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Ruifeng Power Group Company Limited

瑞豐動力集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2025)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS	For the six months ended 30 June		
	2022	2021	Change
Revenue (RMB'000)	283,737	371,669	(23.7)%
Gross profit (RMB'000)	46,224	83,370	(44.6)%
Gross profit margin	16.3%	22.4%	(6.1)%
Profit for the period (RMB'000)	12,393	32,962	(62.4)%
Net profit margin	4.4%	8.9%	(4.5)%
Basic and diluted earnings per share (RMB cent)	1.55	4.12	

The Board resolved to declare an interim dividend of HK\$1.7 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$3.0 cents).

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Ruifeng Power Group Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022 (the “**Period**”) together with the comparative figures for the six months ended 30 June 2021 and other dates or periods. The interim results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

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

For the six months ended 30 June

(Expressed in Renminbi (“RMB”))

	<i>Note</i>	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue	4	283,737	371,669
Cost of sales		(237,513)	(288,299)
Gross profit	4(b)	46,224	83,370
Other income	5	14,302	8,201
Selling expenses		(3,813)	(12,043)
Administrative expenses		(39,824)	(38,572)
Profit from operations		16,889	40,956
Finance costs	6(a)	(3,667)	(3,453)
Profit before taxation	6	13,222	37,503
Income tax	7	(829)	(4,541)
Profit for the period attributable to equity shareholders of the Company		12,393	32,962
Earnings per share			
Basic and diluted (RMB cent)	8	1.55	4.12
Profit for the period		12,393	32,962
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss			
- Exchange differences on translation of financial statements into presentation currency		1,088	(504)
Total comprehensive income for the period attributable to equity shareholders of the Company		13,481	32,458

CONSOLIDATED STATEMENT OF FINANCIAL POSITION- UNAUDITED

As at 30 June 2022

(Expressed in RMB)

		At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment		770,270	760,185
Right-of-use assets		107,775	108,653
Deferred tax assets		15,367	15,629
Other non-current assets		37,733	36,749
		931,145	921,216
Current assets			
Inventories		254,740	239,603
Trade and other receivables	9	358,870	309,296
Prepaid income tax		12,867	11,551
Cash and cash equivalents		43,055	30,009
		669,532	590,459
Current liabilities			
Trade and other payables	10	371,014	327,289
Bank loans	11	195,000	160,000
Lease liabilities		259	65
Provision for warranties		2,415	2,131
		568,688	489,485
Net current assets		100,844	100,974
Total assets less current liabilities		1,031,989	1,022,190
Non-current liabilities			
Deferred income		36,455	39,967
Lease liabilities		201	-
Deferred tax liabilities		5,121	5,121
Provision for warranties		2,535	2,906
		44,312	47,994
NET ASSETS		987,677	974,196
CAPITAL AND RESERVES			
Share capital		66,425	66,425
Reserves		921,252	907,771
TOTAL EQUITY		987,677	974,196

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 26 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2021 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2022.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments have had a material effect on how the Group's results and financial position for the current period have been prepared or presented in this interim financial report. The Group had not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the manufacture and sale of cylinder blocks and cylinder heads.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
– Sales of cylinder blocks	238,784	274,161
– Sales of cylinder heads	43,491	93,178
– Sales of ancillary cylinder block components	1,462	4,330
	283,737	371,669

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

(b) Segment reporting

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

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2022 and 2021. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2022 and 2021 is set out below:

	<i>Six months ended 30 June 2022</i>			
	<i>Cylinder blocks RMB'000</i>	<i>Cylinder heads RMB'000</i>	<i>Ancillary cylinder block components RMB'000</i>	<i>Total RMB'000</i>
Revenue from external customers recognised at a point in time	<u>238,784</u>	<u>43,491</u>	<u>1,462</u>	<u>283,737</u>
Reportable segment gross profit	<u>37,652</u>	<u>9,247</u>	<u>(675)</u>	<u>46,224</u>

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

(ii) Geographic information

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

5. OTHER INCOME

	<i>Six months ended 30 June</i>	
	<i>2022 RMB'000</i>	<i>2021 RMB'000</i>
Government grants (including amortisation of deferred income)	14,181	7,095
Interest income	146	58
Net gain on disposal of property, plant and equipment	19	106
Others	(44)	942
	<u>14,302</u>	<u>8,201</u>

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	RMB'000	RMB'000
Interest on bank and other loans	3,623	3,270
Bank charges and others	39	177
Interest on lease liabilities	5	6
	3,667	3,453

No borrowing costs have been capitalised for the six months ended 30 June 2022 and 2021.

(b) Staff costs#

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	RMB'000	RMB'000
Salaries, wages and other benefits	37,784	40,076
Contributions to defined contribution retirement plan	2,027	2,072
	39,811	42,148

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

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

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

(c) Other items

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	RMB'000	RMB'000
Depreciation charge		
– owned property, plant and equipment	40,515	31,278
– right-of-use assets	1,925	1,401
Impairment losses on trade and other receivables	3,392	1,404
Operating lease charges of short-term leases	119	117
Provision for warranties	1,684	1,818
Research and development costs	10,633	11,560
Cost of inventories #	237,513	288,299

Cost of inventories for the six months ended 30 June 2022 includes RMB60,825,000 (six months ended 30 June 2021: RMB55,818,000) relating to staff costs, and depreciation and amortisation, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	<i>Six months ended 30 June</i>	
	<i>2022</i>	<i>2021</i>
	RMB'000	RMB'000
Current taxation - PRC Corporate Income Tax	566	4,284
Deferred taxation	263	257
	829	4,541

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

The Company and a subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2022 (six months ended 30 June 2021: 16.5%).

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25.0% for the six months ended 30 June 2022 (six months ended 30 June 2021: 25%).

One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise for the calendar years from 2021 to 2023. 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 100% (six months ended 30 June 2021: 75%) of its qualified research and development costs incurred.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB12,393,000 (six months ended 30 June 2021: RMB32,962,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2021: 800,000,000) in issue during the interim period.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2022 and 2021.

9. TRADE AND OTHER RECEIVABLES

	<i>As at</i> 30 June 2022 RMB'000	<i>As at</i> 31 December 2021 RMB'000
Trade receivables	182,398	196,672
Less: loss allowance	(41,878)	(38,486)
	140,520	158,186
Bills receivables	123,860	104,979
Other receivables	23,879	-
Financial assets measured at amortised cost	288,259	263,165
Prepayments and other deposits	55,568	42,263
Deductible value added tax	15,043	3,868
	358,870	309,296

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

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

	<i>As at</i> 30 June 2022 RMB'000	<i>As at</i> 31 December 2021 RMB'000
Less than 1 month	110,472	110,556
1 to 3 months	85,024	94,773
3 to 6 months	72,311	53,893
Over 6 months	20,452	3,943
	288,259	263,165

10. TRADE AND OTHER PAYABLES

	<i>As at</i> 30 June 2022 RMB'000	<i>As at</i> 31 December 2021 RMB'000
Trade payables	216,377	213,991
Bills payables	40,000	20,000
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	256,377	233,991
Payables for construction of property, plant and equipment	90,734	65,074
Payables for staff related costs	4,553	6,518
Contract liabilities	5,822	5,028
Others	13,452	16,621
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	370,938	327,232
Payables for other taxes	76	57
	<hr/>	<hr/>
	371,014	327,289
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All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	<i>As at</i> 30 June 2022 RMB'000	<i>As at</i> 31 December 2021 RMB'000
Less than 1 month	80,729	92,371
1 to 3 months	49,830	58,442
3 to 6 months	83,158	44,654
Over 6 months	42,660	38,524
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	256,377	233,991
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11. BANK LOANS

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

	<i>As at</i> 30 June 2022 RMB'000	<i>As at</i> 31 December 2021 RMB'000
Short-term bank loans:		
– secured by property, plant and equipment and right-of-use assets	187,000	160,000
Discounted bills with banks	8,000	≡
	<hr/>	<hr/>
	195,000	160,000
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- (b) At 30 June 2022, the aggregate carrying amount of property, plant and equipment and right-of-use assets pledged for the Group's short-term bank loans is RMB127,363,000 (31 December 2021: RMB88,176,000).

12. DIVIDENDS

The Board resolved on 26 August 2022 that an interim dividend of HK\$1.7 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$3.0 cents), absorbing a total amount of HK\$13,600,000 (six months ended 30 June 2021: HK\$24,000,000), is to be distributed to the shareholders of the Company. The interim dividend has not been recognised as a liability at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2022, the COVID-19 pandemic broke out in multiple cities in the PRC, posing an unexpected challenge to the PRC economy. According to the data published by the National Bureau of Statistics of China, in the first half of 2022, the gross domestic product (the "GDP") of the PRC saw a year-on-year increase of 2.5%. However, while the first quarter saw a year-on-year GDP growth of 4.8%, the growth in the second quarter dropped dramatically to 0.4%, 4.4 percentage points lower than the previous quarter. This shows that there is a significant increase of downward pressure in the second quarter.

In the first half of 2022, the automotive industry continued to be affected by factors such as the outbreak of COVID-19, the shortage of chips and rising raw material prices. Despite the shockwave of these unfavorable factors, the sales volume of the Group during the Period was better than expected. The Reduction of Vehicle Purchase Tax on Certain Passenger Vehicles 《關於減征部分乘用車車輛購置稅的公告》 was promulgated by the Ministry of Finance and State Taxation Administration on 31 May 2022, which stipulates that the vehicle purchase tax on passenger vehicles of 2.0 liters or lower and a price (excluding VAT) not exceeding RMB300,000, purchased between 1 June 2022 and 31 December 2022, shall be reduced by half. Coupled with other favourable policies, the production and sales of the automotive industry maintained a healthy growth during the period. According to the data published by the China Association of Automobile Manufacturers, in the first half of 2022, the volume of automobile production and sales in the PRC have reached 12.117 million units and 10.257 million units, respectively, representing a year-on-year decline of approximately 3.7% and 6.6%. Compared to the decline from January 2022 to May 2022, the decline has narrowed by approximately 5.9 and 5.6 percentage points, respectively.

As the competition in the automotive industry increases rapidly, to gain an advantage, automobile component manufacturers must have synchronized development capabilities, processing technology and the ability to deliver large quantities in a timely manner. The collaboration between automobile component enterprises and downstream automobile manufacturers and the mode of cooperation are of utmost importance, which are continuously enhanced. In addition, with the full implementation of the road National VI emission standards and the introduction of the non-road National IV emission standards, the internal combustion engine industry will face more severe challenges in the field of energy conservation and emission reduction.

In particular, under the guidance of the High-quality Development Plan for the Internal Combustion Engine Industry (2021~2035) 《內燃機產業高品質發展規劃（2021~2035）》 (the "Plan"), internal combustion engines must fully meet a number of requirements such as energy security, dual carbon targets, emission standards, energy consumption regulations, and independent control of key technologies in the industry. The publication and implementation of the Plan will greatly promote the innovative development of the internal combustion engine industry in the PRC, as well as the development of new structures, new materials and new technologies to achieve the high strength, high efficiency, low noise and light weight of internal combustion engines.

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 the PRC. 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.

During the Period, revenue of the Group amounted to approximately RMB283.7 million, representing a decrease of 23.7% from approximately RMB371.7 million in the corresponding period in 2021. Meanwhile, profit of the Group amounted to approximately RMB12.4 million, representing a decrease of 62.4% from approximately RMB33.0 million in the corresponding period in 2021. During the Period, the Group was affected by the continuous decrease in demand for cylinder blocks from one of the Group's major customers and the increase in raw material and overhead costs, resulting in a decline in revenue and profit. Yet, new orders from new and existing customers gradually compensated for the decrease, and through the restructuring of the management team of one of the Group's subsidiaries in July 2022 and the launch of new products as further discussed below, the Group's revenue and operation are expected to improve further in the second half of the year.

During the Period, the Group was principally engaged in the manufacturing of cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufactures cylinder heads as well as certain other structural components of cylinder blocks, primarily including main bearing caps and flywheels. The following table sets forth the revenue and sales volume by segment and major product type for the six months ended 30 June 2022 and 2021:

	For the six months ended 30 June					
	2022			2021		
	Revenue	As a percentage of total revenue	Sales volume	Revenue	As a percentage of total revenue	Sales volume
	RMB'000	%	units	RMB'000	%	units
Cylinder blocks						
- Passenger vehicles	870,446	24.8	84,873	115,552	31.1	115,361
- Commercial vehicles	132,148	46.6	137,675	125,281	33.7	132,240
- Industrial vehicles	36,190	12.8	29,840	33,328	9.0	32,450
Subtotal	238,784	84.2	252,388	274,161	73.8	280,051
Cylinder heads	43,491	15.3	84,353	93,178	25.0	144,615
Ancillary cylinder block components	1,461	0.5	73,674	4,330	1.2	111,998
Total	283,736	100.0		371,669	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 31.1% of the Group's total revenue for the six months ended 30 June 2021 to approximately 24.8% for the six months ended 30 June 2022. Sales volume of cylinder blocks for passenger vehicles decreased by approximately 26.4% from approximately 115,000 units for the six months ended 30 June 2021 to approximately 85,000 units for the six months ended 30 June 2022. Such decrease was due to the decrease in demand from one of the Group's major customers, which was partially offset by the increase in revenue from the Group's continued increase in sales of cylinder blocks to China FAW and the Group's mass production project of cylinder blocks and cylinder heads with BYD Co., Ltd ("BYD") during the Period.

The Group's 4GB 3rd Generation cylinder block and cylinder head collaboration project with China FAW will commence production in the fourth quarter of 2022, which is expected to generate more revenue for the Group. In addition, the Group is currently negotiating with BYD on certain development projects for new products, and further details of the plan are expected to be available by the end of the year.

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 33.7% of the total revenue for the six months ended 30 June 2021 to approximately 46.6% for the six months ended 30 June 2022. Such increase was primarily attributable to a more significant decrease in sales of cylinder blocks for passenger vehicles as described above and the increase in sales of cylinder blocks for commercial vehicles. Sales volume of cylinder blocks for commercial vehicles increased by approximately 4.1% from approximately 132,000 units for the six months ended 30 June 2021 to approximately 138,000 units for the six months ended 30 June 2022. Such increase was primarily attributable to an increase in demand for the products that comply with National VI emission standards.

During the Period, the Group established a new subsidiary in Shiyan City, Hubei Province to fully cooperate with Dongfeng Forging Co., Ltd. under Dongfeng Motor Corporation. The project mainly involves the production of DDi11-type cylinder blocks and cylinder heads for heavy commercial trucks and is expected to commence mass production in the second half of 2022.

Cylinder Blocks for Industrial Vehicles

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. Revenue from sales of cylinder blocks for industrial vehicles increased from approximately 9.0% of total revenue from sales of cylinder blocks for the six months ended 30 June 2021 to approximately 12.8% for the six months ended 30 June 2022, such increase being primarily attributable to a more significant decrease in sales of cylinder blocks for passenger vehicles as described above and the increase in the sales amount of cylinder blocks for industrial vehicles. Sales volume of cylinder blocks for industrial vehicles decreased by approximately 8.9% from approximately 32,000 units for the six months ended 30 June 2021 to approximately 30,000 units for the six months ended 30 June 2022. Sales amount of cylinder blocks for industrial vehicles increased from approximately RMB33.3 million for the six months ended 30 June 2021 to approximately RMB36.2 million for the six months ended 30 June 2022, such increase mainly attributable to the rise in the average sales price of the products with higher standards.

During the Period, in addition to actively pursuing the negotiation and cooperation with DEUTZ AG, the Group is expected to conduct the official mass production of two new products, namely the 3.9L cylinder block and the 5.7L cylinder blocks. In addition, the Group continues to develop relationships with new customers, seeking more business opportunities in non-road business. Currently, the Group is undergoing negotiation for cooperation with a non-road forklift corporate, consolidating the foundation for expanding the Group's customer and product range.

Cylinder Heads

The cylinder heads are primarily used in commercial vehicles and often sold together with cylinder blocks to automobile manufacturers and engine manufacturers in China. Sales volume of cylinder heads decreased by approximately 41.7% from approximately 145,000 units for the six months ended 30 June 2021 to approximately 84,000 units for the six months ended 30 June 2022. Such decrease was primarily due to the decrease in orders for cylinder heads from one of the Group's major customers, however, the demand for cylinder heads from BYD and DEUTZ AG continues to increase, partially offsetting the impact brought by the decreased order demand from said customer.

Production Facilities

All production facilities of the Group are located in Shenzhou City, Hebei Province, the PRC. As of 30 June 2022, the Group owned and operated a total of 4 precision casting lines and 30 mechanical processing lines (including 22 for cylinder blocks, 6 for cylinder heads and 2 for other ancillary cylinder block components).

During the six months ended 30 June 2022, the Group had been building 12 new mechanical processing lines and a precision casting line either through the renovation of the existing production line or investing in a new production line, of which a precision casting line and 6 mechanical processing lines have been completed and put into production as at 30 June 2022, which production lines are for the expansion of the existing and new model production. The remaining new mechanical processing lines and precision casting lines that have not yet been renovated or constructed are expected to be put into production in the second half of 2022.

FUTURE PROSPECTS

Since July 2022, the Group adjusted the management team of its major operating subsidiary in the PRC, with the objective that through personnel adjustment, it can, on the one hand, enhance management and thus improve operating efficiency, on the other hand, nurture new management personnel to facilitate future development of the Group. With the new management team and the launching of the new products in the second half of 2022, the Directors expect to attract more customer orders, which will subsequently increase the Group's revenue and improve its performance.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by approximately 23.7% from approximately RMB371.7 million for the six months ended 30 June 2021 to approximately RMB283.7 million for the six months ended 30 June 2022. This decrease was primarily attributable to the decrease in revenue from sales of cylinder blocks and cylinder head.

Sales of Cylinder Blocks

Segment revenue from cylinder block sales decreased by approximately 12.9% from approximately RMB274.2 million for the six months ended 30 June 2021 to approximately RMB238.8 million for the six months ended 30 June 2022, primarily attributable to a decrease in sales volume from approximately 280,000 units for the six months ended 30 June 2021 to approximately 252,000 units for the six months ended 30 June 2022 driven mainly by a decrease in revenue from sales of cylinder blocks for passenger vehicles by approximately RMB45.1 million and which was partially offset by the increase in revenue in sales of cylinder blocks for commercial vehicles and industrial vehicles by approximately RMB6.9 million and RMB2.9 million, respectively for the six months ended 30 June 2022 as compared with the corresponding period in last year.

Sales of Cylinder Heads

Segment revenue from cylinder head sales decreased by approximately 53.3% from approximately RMB93.2 million for the six months ended 30 June 2021 to approximately RMB43.5 million for the six months ended 30 June 2022, primarily attributable to a decrease in sales volume from approximately 145,000 units for the six months ended 30 June 2021 to approximately 84,000 units for the six months ended 30 June 2022, primarily related to a decrease in orders from one of our major customers, which was partially offset by the increases in orders from BYD and DEUTZ AG.

Sales of Ancillary Cylinder Block Components

Segment revenue from ancillary cylinder block components sales decreased by approximately RMB2.8 million from approximately RMB4.3 million for the six months ended 30 June 2021 to approximately RMB1.5 million for the six months ended 30 June 2022. This decrease was primarily attributable to a significant decrease in orders from our customers.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately 44.6% from approximately RMB83.4 million for the six months ended 30 June 2021 to approximately RMB46.2 million for the six months ended 30 June 2022. This decrease was in line with decrease in revenue and gross profit margin of the Group. The gross profit margin decreased from 22.4% for the six months ended 30 June 2021 to 16.3% for the six months ended 30 June 2022, such decrease was primarily due to the increase in raw material costs and overhead costs.

Other Income

Other income increased by approximately 74.4% from approximately RMB8.2 million for the six months ended 30 June 2021 to approximately RMB14.3 million for the six months ended 30 June 2022. This increase was primarily due to an increase in government grants received. During the six months ended 30 June 2022, the Group recognised government grants of approximately RMB10.7 million, as compared with government grants of approximately RMB3.6 million for the six months ended 30 June 2021, in relation to the contribution of the Group in technological innovation. The government grants related to the expansion of the production facilities and purchase of new production equipment are recorded as deferred income and amortised over the periods.

Selling Expenses

Selling expenses decreased by approximately 68.3% from approximately RMB12.0 million for the six months ended 30 June 2021 to approximately RMB3.8 million for the six months ended 30 June 2022. The decrease was primarily due to a decrease in transportation costs.

Administrative Expenses

Administrative expenses increased by approximately 3.2% from approximately RMB38.6 million for the six months ended 30 June 2021 to approximately RMB39.8 million for the six months ended 30 June 2022, primarily due to an increase in impairment loss on trade receivables of approximately RMB2.0 million to approximately RMB3.4 million for the six months ended 30 June 2022.

Finance Costs

Finance costs increased by approximately 6.2% from approximately RMB3.5 million for the six months ended 30 June 2021 to approximately RMB3.7 million for the six months ended 30 June 2022, primarily due to an increase in interest on bank loans.

Income Tax Expenses

Income tax expenses decreased by approximately 81.7% from approximately RMB4.5 million for the six months ended 30 June 2021 to approximately RMB0.8 million for the six months ended 30 June 2022 primarily due to a decrease in our taxable profits as the profit from operation was decreased during the Period. The effective tax rate decreased from 12.1% for the six months ended 30 June 2021 to 6.3% for the six months ended 30 June 2022, such decrease was primarily due to the amount of additional tax deductible allowance in relation to the research and development costs which the Group can claim has increased.

Profit for the Period

As a result of the foregoing, the profit for the Period decreased by approximately 62.4% from approximately RMB33.0 million for the six months ended 30 June 2021 to approximately RMB12.4 million for the six months ended 30 June 2022. The net profit margin decreased from 8.9% for the six months ended 30 June 2021 to 4.4% for six months ended 30 June 2022, which was mainly attributable to a decrease in gross profit margin.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The operation of the Group is primarily financed by cash generated from operating activities and bank and other borrowings. As of 30 June 2022 and 31 December 2021, cash and cash equivalents of the Group amounted to approximately RMB43.1 million and RMB30.0 million, respectively.

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

Trade and Bills Receivables

The trade and bills receivables increased by approximately 0.5% from approximately RMB263.2 million as at 31 December 2021 to approximately RMB264.4 million as at 30 June 2022. The trade and bills receivables turnover days was 164 days and 170 days as at 31 December 2021 and 30 June 2022, respectively, such increase being primarily due to an increase in bills receivables balance as at 30 June 2022 as compared with 31 December 2022 as settlement period of the bills receivables is longer. The Group will strengthen customer credit risk management to guard against the increase in impairment loss on trade receivables. The allowance for impairment losses on trade receivables was slightly increased from approximately RMB38.5 million as at 31 December 2021 to approximately RMB41.9 million as at 30 June 2022.

Trade Payables

The trade payables increased by approximately 1.1% from approximately RMB214.0 million as at 31 December 2021 to approximately RMB216.4 million as at 30 June 2022 which remained stable. The trade payables turnover days increased from 119 days as at 31 December 2021 to 165 days as at 30 June 2022, such increase primarily attributable to increased use of bills receivable by our customers, which affected our operating cashflow.

Bank Loans

The bank loans increased by approximately 21.9% from approximately RMB160.0 million as at 31 December 2021 to approximately RMB195.0 million as at 30 June 2022. As at 30 June 2022, bank loans in the amounts of RMB187.0 million (2021:RMB155.0 million) were pledged by property, plant and equipment and right-of-use of the Group, the aggregate carrying amount of such assets was approximately RMB127.4 million (31 December 2021: approximately RMB88.2 million).

All bank loans as at 30 June 2022 and 31 December 2021 were denominated in RMB at fixed or floating interest rate. The following table sets forth the amount of indebtedness of the Group as at the dates indicated:

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Repayment Schedule		
Bank loans		
Within 1 year	<u><u>195,000</u></u>	<u><u>160,000</u></u>

As at 30 June 2022, the Group had no charge on its assets.

Gearing Ratio

The gearing ratio increased from approximately 16.4% as at 31 December 2021 to approximately 19.7% as at 30 June 2022, such increase was a result of an increase of bank loans and other borrowings of RMB35.0 million.

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

Capital Expenditure

For the six months ended 30 June 2022, the capital expenditure of the Group was approximately RMB51.2million (31 December 2021: RMB115.3 million). The capital expenditure incurred for the six months ended 30 June 2022 primarily related to the construction of new mechanical processing lines for the new products and purchases of additional equipment and machinery used for improvement of the existing production lines.

Capital Commitments

As at 30 June 2022, the capital commitments of the Group in respect of property, plant and equipment contracted amounted to approximately RMB27.7 million (31 December 2021: approximately RMB33.3 million).

Contingent liabilities

As at 30 June 2022, the Group did not have any material contingent liabilities or guarantees (31 December 2021: Nil).

Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

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

SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2022. There were no material investments or additions of capital assets as at 30 June 2022.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, the Group had a total of 728 employees (31 December 2021: 749 employees). For the six months ended 30 June 2022, the Group has incurred total staff costs of approximately RMB39.8 million (six months ended 30 June 2021: approximately RMB42.1 million), representing a decrease of approximately 5.5% as compared with those for six months ended 30 June 2021, which was due to a decrease in number of workers.

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

Waiver of directors' remuneration

The executive Directors agreed to waive part of director's salary for the year ending 31 December 2022 and agreed to receive the director's salary of RMB40,000 per annum with effect from 1 January 2022.

MAJOR SUBSEQUENT EVENTS

Save as disclosed in this announcement, there are no major subsequent events after 30 June 2022 which would materially affect the Group's operating and financial performance as of the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2022 and up to the date of this announcement, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (“**CG Code**”) set out in Part 2 of Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2022, the Company has fully complied with the Code Provisions, except for the following.

Pursuant to code provision C.2.1 of the CG code, the roles of the chairman and the chief executive should be separated and should not be performed by the same individual. However, Mr. Meng Lianzhou currently performs the roles of chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board regularly reviews the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the six months ended 30 June 2022.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK\$1.7 cents per share for the six months ended 30 June 2022 (2021: HK\$3.0 cents). It is expected that the interim dividend will be paid on or around 18 November 2022 to those shareholders whose names are on the register of members of the Company on 27 October 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 October 2022 (Monday) to 27 October 2022 (Thursday), both days inclusive, for the purpose of ascertaining shareholders’ entitlement to the interim dividend. In order to establish entitlements to the interim dividend, the shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged for registration with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on 21 October 2022 (Friday).

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

AUDIT COMMITTEE

The Company has established the Audit Committee which comprises three independent non-executive Directors, namely Mr. Yu Chun Kau, Mr. Ren Keqiang and Mr. Wan Ming.

The Audit Committee, together with the management have reviewed the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2022.

PUBLICATION OF THE CONSOLIDATED INTERIM RESULTS AND 2022 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the website of the Stock Exchange at <http://www.hkexnews.hk> and on the website of the Company at <http://www.hbsgt.com> and the interim report for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the aforesaid websites of the Stock Exchange and the Company in due course.

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

Shenzhen, the PRC, 26 August 2022

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