship with our Controlling Shareholders – Non-compete Undertaking" of the Prospectus for the year ended 31 December 2020. Each of the Covenantors has confirmed and declared that he/it had strictly complied with the Non-compete Undertaking without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Covenantors for the year ended 31 December 2020.

AUDITORS

The Company appointed KPMG as auditors of the Company for the year ended 31 December 2020. KPMG will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for the re-appointment of KPMG as auditor of the Company for the year ending 31 December 2021 will be proposed at the forthcoming annual general meeting.

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

Shenzhou, the PRC, 26 March 2021

Corporate Governance Report

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

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the "Code Provisions") of the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 December 2020 and up to the date of this annual 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 responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, Mr. Meng Lianzhou currently performs the roles of chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. The Board regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

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

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), and the nomination committee (the "Nomination Committee") (each a "Board Committee" and collectively the "Board Committees"), to oversee different areas of the Company's affairs. During the year ended 31 December 2020 and up to the date of this annual report, the composition of the Board is as follows:

Executive Directors:	Mr. Meng Lianzhou *(Chairman and Chief Executive Officer)* Mr. Liu Zhanwen Mr. Zhang Yuexuan Mr. Liu Enwang
Independent Non-executive Directors:	Mr. Wei Anli Mr. Ren Keqiang Mr. Yu Chun Kau

Their biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 9 to 13 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 11 December 2017.The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 11 December 2017 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other.

There is no financial, business or other material/relevant relationships among the members of the Board.

The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of the Directors has entered into a service contract with the Company.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with reasonable care, skill and diligence, in pursuit of the development of the Company. Each of the newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

During the year ended 31 December 2020, to assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. The Directors have participated in continuous professional development programmes such as external seminars organized by qualified professionals. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements were provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

Name of Director	Types of training: Attending in-house training organized by professional organizations	Types of training: Reading materials updating on new rules and regulations
Executive Directors		
Mr. Meng Lianzhou	✓	✓
Mr. Liu Zhanwen	✓	✓
Mr. Zhang Yuexuan	✓	✓
Mr. Liu Enwang	✓	✓
Independent Non-executive Directors		
Mr. Ren Keqiang	✓	✓
Mr. Yu Chun Kau	✓	✓
Mr. Wei Anli	✓	✓

Independence of Independent Non-Executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

Board Committees

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, Nomination Committee and the Remuneration Committee are respectively available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Company has established an audit committee on 11 December 2017 with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company.

At present, the audit committee comprises Mr. Ren Keqiang, Mr. Yu Chun Kau and Mr. Wei Anli, all being independent non-executive Directors. Mr. Yu Chun Kau is the chairman of our audit committee.

During the Year, the Audit Committee held two meetings. The Audit Committee has reviewed, among other things, the financial statements of the Company for the six months ended 30 June 2020 and the year ended 31 December 2020, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditors.

Remuneration Committee

The Company has established a remuneration committee on 11 December 2017 with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and review performance based remuneration.

At present, the remuneration committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Ren Keqiang and Mr. Yu Chun Kau. Mr. Ren Keqiang is the chairman of our remuneration committee.

During the Year, the Remuneration Committee held one meeting. The Remuneration Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of the Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2020 are set out in note 8 to the consolidated financial statements.

The biographies of the senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report. The remuneration of the senior management by band for the year ended 31 December 2020 is as follows:

Remuneration band (RMB)	Number of individuals
0 – 1,000,000	4
1,000,000 – 1,500,000	–
1,500,000	–

Nomination Committee

The Company has established a nomination committee on 11 December 2017 with written terms of reference in compliance with Code A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the nomination committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Directors; to identify individuals suitably qualified as potential Board members and to select or make recommendations to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors.

At present, the nomination committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Yu Chun Kau and Mr. Wei Anli. Mr. Wei Anli is the chairman of the nomination committee.

During the Year, the Nomination Committee held one meeting. The Nomination Committee has reviewed the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

1. Selection Criteria

(a) The Nomination Committee is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.

(b) In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as the Company's need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in automobile, automobile engine and automobile engine spare part industry and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

(c) Where necessary, the Nomination Committee should seek independent professional advice to access a wider range of potential candidates.

(d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.

(e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

2. Nomination Procedures

The secretary of the Nomination Committee shall invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 87 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the “Procedure for Shareholders to Propose a Person for Election as a Director of the Company” posted on the website of the Company.

3. Review and Monitor of this Policy

(a) The Nomination Committee shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.

(b) The Nomination Committee shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.

(c) The Nomination Committee shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board has reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors

The attendance record of each of the current Directors at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2020 is set out in the table below. The Directors did not authorize any alternate Director to attend Board or Board Committee meetings.

	Attendance/Number of Meetings			
Name of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Board
Mr. Meng Lianzhou	2/2	1/1	1/1	4/4
Mr. Liu Zhanwen	2/2	1/1	1/1	4/4
Mr. Zhang Yuexuan	2/2	1/1	1/1	4/4
Mr. Liu Enwang	2/2	1/1	1/1	4/4
Mr. Ren Keqiang	2/2	1/1	1/1	4/4
Mr. Yu Chun Kau	2/2	1/1	1/1	4/4
Mr. Wei Anli	2/2	1/1	1/1	4/4

Board Meetings

Meetings of the Board of Directors shall be held regularly at least four times each year and shall be convened by the chairman of the Board of Directors. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Questions arising at any meetings of the Board of Directors shall be determined by a majority of votes. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote.

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") on 11 December 2017. The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

- at least 1/3 of the members of the Board shall be independent non-executive directors;

- at least one of the independent non-executive directors of the Board shall have obtained accounting or relevant financial management professional qualifications; and

- at least 50% of the members of the Board shall have 7 years or more of experience in the industry he is specialised in, and in case of independent non-executive director, the independence requirements set out in the Listing Rules (as amended for time to time).

The Nomination Committee considered that an appropriate balance of diversity perspective of the Board is maintained during the year ended 31 December 2020. Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the Board Diversity Policy for the year ended 31 December 2020.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the year ended 31 December 2020 and up to the date of this report.

COMPANY SECRETARY

Mr. Wong Ka Wai was appointed as the Company Secretary on 28 February 2017. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr. Wong has taken no less than 15 hours of relevant professional training in 2020.

All Directors have access to the advices and services of Mr. Wong on corporate governance and board procedures.

The biographical details of Mr Wong are set out under the section headed "Biographical Details of Directors and Senior Management".

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the consolidated financial statements of the Group which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

Internal controls and risk management

The Board acknowledges its responsibility for the risk-management and internal control system and reviewing their effectiveness.

The Board have put in place a set of internal control and risk management protocols to address various operational, financial, legal and market risks identified in relation to our operations, including but not limited to procurement and sales management, inventory management, research and development management, credit risk, liquidity risk, foreign exchange risk, human resources risk management, and various other financial and operational control and monitoring procedures. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board has the general power to manage our operations and the is responsible for the risk management and internal control systems and reviewing their effectiveness. After due consideration, our Directors are of the view that our current risk management and internal control systems are adequate and effective.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial, legal and market risks for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Board reviews the risk management and internal controls annually.

Also, the Company has an internal audit function to carry out the analysis and independent appraisal of the effectiveness of the Group's risk management, internal control systems and perform an internal audit procedure which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2020. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness of the risk management and internal control systems and the internal audit function for the year ended 31 December 2020.

The Directors will continue to review the need for setting up an internal audit function should the need arise.

The Company has developed a policy for handling and dissemination of inside information. The policy provides a general guide to the Company's Directors, officers and relevant employees in handling confidential information and monitoring information disclosure.

External Auditor

KPMG has been appointed as the external auditor of the Company, The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2020, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB2 million. No non audit services was provided by KPMG during the year.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

The responsibilities of KPMG, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Extraordinary general meetings may be convened by directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to Room 619A, 6/F, Block B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders and investors of the Company may send written enquiries to the Company by mail to Room 619A, 6/F, Block B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong or email enquiry to ir@hbsgt.com.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.hbsgt.com.

Constitutional Documents

During the year ended 31 December 2020, no change has been made to the Company's memorandum and articles of association.

The Memorandum and Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

ABOUT THIS REPORT

This is the Environmental, Social and Governance ("ESG") Report (the "ESG Report") of the Group for the year ended 31 December 2020, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility ("CSR") and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

During the year ended 31 December 2020 (the "Reporting Period"), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company's policies and practices in two aspects namely environmental and social for the Reporting Period.

This report covered the overall environmental and social performance of all major subsidiaries of the Group which are set out in note 13 to the financial statements during the year ended 31 December 2020. The Group only has one operating PRC subsidiary, which is Hebei Ruifeng Cylinder Co., Ltd ("Hebei Ruifeng").

Reporting principles

To respect to the reporting principles, the Group ensures that ESG issues discussed in this Report are sufficiently important and material to investors and stakeholders including but not limited to shareholders, governments, employees, clients, suppliers and communities.

In order to determine what issues are relevant and material to our business with respect to sustainability, the Group is aware that the key is to understand what issues that the stakeholders concerned most. Therefore, the Group defines the stakeholders as people who affect our business or who are affected by our business. In the daily operational business, the Group actively exchange information with the stakeholders through the transparent platform while the Group is devoted to continuous improve the communication system. In addition, the Group is committed to maintaining a long-term relationship with its stakeholders and are actively engaged in addressing their concerns with timely follow-up actions. The Group is dedicated to create a sustainable growth for the benefits of all our stakeholders.

Scope of the ESG Report

The core business of the Group is the design, manufacture and sale of cylinder blocks and cylinder heads in the PRC. The data disclosed in the ESG Report was collected from the main office and the production plants of Hebei Ruifeng in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

Reporting Framework

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the "Comply or Explain" provisions therein.

Access of the ESG Report

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.hbsgt.com).

This report has both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

Contact Information

We highly appreciate and welcome your feedback and comment on the ESG Report so that we may meet the stakeholder's interests and for our sustainability initiatives. For any enquires or recommendations, please send the written feedback and comment to us at Room 619A, 6/F, Tower B, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui, Hong Kong.

Stakeholder Engagement

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community. The table sets out the communication channels and expectations of the major stakeholders.

Major Stakeholders	Communication Channels	Expectations
Shareholders	• Annual general meeting and other shareholder meetings • Annual report and interim report • Announcements and circulars • Company's website • Meeting with investors	• Return on investment • Information disclosure and transparency • Protection of shareholders' rights and fair treatment of shareholders
Government and regulatory authorities	• Policy guidance • Response to public consultation in writing • Meeting	• Compliance with laws and regulations • Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility • Proper tax payment
Employees	• Regular meetings and training • Performance assessment • Staff newsletters and broadcasts • Labour union	• Salary and welfare • Safe working environment • Fair career development opportunities
Customers	• Regular meetings • Site visit • Exhibition • Email	• High quality products and services • Group reputation and brand image
Business partners	• Business partner meetings • Site visit • Email • Tendering process • Purchase review	• Long-term partnership • Win-win cooperation • Fair purchase • Timely payment
The public and the community	• Site visit • Email • Public newsletters and broadcasts	• Volunteer • Community visit • Donate

ENVIRONMENTAL

Although the production process of the Group does not cause any material adverse impact to the environment, the Group is committed to minimizing any potential adverse impact on the environment which may be resulted from its production process. The Group has put in place various dust cleansing and collection devices at all key stages of production operations to minimize dust generation. The Group has also developed a cutting fluid disposal device which recycles and reuses the hazardous cutting fluid generated during our production process to ensure clean disposal of such industrial liquid waste. In addition, the Group has adopted a self-developed lost foam casting process which is considered more environmentally-friendly and cost-effective to produce a portion of our rough cast cylinder block products. The Group obtained two utility model patents from the SIPO for the aforementioned cutting fluid disposal device and the lost foam casting process in October 2016 and July 2017, respectively. The Group believes these measures effectively reduce the negative environmental impact of the hazardous materials the Group produces while satisfying our sustainable production needs.

Energy Conservation and Emission Reduction

Reducing energy consumption and improving energy efficiency are keys to slowing down global climate change, and therefore the Group strives to improve its energy saving performance on operation.

Wastes Control

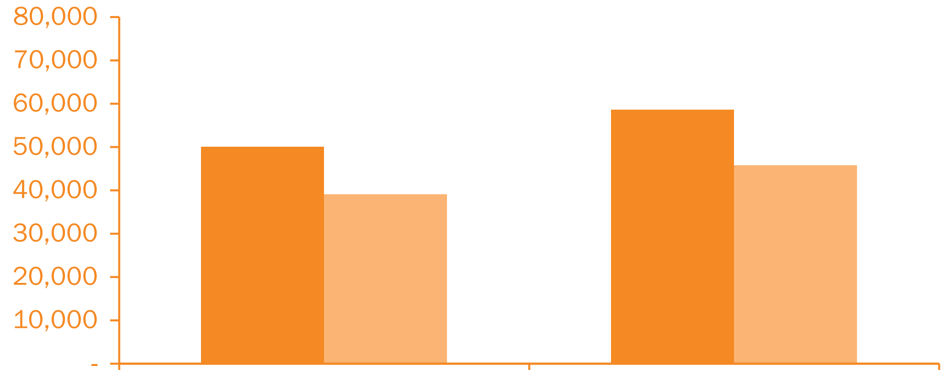
The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, consisting of various chemicals and wastes, such as oil residue and hazardous cutting fluid used in the manufacture of products. For hazardous substance, the Group primarily cooperated with qualified units to collect and handle these hazardous waste. The Group actively reduces the use of such hazardous chemicals during its production process, as a result, such wastes decrease from approximately 1.91 tonnes during the year ended 31 December 2019 to approximately 1.60 tonnes during the year ended 31 December 2020.

Power Consumption Control

The headquarters and other offices of the Group all adhere to the principle of energy conservation and environmental protection to reduce the power consumption. Each office of the Group use of energy-efficient lighting and has formulated a guideline on the use of airconditioners, where heaters are permitted to switch on during winter when the temperature is below 0°C, and air conditioning are only allowed in office during summer when the temperature is above 30°C.

The total power consumption and carbon emission of Hebei Ruifeng in 2019 and 2020 were as follows:

Power consumption and corresponding carbon emission



	2019	2020
Power consumption (kWh in '000s)	50,089.0	58,623.0
Carbon emission (tonnes)	39,060.0	45,715.0

Water Consumption Control

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage, in order to encourage staff to save water, the Group has put up signs in offices to remind employees to reduce water consumption.

The total water consumption and carbon emission of Hebei Ruifeng in 2019 and 2020 were as follows:

Water consumption and corresponding carbon emission

	2019	2020
Water consumption (Kiloton)	45.2	54.4
Carbon emission (tonnes)	18.5	22.3

During the year ended 31 December 2020, the total power consumption of the Group was approximately 58,623,000 kWh, and the density was approximately 135.2 kWh/output value of RMB1,000 and total water consumption was approximately 54,470 tonnes and the density was approximately 128.7kg/output value of RMB1,000.

Packaging materials

The Group does not use cartons, paper and plastics as packaging materials. Therefore, the Group does not use any particular packaging materials for its finished products (i.e: cylinder blocks and cylinder heads).

The Group will continue to closely monitor the utilisation of resources and conduct regular assessment to seek better ways for contributing to environmental protection.

Economical Use of Resources

The Group strictly complies with the requirements of Energy Conservation Law of the People‘s Republic of China and has formulated rules in relation to i) integrated planning of usage of water and electricity during production, proper arrangement for preheating and energy-consuming procedures for production workshops, turning off no load current equipment and shutting off the electric power once production is finished in accordance with the characteristics of production procedures generally; and ii) fostering awareness of water and electricity conservation among all staff and turning off lights, faucets, air conditioners and computers, etc. when the use of them is unnecessary to reduce the consumption of energy.

The total power consumption and total water consumption increased by approximately 17.0% and approximately 20.5% from 2019 to 2020 respectively. Such increase of total water consumption was mainly because employees were encouraged to sanitise their hands regularly after the resumption of operation in early 2020 in order to comply with the requirements from the local government authorities for resumption of operation in response to COVID-19.

The Group believes that corporation has social responsibility, which is imperative, in promoting the sustainable development of environment. In this connection, the Group formulated environmental principles correspondingly to ensure the effective implementation of various measures. In production and operation activities, increased use of energy-saving facilities and reduced energy consumption to mitigate or avoid the impact of wasted water, exhaust gas, greenhouse gas, noise and hazardous and non-hazardous waste on the environment; encouraged the staffs to raise environment protection awareness and to acquire knowledge and skills related to environment protection. The Group strictly complied with national laws, regulations and policies, such as Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution and Hazardous Waste Pollution Prevention Technology Policy. The Group has introduced International Environment Management System Authentication ISO14001 and passed such authentication. There had not been any non-compliance in relation to any laws and regulations on emissions and environmental protection within the reporting scope during the Reporting Period. Looking ahead, we will continuously assess its environment risks so as to formulate appropriate response measures and regularly review.

SOCIAL

Employees

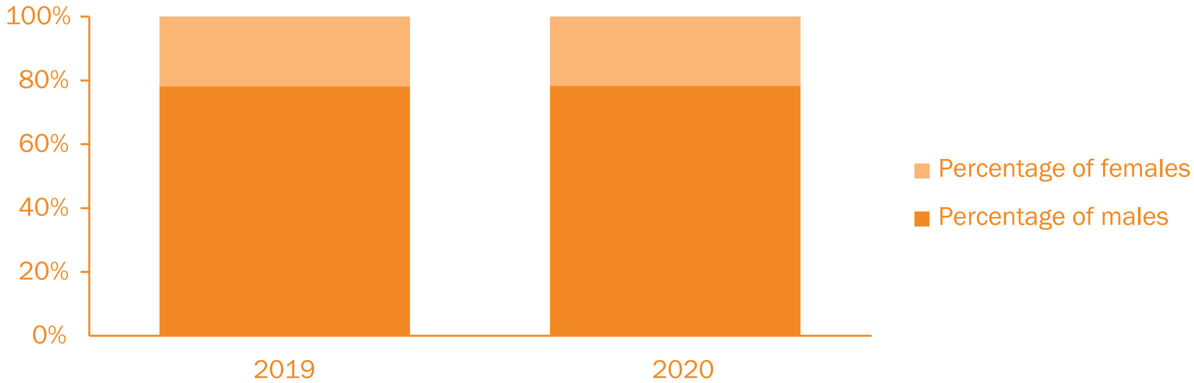
The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and the management are reasonable and competitive in the market and the Group believes that its long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of the employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, the Group provides regular training to our employees depending on their position in the Group. Besides these, the Group has formulated detailed regulations in its employee manual with respect to promotion, dismissal, working hours, vacations and annual leaves and other aspects.

The Group mainly recruits employees through recruitment fairs and on-campus recruitment. As at 31 December 2020, we had a total of 760 employees. The following table sets forth the number and breakdown of our full-time employees by function as at 31 December 2020:

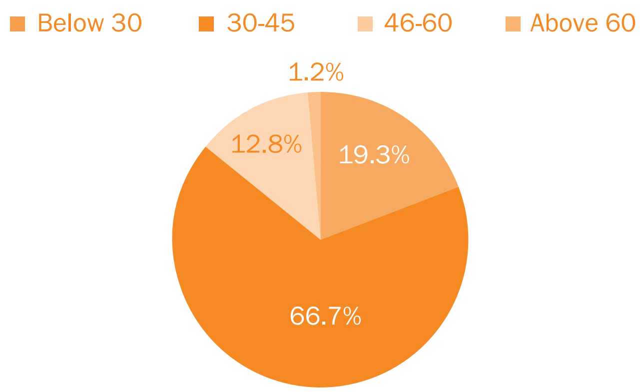
	Number of employees
Directors and senior management	15
Research and development	31
Production	550
Procurement	11
Sales and marketing	20
Quality control	51
Finance	9
Administration and logistics	73
Total	760

Employment statistics by gender, age and education level

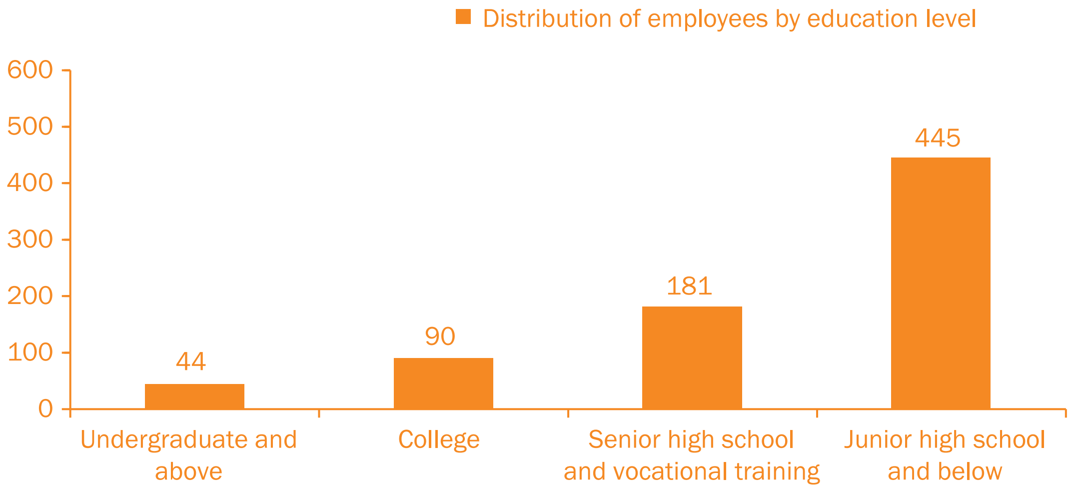
Distribution of employees by gender



Distribution of employees by age

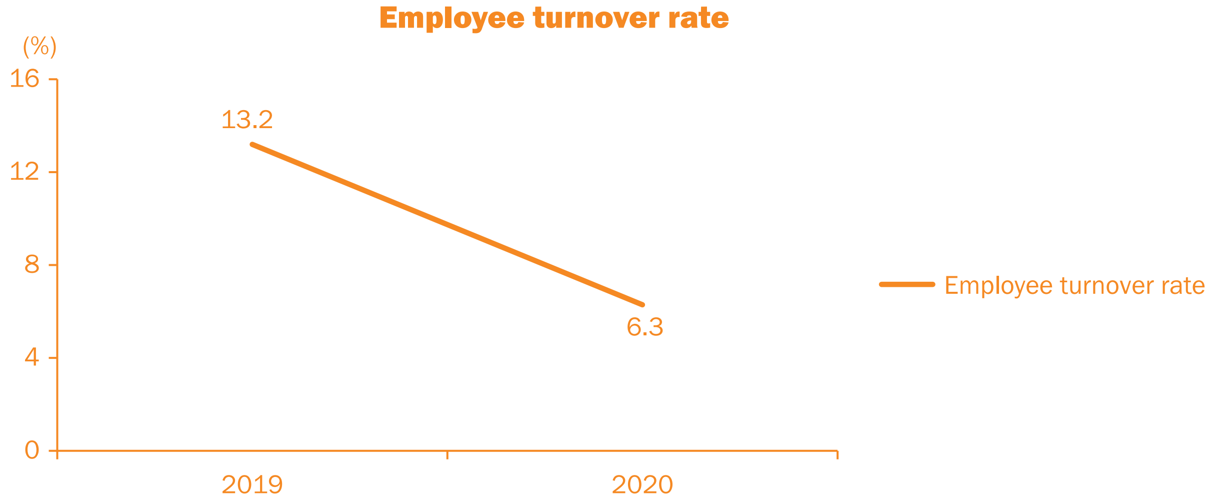


Distribution of employees by education level



Benefits

The remuneration of our employees includes basic salary and performance-based monthly and annual bonuses. The Group makes contributions for our employees in relation to the mandatory social security funds, including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC. During the Reporting Period, the Group failed to make full contributions to the social insurance scheme for some of our employees. The Group also failed to register our housing provident fund account and did not make full contributions to the housing provident fund for some of our employees as required by PRC laws and regulations.



For the year ended 31 December 2020, the employee turnover rate decreased to 6.3%.

OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

The production process of Group is subject to various production safety rules and regulations in the PRC.

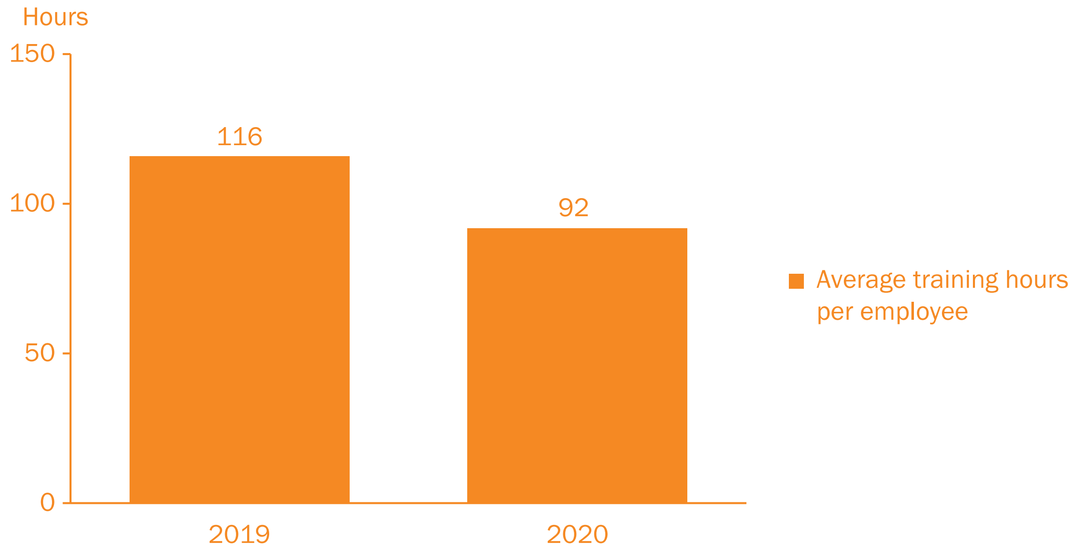
The Group has implemented various safety guidelines and operating procedures for our production process to ensure safe operation of our production facilities and to prevent injuries. The Group conducts regular and thorough worksite inspection to eliminate potential hazards in our work environment. The Group also provides mandatory safety training to all new employees prior to commencement of work. Furthermore, the Group provides employees with occupational safety education and training to enhance their awareness of safety issues from time to time.

The Group has not experienced any material accident in the production process nor received any claims for personal or property damages during the Reporting Period, and the PRC legal adviser of the Company has confirmed that the Group is in compliance in all material respects with applicable laws relating to labor safety matters in the PRC during the Reporting Period.

Training

The Group believes our success depends on our employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, the Group places a strong emphasis on training our employees. Prior to commencement of work, new employees must attend mandatory pre-employment training sessions. In addition, the Group also invited professional trainers from third-party research institutions to provide our employees regular training on professional knowledge, technical skills and production safety.

Average training hours per employee



Fair recruitment

The Group recruits staff based on a fair, open and impartial principle to ensure the recruitment and selection process is objective and consistent. The Group only takes into account an individual's competence, regardless of the age (apart from the policy of no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment opportunities to all candidates.

Employment

The Group stringently complies with all national and local laws, such as the Labor Law, Labor Contract Law and Employment Promotion Law of the People's Republic of China. The Group legally abides by labour laws and regulations. The employment of child labour and forced-labour workers are strictly prohibited within the Group.

Labour Standards

Being fully aware that exploitation of child and forced labour violates human rights and international labour conventions, the Group strictly prohibits the employment of any child labour and forced labour in any form. New employees are required to provide true and accurate personal data when they are onboard. During the Reporting Period, the Group strictly complied with the relevant laws and regulations, in relation to the prevention of child labour or forced labour. During the Reporting Period, there had not been any non-compliance on any laws and regulations for child labour.

RELATIONSHIPS WITH CUSTOMERS

Through the efforts of sales and marketing team, the Group have established solid relationships with its major customers for periods over five years. The customers of the Group are primarily large automobile manufacturers and engine manufacturers located in the PRC. The customers include many of the top automobile manufacturers in China, including Jiangling Motors, Beiqi Foton Motor, Jiangxi Isuzu and Guangxi Yuchai, among others.

SUPPLY CHAIN MANAGEMENT

The Group recognise that supply chain management is essential in improving operational efficiency, and therefore we work closely with the suppliers to meet customers' needs in an effective and efficient manner, while emphasizing responsible operating practices. The Group procure raw materials and key components from a list of selected third-party suppliers selected by ourselves that are based in the PRC. In addition, certain of our supply arrangements involve the purchase of components and ancillary materials from our customers or suppliers they designate. During the Reporting Period, the five largest suppliers of the Group mainly comprised automobile manufacturers and producers of engines, rough cast cylinder blocks and cylinder heads, ancillary cylinder block components and scrap material. The Group had good cooperation relationship with our five largest suppliers and the Group did not rely on any single supplier for raw materials or key components.

The Group selects suppliers based on a number of factors, including, among others, history of our relationship with them, product quality, supply capacity, research and development capability, price and delivery time. To avoid reliance on any single supplier, our policy is to source each major raw material and key component from at least three different suppliers. In addition, certain customers require us to produce finished products using the rough cast cylinder blocks and cylinder heads from their designated suppliers in order to maintain greater control over the production process and quality of their end products. Furthermore, the Group also directly procures raw materials, rough cast cylinder blocks or rough cast cylinder heads from such customers and/or their related companies in the same group.

QUALITY CONTROL AND PRODUCT RESPONSIBILITY

The Group is committed to maintaining a high quality of the products by performing a variety of quality control, inspection and testing procedures throughout our production process and identify defects and irregularities throughout all stages of production process. The Group has compiled and implemented a set of detailed quality control protocols that are strictly followed by each of our departments. Such protocols set out a series of standardized procedures and measures to monitor and control each stage of our operating process, including procurement of raw materials and key components, production and inspection of finished products, to ensure that our products are of consistently high quality.

The Group has also established a quality control department consisting of 51 dedicated quality control inspectors as at the date of this report. The quality control department oversees the entire production process and devotes significant resources to maintaining and improving the quality of our products. The quality control department hosts regular meetings to discuss quality issues arising from the production process and to formulate solutions on potential improvement.

Set forth below is a summary of our primary quality control measures:

- Raw materials and key components: Our quality control department conducts sample check on raw materials and key components, in particular the rough cast products procured from customers or third-party suppliers, to ensure such raw materials and key components meet the requisite quality standards. The Group may also carry out on-site evaluations at the premises of our main suppliers and assess their production facilities to confirm the source of supply of the raw materials and key components from time to time.

- Production process: Our quality control inspectors will closely monitor the production process of each of our products to ensure strict compliance with our standard operating procedures. Throughout our entire production process, the Group also conducts quality control testing at each key production stage. In addition, the Group has installed and operated a number of advanced inspection equipment, including three cylinder bore detectors, 57 pneumatic measuring instruments, 13 triple-axis high precision coordinate measuring machine, a Taylor Hobson cylindricity measuring instrument and a Leica particle analyzer, to ensure that our products are produced precisely to meet our customers' specific design and manufacturing requirements.

- Finished products: The Group inspects sample batches of our products and the packaging of each product before delivery takes place. Products with defects or any quality issues will not be delivered to customers. Our quality control inspectors will help identify the causes for product defects and follow up closely to confirm any problems with the production process are addressed. The Group labels each of our products with a unique serial number to ensure traceability of our products. For ancillary cylinder block components which have been processed by the third-party service providers beginning in early 2017, the Group conducts sample checks to ensure that such products meet the requisite quality standards. The Group provide product warranties to our customers for a designated warranty period applicable to each product. The warranties are typically limited to product defects or failures that do not conform to the specifications of the products or the quality standards as agreed with the customers.

As a result of our stringent quality control system, our production facilities have obtained ISO/TS 16949 certification since 2012, which is required to renew in every three year and currently it is effective up to 2021. During the Reporting Period, the Group has not experienced any material claim from product liability and non of the products sold by the Group were subject to recalls for safety and health reason.

The Group's human resource department formulated and led the implementation of management system to manage the patent, technical secret, trademark and software copyrights to reduce the risks of infringement of intellectual property rights in the advertising activities and labelling of products and ensure the staff to observe the intellectual property rights of other parties, pursuant to which to regulate the behaviour of the suppliers on intellectual property rights. The related management system intend to prevent the risk of infringement of third parties' intellectual property rights; in order to regulate the Group's management work of technical secret and prevent loss to the Group arising from improper disclosure of technical secret and avoid the risk of its improper leak; to enhance the Group's trademark management, protection of the Group's interests, maintenance of trademark reputation and comprehensive competitiveness of the Group's brand; for the purpose of enhancing the Group's management of software copyrights, definitely protecting the proprietary intellectual property rights and further elevating the core competitive edges and innovation benefit. Meanwhile, the Group places high importance on protection of the employees' privacy and the trade secrets. Through measures including formulation of the employee manual, classification of information assets, safe management of paper documents, zoning and management of the Group's safety zone and information safety management control, the employees' privacy and the trade secrets are effectively protected.

Data Protection and Privacy Policies

All employees are prohibited from disclosing any confidential information under the Group's confidentiality policy. Data including project-related information and other sensitive information is subject to access control to ensure its security and prevent any abuse or misuse of personal and confidential information.

Intellectual Property

As at 31 December 2020, the Group had 12 patents in the PRC, including 11 utility model patents and 1 invention patent, 2 registered PRC trademarks and 2 registered Hong Kong trademarks. The Group is also the registered owner of one domain name. During the Reporting Period, the Group is not aware of any material threatened claims against the Group in relation to infringement of any Intellectual property rights of third parties.

Bribery, corruption and other misconduct

The Group's employee handbook regulates the employees' conduct with respect to conflicts of interest, bribery, corruption and other misconduct. The Group provides regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. An effective whistle blowing policy is also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace. During the Reporting Period, there were no non-compliances involving bribery and corruption related laws and regulations.

COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its resources to charitable activities. Due to the confronting the serious outbreak of the coronavirus (COVID-19) in China, the Group encouraged its staff to participate in mutual-support medical activities for employees and anti-epidemic.

Independent Auditor's Report

Independent auditor's report to the shareholders of Ruifeng Power Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ruifeng Power Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 66 to 122, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

TIMING OF REVENUE RECOGNITION	
Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(r).	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's revenue is principally generated from the manufacture and sales of cylinder blocks and cylinder heads. The Group's sales contracts with customers, which are primarily automobile manufacturers and engine producers, have a variety of terms relating to goods acceptance. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the Group's performance obligations, allocation of transaction price and appropriate timing and value for revenue recognition. We identified the timing of revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue may be manipulated to meet financial expectations or targets and because there is a risk that particular terms of sale contracts may not be met and, as a result, revenue may not be recognised properly and in the correct periods.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting the terms of sales contracts with customers, on a sample basis, to assess whether the Group has appropriately identified performance obligations and determined and allocated the transaction price correctly; • evaluating the conditions of goods acceptance as to whether control over the goods has been passed and performance obligation is satisfied when the Group recognises the revenue, and assessing the Group's timing and value of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included goods acceptance notes, to assess whether the revenue had been recognised in accordance with the terms of the sales contracts and in the appropriate financial periods; • inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and which met specific risk-based criteria; and • confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2020 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed and the Group's accounting records to assess whether the related revenue had been recognised in the appropriate financial periods.

LOSS ALLOWANCE FOR TRADE RECEIVABLES	
Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(h)(i).	
The Key Audit Matter	**How the matter was addressed in our audit**
At 31 December 2020, the Group's gross trade receivables is RMB221,132,000 in total with loss allowance of RMB28,296,000 recorded. Management measured loss allowance at an amount equal to expected credit losses ("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). We identified loss allowance for trade receivables as a key audit matter because trade receivables and loss allowance are material to the Group and the recognition of ECLs is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the credit control, the trade receivables collection process and making loss allowances for trade receivables; • obtaining an understanding on the key data and assumptions of the ECL model adopted by the management, including the historical default data, ageing of debtor balances, credit terms, recent settlement patterns and forecast of future economic conditions; • assessing the reasonableness of management's estimates on loss allowance by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the relevant underlying documentation; • assessing the disclosures in the consolidated financial statements in relation to the loss allowances for trade receivables with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Man Wai.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2021

Consolidated statement of profit or loss

for the year ended 31 December 2020
(Expressed in Renminbi ("RMB"))

	Note	2020 RMB'000	2019 RMB'000
Revenue	4(a)	**433,475**	355,049
Cost of sales		**(326,983)**	(269,369)
Gross profit	4(b)	**106,492**	85,680
Other income	5	**21,989**	39,658
Selling expenses		**(12,156)**	(10,929)
Administrative expenses		**(53,705)**	(56,740)
Impairment losses on trade receivables	24(a)	**(15,587)**	(12,044)
Profit from operations		**47,033**	45,625
Finance costs	6(a)	**(7,501)**	(10,660)
Profit before taxation	6	**39,532**	34,965
Income tax	7	**(5,932)**	(4,850)
Profit attributable to equity shareholders of the Company for the year		**33,600**	30,115
Earnings per share			
Basic and diluted (RMB)	10	**0.042**	0.038

The notes on pages 73 to 122 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2020
(Expressed in RMB)

	2020 RMB'000	2019 RMB'000
Profit for the year	**33,600**	30,115
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of the Company and a subsidiary into presentation currency	**(2,024)**	4,039
Total comprehensive income attributable to equity shareholders of the Company for the year	**31,576**	34,154

The notes on pages 73 to 122 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2020
(Expressed in RMB)

	Note	**2020 RMB'000**	2019 RMB'000
Non-current assets			
Property, plant and equipment	11	**710,157**	671,419
Right-of-use assets	12	**111,458**	113,753
Deferred tax assets	20(b)	**13,624**	12,173
		835,239	797,345
Current assets			
Inventories	14	**197,094**	161,239
Trade and other receivables	15	**375,851**	304,231
Prepaid income tax	20(a)	**6,171**	7,247
Cash and cash equivalents	16	**26,318**	49,283
		605,434	522,000
Current liabilities			
Trade and other payables	17	**265,433**	194,429
Bank loans	18(a)	**160,000**	120,920
Lease liabilities	19	**236**	67
Provision for warranties	22	**2,001**	1,809
		427,670	317,225
Net current assets		**177,764**	204,775
Total assets less current liabilities		**1,013,003**	1,002,120
Non-current liabilities			
Deferred income	21	**46,993**	54,019
Lease liabilities	19	**88**	–
Provision for warranties	22	**2,542**	2,926
Deferred tax liabilities	20(b)	**5,121**	4,857
		54,744	61,802
NET ASSETS		**958,259**	940,318

The notes on pages 73 to 122 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2020
(Expressed in RMB)

	Note	**2020 RMB'000**	2019 RMB'000
CAPITAL AND RESERVES	23		
Share capital		**66,425**	66,425
Reserves		**891,834**	873,893
TOTAL EQUITY		**958,259**	940,318

Approved and authorised for issue by the board of directors on 26 March 2021.

Meng Lianzhou
Chairman

Liu Enwang
Director

The notes on pages 73 to 122 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2020
(Expressed in RMB)

	Share capital RMB'000 Note 23(b)	Share premium RMB'000 Note 23(d)(i)	Statutory reserve RMB'000 Note 23(d)(ii)	Exchange reserve RMB'000 Note 23(d)(iii)	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2019	66,425	149,670	21,384	6,449	662,236	906,164
Changes in equity for 2019:						
Profit for the year	–	–	–	–	30,115	30,115
Other comprehensive income for the year	–	–	–	4,039	–	4,039
Total comprehensive income	–	–	–	4,039	30,115	34,154
Appropriation to reserves	–	–	3,624	–	(3,624)	–
Balance at 31 December 2019 and 1 January 2020	66,425	149,670	25,008	10,488	688,727	940,318
Changes in equity for 2020:						
Profit for the year	**–**	**–**	**–**	**–**	**33,600**	**33,600**
Other comprehensive income for the year	**–**	**–**	**–**	**(2,024)**	**–**	**(2,024)**
Total comprehensive income	**–**	**–**	**–**	**(2,024)**	**33,600**	**31,576**
Appropriation to reserves	**–**	**–**	**3,711**	**–**	**(3,711)**	**–**
Interim dividends declared (Note 23(c))	**–**	**(13,635)**	**–**	**–**	**–**	**(13,635)**
	–	**(13,635)**	**3,711**	**–**	**(3,711)**	**(13,635)**
Balance at 31 December 2020	**66,425**	**136,035**	**28,719**	**8,464**	**718,616**	**958,259**

The notes on pages 73 to 122 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2020

(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before taxation		**39,532**	34,965
Adjustments for:			
Depreciation and amortisation	6(c)	**65,522**	65,473
Finance costs	6(a)	**7,501**	10,660
Interest income	5	**(182)**	(1,700)
Net loss/(gain) on disposal of property, plant and equipment	5	**37**	(79)
Amortisation of deferred income	21	**(7,026)**	(6,624)
Changes in working capital:			
Increase in inventories		**(35,855)**	(17,362)
(Increase)/decrease in trade and other receivables		**(57,688)**	31,117
Increase/(decrease) in trade and other payables		**55,853**	(9,116)
Decrease in provision for warranties		**(192)**	(807)
Cash generated from operations		**67,502**	106,527
Income tax paid	20(a)	**(6,043)**	(1,929)
Net cash generated from operating activities		**61,459**	104,598

The notes on pages 73 to 122 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2020
(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Cash flows from investing activities			
Payments for acquisitions of property, plant and equipment		(89,873)	(110,006)
Government grants received	21	–	5,342
Proceeds from disposal of property, plant and equipment		1,342	2,575
Prepayment for an investment to a target company	15(i)	(13,932)	(23,446)
Interest received	5	182	1,700
Net cash used in investing activities		(102,281)	(123,835)
Cash flows from financing activities			
Capital element of lease rentals paid	16(b)	(254)	(285)
Interest element of lease rentals paid	16(b)	(20)	(24)
Proceeds from bank loans	16(b)	180,000	203,000
Repayment of bank loans	16(b)	(140,920)	(291,480)
Dividends paid	23(c)(i)	(13,635)	–
Finance costs paid	16(b)	(7,481)	(11,348)
Net cash generated from/(used in) financing activities		17,690	(100,137)
Net decrease in cash and cash equivalents		(23,132)	(119,374)
Cash and cash equivalents at the beginning of the year	16(a)	49,283	170,036
Effect of foreign exchange rate changes		167	(1,379)
Cash and cash equivalents at the end of the year	16(a)	26,318	49,283

The notes on pages 73 to 122 form part of these financial statements.

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 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

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

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	20 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles and others	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leased assets *(continued)*

***As a lessee** (continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)). Right-of-use assets are depreciated using the straight-line method from the commencement lease date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of IFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected contract losses ("ECLs") on the financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables) and contract assets (see Note 2(j)).

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 for trade and other receivables and contract assets 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.

Loss allowances for trade receivables and contract assets 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments *(continued)*

Measurement of ECLs (continued)

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 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments *(continued)*

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(iv) 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 past due event;

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

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

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.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– right-of-use assets; and

– investment in a subsidiary in the Company's statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other non-current assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(h)(i) and 2(h)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(i)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventories are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Inventories and other contract costs *(continued)*

(ii) Other contract costs *(continued)*

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(h)(i).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue and other income *(continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rendering of services

Revenue is recognised when the service is rendered.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss on a systematic basis over the useful life of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB, the Group's reporting currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Note 24 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(h)(ii). When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future years.

(b) Expected credit losses for trade receivables

The Group estimates loss allowance at an amount equal to lifetime ECLs, which 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. If the financial conditions of the customers and debtors were to deteriorate, and these customers and debtors do not have assets or sources of income that could generate sufficient cash flows to repay the amounts, actual write-offs would be higher than estimated.

(c) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future years.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(d) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management of the Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future years is adjusted if there are significant changes from previous estimates.

(e) Warranty provisions

The Group makes provisions under the warranties it gives on sale of its cylinder blocks and cylinder heads after taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

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:

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

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

4 REVENUE AND SEGMENT REPORTING *(continued)*

(a) Disaggregation of revenue *(continued)*

Revenue from customers with whom transactions have exceeded 10% of the Group's revenue are as follows:

	2020 RMB'000	2019 RMB'000
Customer A	**147,305**	87,660
Customer B	**61,355**	53,607
Customer C	**55,351**	49,635
Customer D	**52,186**	58,046

Details of concentration of credit risk arising from the Group's customers are set out in Note 24(a).

(b) Segment reporting

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

- Cylinder blocks: this segment includes primarily the research, development, manufacture and sale of cylinder blocks.

- Cylinder heads: this segment includes primarily the research, development, manufacture and sale of cylinder heads.

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

The Group's other operating income and expenses, such as other income, impairment loss on trade receivables and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

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

	2019			
	Cylinder blocks RMB'000	Cylinder heads RMB'000	Ancillary cylinder block components RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	278,538	60,319	16,192	355,049
Reportable segment gross profit	59,565	21,669	4,446	85,680

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Geographic information

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

5 OTHER INCOME

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

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

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

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

6 PROFIT BEFORE TAXATION *(continued)*

(b) Staff costs#

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

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in a defined contribution retirement benefit plan managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the defined salaries level in the PRC (other than Hong Kong), from the above mentioned retirement plan at their normal retirement age. During the year ended 31 December 2020, the majority of the obligation to the defined contribution retirement schemes were waived by local governments authority considering the effect of COVID-19 outbreak, the waived amount is around RMB3,293,000.

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

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

(c) Other items

	2020 RMB'000	2019 RMB'000
Depreciation charge		
– owned property, plant and equipment (Note 11)	**62,712**	62,639
– right-of-use assets (Note 12)	**2,810**	2,834
Impairment losses on trade receivables (Note 24(a))	**15,587**	12,044
Short-term lease charges (Note 12)	**254**	383
Provision for warranties (Note 22)	**673**	658
Auditors' remuneration	**2,000**	2,350
Research and development costs	**16,059**	13,370
Cost of inventories# (Note 14(b))	**326,983**	269,369

\# Cost of inventories includes RMB95,101,000 (2019: RMB87,867,000) relating to staff costs, depreciation and lease expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2020 RMB'000	2019 RMB'000
Current taxation – PRC Corporate Income Tax (Note 20(a))		
Provision for the year	**7,119**	6,805
Deferred taxation (Note 20(b))		
Origination and reversal of temporary differences	**(1,451)**	(1,955)
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	**264**	–
	(1,187)	(1,955)
	5,932	4,850

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

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

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

Notes:

(i) 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.

(ii) The Company and a Hong Kong incorporated subsidiary of the Group are subject to Hong Kong Profits Tax according to the two-tiered profits tax rates regime for the year of assessment 2019/20. The profits tax rate for the first HK$2,000,000 of profits is taxed at 8.25%, and profits above that amount is subject to a tax rate of 16.5%. The provision for the Hong Kong Profits Tax for the Company and the subsidiary was calculated at the same basis in 2019.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2020 (2019: 25%).

(iv) One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise for the calendar years from 2015 to 2020. Pursuant to the relevant tax regulations, this subsidiary is entitled to a preferential tax rate of 15%. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 75% (2019: 75%) of its qualified research and development costs incurred.

(v) The directors of the Company are of the opinion that around RMB51,207,000 retained profits of Hebei Ruifeng Cylinder Co., Ltd. ("Hebei Ruifeng") will be distributed to Turbo Group Investment Limited, which is subject to a PRC withholding tax rate of 10%. As a result, a deferred tax liability of RMB5,121,000 has been provided accordingly (see Note 20(b)).

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2020				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Meng Lianzhou	40	326	40	–	406
Mr Liu Zhanwen	40	183	28	–	251
Mr Zhang Yuexuan	40	291	40	–	371
Mr Liu Enwang	40	184	40	*	264
Independent non-executive directors					
Mr Ren Keqiang	104	–	–	–	104
Mr Yu Chun Kau	104	–	–	–	104
Mr Wei Anli	104	–	–	–	104
	472	984	148	–	1,604

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Meng Lianzhou	40	287	78	–	405
Mr Liu Zhanwen	40	144	31	–	215
Mr Zhang Yuexuan	40	256	66	–	362
Mr Liu Enwang	40	151	46	6	243
Independent non-executive directors					
Mr Ren Keqiang	106	–	–	–	106
Mr Yu Chun Kau	106	–	–	–	106
Mr Wei Anli	106	–	–	–	106
	478	838	221	6	1,543

* The amount is less than RMB1,000.

8 DIRECTORS' EMOLUMENTS *(continued)*

No emoluments were paid by the Group to the directors during the year as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2019: two) is a director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2019: three) individuals are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries and other emoluments	**2,271**	1,485

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2020 **Number of individuals**	2019 Number of individuals
HK$Nil to HK$1,000,000	**4**	3

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB33,600,000 (2019: RMB30,115,000) and the weighted average of 800,000,000 ordinary shares in issue during the year (2019: 800,000,000 ordinary shares).

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2020 and 2019.

11 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2019	256,019	515,683	16,870	129,120	917,692
Additions	1,015	27,259	2,551	61,738	92,563
Transfer in/(out)	5,256	41,797	–	(47,053)	–
Disposals	–	(2,829)	(1,817)	–	(4,646)
At 31 December 2019	262,290	581,910	17,604	143,805	1,005,609
At 1 January 2020	**262,290**	**581,910**	**17,604**	**143,805**	**1,005,609**
Additions	**5,382**	**50,102**	**2,427**	**44,918**	**102,829**
Transfer in/(out)	**366**	**12,189**	**(165)**	**(12,390)**	**–**
Disposals	**–**	**(140)**	**(1,803)**	**–**	**(1,943)**
At 31 December 2020	**268,038**	**644,061**	**18,063**	**176,333**	**1,106,495**
Accumulated depreciation:					
At 1 January 2019	(48,529)	(216,330)	(8,842)	–	(273,701)
Charge for the year	(12,124)	(48,103)	(2,412)	–	(62,639)
Written back on disposals	–	1,892	258	–	2,150
At 31 December 2019	(60,653)	(262,541)	(10,996)	–	(334,190)
At 1 January 2020	**(60,653)**	**(262,541)**	**(10,996)**	**–**	**(334,190)**
Charge for the year	**(12,444)**	**(48,293)**	**(1,975)**	**–**	**(62,712)**
Written back on disposals	**–**	**118**	**446**	**–**	**564**
At 31 December 2020	**(73,097)**	**(310,716)**	**(12,525)**	**–**	**(396,338)**
Net book value:					
At 31 December 2020	**194,941**	**333,345**	**5,538**	**176,333**	**710,157**
At 31 December 2019	201,637	319,369	6,608	143,805	671,419

The Group's property, plant and equipment are mainly located in the PRC.

At 31 December 2020, property, plant and equipment of the Group with carrying amount of RMB84,571,000 (2019: RMB145,230,000) have been pledged as collateral for the Group's short-term bank loans (see Note 18(b)).

12 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Leased office RMB'000	Total RMB'000
Cost:			
At 1 January 2019, 31 December 2019 and 1 January 2020	**129,159**	**352**	**129,511**
Additions	**–**	**511**	**511**
Expiration of lease term	**–**	**(352)**	**(352)**
At 31 December 2020	**129,159**	**511**	**129,670**
Accumulated depreciation:			
At 1 January 2019	(12,924)	–	(12,924)
Charge for the year	(2,548)	(286)	(2,834)
At 31 December 2019	(15,472)	(286)	(15,758)
At 1 January 2020	**(15,472)**	**(286)**	**(15,758)**
Charge for the year	**(2,548)**	**(262)**	**(2,810)**
Expiration of lease term	**–**	**356**	**356**
At 31 December 2020	**(18,020)**	**(192)**	**(18,212)**
Net book value:			
At 31 December 2020	**111,139**	**319**	**111,458**
At 1 January 2020	113,687	66	113,753

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	**2,548**	2,548
Leased office	**262**	286
	2,810	2,834
Interest on lease liabilities	**20**	24
Expense relating to short-term leases	**254**	383

(Expressed in RMB unless otherwise indicated)

12 RIGHT-OF-USE ASSETS *(continued)*

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

At 31 December 2020, right-of-use assets of the Group with carrying amount of RMB25,294,000 (2019: RMB26,486,000) have been pledged as collateral for the Group's short-term bank loans (see Note 18(b)).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 16(c) and Note 19, respectively.

13 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

			Proportion of ownership interest			
Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hebei Ruifeng (Notes (i) and (ii)) 河北瑞豐動力缸體有限公司	The PRC 29 August 2007	Note (iii)	100%	–	100%	Design, manufacture and sale of cylinder blocks and cylinder heads
Turbo Group Investment Limited	Hong Kong 10 March 2017	1 share	100%	–	100%	Investment holding
Long Teng Holdings Limited	The BVI 25 April 2017	United States Dollar ("US$") 1, 1 share of US$1	100%	100%	–	Investment holding
Hebei Ruifeng Power Technology Co., Ltd. (Note (i)) 河北瑞豐動力科技有限公司	The PRC 24 July 2017	Note (iv)	100%	–	100%	Investment holding

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(i) The English translation of the names are for identification only. The official names of these entities are in Chinese.

(ii) This entity was registered as a limited liability company under the laws and regulations in the PRC.

(iii) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. The registered capital is RMB200,000,000 and the paid-up capital is RMB190,924,000.

(iv) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. The registered capital and the paid-up capital are HK$200,000,000.

14 INVENTORIES

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

	2020 RMB'000	2019 RMB'000
Raw materials	70,978	45,674
Work in progress	60,636	60,715
Finished goods	76,473	64,540
	208,087	170,929
Less: write-down of inventories	(10,993)	(9,690)
	197,094	161,239

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

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	325,680	266,293
Write-down of inventories	1,303	3,076
	326,983	269,369

15 TRADE AND OTHER RECEIVABLES

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

Notes:

(i) On 22 November 2019, the Company entered into a Cooperation Agreement with a target company (the "Target Company") and a vendor (the "Vendor"), which is the shareholder of the Target Company. Pursuant to the Cooperation Agreement, the Company would acquire the 10.7% equity interest of the Target Company from the Vendor. The Target Company mainly engaged in design and manufacturing of power systems, braking systems, vehicle spare parts and components. The consideration for the acquisition was EUR5,000,000 and was paid by the Group before December 2020. The Company shall enjoy and assume all rights and obligations in connection with the acquired share interests in the Target Company after the Target Company to complete the relevant filing and registration procedures. By the end of 31 December 2020, the Target Company has yet completed the filing and registration procedures. As a result, the Company recorded the payment of consolidation of EUR5,000,000 (equivalent to around RMB37 million) as a prepayment.

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

(iii) At 31 December 2020, the aggregate carrying amounts of bills receivable pledged for the Group's loans is RMB Nil (2019: RMB8,000,000).

15 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

The ageing analysis of trade and bills receivable, included in trade and other receivables, based on the invoice date and net of loss allowance of the Group is as follows:

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

The Group's customers are mainly automobile and engine manufacturers in the PRC. Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in Note 24(a).

(b) Transfer of financial assets

The Group receives short-term bank acceptance notes from its customers as a method of settlement of goods sold. The Group is entitled to receive the full face values from the issuing banks upon the maturities of these notes, which generally range from 3 to 12 months from the dates of issuance.

During the year of 2020, the Group discounted certain bank acceptance notes at banks, and endorsed certain bank acceptance notes to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivable in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group assessed that the discounted and endorsed bank acceptance notes were issued by highly-rated banks, the credit risks were relatively insignificant and the Group was not exposed to the relative interest risk. At 31 December 2020, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to RMB70,831,000 (2019: RMB36,004,000).

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2020	2019
	RMB'000	RMB'000
Cash on hand and at bank	**26,318**	49,283

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

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans RMB'000 (Note 18)	Interest payables RMB'000	Lease liabilities RMB'000 (Note 19)	Interim dividends RMB'000	Total RMB'000
At 1 January 2020	120,920	167	67	–	121,154
Changes from financing cash flows:					
Proceeds from new bank loans	180,000	–	–	–	180,000
Repayment of bank loans	(140,920)	–	–	–	(140,920)
Capital element of lease rentals paid	–	–	(254)	–	(254)
Interest element of lease rentals paid	–	–	(20)	–	(20)
Finance costs paid	–	(7,481)	–	–	(7,481)
Dividends paid	–	–	–	(13,635)	(13,635)
Total changes from financing cash flows	39,080	(7,481)	(274)	(13,635)	17,690
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	511	–	511
Finance costs (Note 6(a))	–	7,481	20	–	7,501
Interim dividends declared	–	–	–	13,635	13,635
Total other changes	–	7,481	531	13,635	21,647
At 31 December 2020	160,000	167	324	–	160,491

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliation of liabilities arising from financing activities *(continued)*

	Bank and other loans RMB'000 (Note 18)	Interest payables RMB'000	Lease liabilities RMB'000 (Note 19)	Total RMB'000
At 1 January 2019	209,400	879	352	210,631
Changes from financing cash flows:				
Proceeds from new bank loans	203,000	–	–	203,000
Repayment of bank loans	(291,480)	–	–	(291,480)
Capital element of lease rentals paid	–	–	(285)	(285)
Interest element of lease rentals paid	–	–	(24)	(24)
Finance costs paid	–	(11,348)	–	(11,348)
Total changes from financing cash flows	(88,480)	(11,348)	(309)	(100,137)
Other change:				
Finance costs (Note 6(a))	–	10,636	24	10,660
At 31 December 2019	120,920	167	67	121,154

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows – Lease rentals paid relating to short-term leases	**(254)**	(383)
Within financing cash flows – Lease rentals paid	**(274)**	(309)
	(528)	(692)

17 TRADE AND OTHER PAYABLES

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

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

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

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

18 BANK LOANS

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

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

(b) The aggregate carrying amount of property, plant and equipment, right-of-use assets, trade and bills receivable pledged for the Group's short-term bank loans is as follows:

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

(c) Certain of the Group's bank loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 24(b). At 31 December 2020, none of the covenants had been breached (2019: None).

19 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**236**	67
After 1 year but within 2 years	**88**	–
	324	67

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Prepaid income tax in the consolidated statement of financial position represents:

	2020 RMB'000	2019 RMB'000
Prepaid income tax at 1 January	**(7,247)**	(12,123)
Provision for the year (Note 7(a))	**7,119**	6,805
Income tax paid	**(6,043)**	(1,929)
Prepaid income tax at 31 December	**(6,171)**	(7,247)

(b) Deferred tax assets and liabilities recognised

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

	Assets				Liabilities	
	Government grants and subsequent amortisation RMB'000	Provision for warranties RMB'000	Write-down of inventories RMB'000	Credit loss allowance RMB'000	Retained profits to be distributed RMB'000	Total RMB'000
At 1 January 2019	8,295	831	992	100	(4,857)	5,361
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(192)	(120)	461	1,806	–	1,955
At 1 January 2020	**8,103**	**711**	**1,453**	**1,906**	**(4,857)**	**7,316**
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	**(1,053)**	**(30)**	**196**	**2,338**	**(264)**	**1,187**
At 31 December 2020	**7,050**	**681**	**1,649**	**4,244**	**(5,121)**	**8,503**

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), at 31 December 2020, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB5,543,000 (2019: RMB3,959,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(d) Deferred tax liabilities not recognised

Except for deferred tax liabilities recognised in Note 20(b), taxable temporary differences relating to undistributed profits of subsidiaries of the Group established in the PRC amounted to RMB677,887,000 at 31 December 2020 (2019: RMB658,117,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

21 DEFERRED INCOME

	2020 **RMB'000**	2019 RMB'000
At 1 January	**54,019**	55,301
Additions	**–**	5,342
Credited to the consolidated statement of profit or loss	**(7,026)**	(6,624)
At 31 December	**46,993**	54,019

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

22 PROVISION FOR WARRANTIES

	2020 **RMB'000**	2019 RMB'000
At 1 January	**4,735**	5,542
Provisions made (Note 6(c))	**673**	658
Provisions utilised	**(865)**	(1,465)
At 31 December	**4,543**	4,735
Less: amount included under "current liabilities"	**(2,001)**	(1,809)
	2,542	2,926

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

23 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 23(b))	Share premium RMB'000 (Note 23(d)(i))	Exchange reserve RMB'000 (Note 23(d)(iii))	Accumulated losses RMB'000	Total equity RMB'000
Balance at 31 December 2018 and 1 January 2019	66,425	149,670	14,028	(4,811)	225,312
Loss for the year	–	–	–	(4,379)	(4,379)
Other comprehensive income	–	–	4,794	–	4,794
Total comprehensive income	–	–	4,794	(4,379)	415
	66,425	149,670	18,822	(9,190)	225,727
Balance at 31 December 2019 and 1 January 2020	**66,425**	**149,670**	**18,822**	**(9,190)**	**225,727**
Loss for the year	**–**	**–**	**–**	**(1,637)**	**(1,637)**
Other comprehensive income	**–**	**–**	**(12,910)**	**–**	**(12,910)**
Dividends declared in respect of the current year	**–**	**(13,635)**	**–**	**–**	**(13,635)**
Total comprehensive income	**–**	**(13,635)**	**(12,910)**	**(1,637)**	**(28,182)**
Balance at 31 December 2020	**66,425**	**136,035**	**5,912**	**(10,827)**	**197,545**

23 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(continued)*

(b) Share capital

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

	2020		2019	
	Number of shares	**Amount RMB'000**	Number of shares	Amount RMB'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**800,000,000**	**66,425**	800,000,000	66,425

Notes:

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 May 2017. Its initial authorised share capital was HK$380,000 divided into 3,800,000 shares with a par value of HK$0.10 per share. On 11 December 2017, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK$380,000 divided into 3,800,000 shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each. In May 2017, the Company issued and allotted/transferred 1 share and 9,998 shares, respectively, at par value for cash to Dragon Rise Ventures Limited ("Dragon Rise") and other investment companies, the proceeds of HK$999.9 (equivalent to approximately RMB796) were credited to the Company's share capital account.

(ii) 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 of the Company.

(iii) 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 respectively.

23 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(continued)*

(c) Dividends

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

	2020 RMB'000	2019 RMB'000
Interim dividend declared and paid of HK$2.0 cents per ordinary share (2019: HK$Nil cent per ordinary share)	**13,635**	–

The directors of the Company did not propose a final dividend for the year ended 31 December 2020 (2019: RMB Nil).

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

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

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium is governed by Section 34 of the Companies Law, Chapter 22 (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established and operated in the Mainland China are required to transfer 10% of their respective net profits to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

(iii) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

23 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(continued)*

(e) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions with high credit standings, for which the Group considers to be low.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Subject to the results of credit evaluation, the Group generally grants credit period of 30 to 90 days to its customers. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 34.7% (2019: 20.4%) and 75.8% (2019: 73.2%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2020		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**0.78%**	**89,037**	**(693)**
Less than 1 year past due	**2.06%**	**90,641**	**(1,867)**
1 to 2 years past due	**31.54%**	**22,959**	**(7,241)**
over 2 years past due	**100.00%**	**18,495**	**(18,495)**
		221,132	**(28,296)**

	2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.07%	98,017	(1,049)
Less than 1 year past due	7.65%	67,905	(5,192)
1 to 2 years past due	30.00%	20,558	(6,167)
over 2 years past due	100.00%	301	(301)
		186,781	(12,709)

Expected loss rates are based on actual loss experience, adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**12,709**	665
Credit losses recognised during the year	**17,645**	12,044
Credit losses written-back during the year	**(2,058)**	–
At 31 December	**28,296**	12,709

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2020 Contractual undiscounted cash flow			
	within 1 year or on demand RMB'000	over 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost	262,432	–	262,432	262,432
Bank loans	163,497	–	163,497	160,000
Lease liabilities	236	88	324	324
	426,165	88	426,253	422,756

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

	2019	
	Contractual undiscounted cash flow within 1 year or on demand RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost	194,429	194,429
Bank loans	123,564	120,920
Lease liabilities	68	67
	318,061	315,416

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate risk profile

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's borrowings at the end of the reporting period:

	Notional amount	
	2020 RMB'000	2019 RMB'000
Fixed rate borrowings:		
Lease liabilities	**324**	67
Bank loans	**140,000**	80,920
	140,324	80,987
Variable rate borrowing:		
Bank loans	**20,000**	40,000
Net exposure	**20,000**	40,000

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB170,000 (2019: RMB340,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The analysis is performed on the same basis as 2019.

(d) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 31 December 2020 and 2019.

25 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 **RMB'000**	2019 RMB'000
Commitments in respect of property, plant and equipment:		
Contracted for	**22,356**	37,777

(Expressed in RMB unless otherwise indicated)

26 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	**3,666**	3,569
Contributions to defined contribution retirement plan	**2**	26
	3,668	3,595

Total remuneration is included in "staff costs" (see Note 6(b)).

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2020 RMB'000	2019 RMB'000
Non-current asset			
Interests in a subsidiary	13	**186,875**	198,896
Current assets			
Other receivables and prepayments		**37,841**	23,997
Cash and cash equivalents		**60**	4,789
		37,901	28,786
Current liability			
Other payables		**27,231**	1,955
NET ASSETS		**197,545**	225,727
CAPITAL AND RESERVES	23		
Share capital		**66,425**	66,425
Reserves		**131,120**	159,302
TOTAL EQUITY		**197,545**	225,727

Approved and authorised for issue by the board of directors on 26 March 2021.

Meng Lianzhou
Chairman

Liu Enwang
Director

28 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The directors of the Company have been closely monitoring the impact from the COVID-19 pandemic on the Group and has put in place various contingency measures during the year ended 31 December 2020. These contingency measures included but not limited to reassessing fluctuation to the sales volume and price, reassessing the adequacy of inventory level, and improving the Group's cash management by negotiating with suppliers on payment terms. The Group will keep the contingency measures under review as the COVID-19 pandemic situation evolves.

Sales volume of the Group decreased in the first half year of 2020 due to the impact of the COVID-19 pandemic and then gradually increased in the rest of the year as a result of the effectively control of pandemic in mainland China. The Group will be cautions and stay vigilant and react to the evolving situation. The COVID-19 pandemic may also continually impact the operations of the Group's customers, hence impacting the repayment abilities of the Group's trade debtors, which in turn may result in additional impairment losses on trade and other receivables in future periods. These possible impacts have not been reflected in these financial statements, and the actual impacts may differ from estimates adopted in these financial statements as the COVID-19 pandemic situation continues to evolve and when further information may become available.

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, the directors of the Company consider the immediate parent of the Group to be Dragon Rise, which is incorporated in the BVI. This entity does not produce financial statements available for public use. The directors of the Company consider the ultimate holding parties of the Group to be Mr Meng Lianzhou, Mr Liu Zhanwen, Mr Zhang Yuexuan and Mr Liu Enwang.

(Expressed in RMB unless otherwise indicated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 17, *Insurance contracts*	1 January 2021
Amendments to IAS 1, *Classification of liabilities as current or non-current*	1 January 2022
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.