Hebei Yichen Industrial Group Corporation Limited*

河北翼辰實業集團股份有限公司

(a joint stock limited liability company incorporated in the People's Republic of China)

Stock Code : 1596

* For identification purpose only

GLOBAL OFFERING

Sole Sponsor

交銀國際
BOCOM International

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

交銀國際
BOCOM International

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**224,460,000 H Shares (subject to the Over-allotment Option)**
Number of Hong Kong Public Offer Shares	:	**22,446,000 H Shares (subject to adjustment)**
Number of International Offer Shares	:	**202,014,000 H Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	:	**HK$3.74 per H Share, plus a brokerage of 1.0%, an SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**RMB0.5 per H Share**
Stock code	:	**1596**

Sole Sponsor

交銀國際 BOCOM International

Joint Global Coordinators

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國泰君安國際 GUOTAI JUNAN INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

交銀國際 BOCOM International

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

光大證券 EBS INTERNATIONAL

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, has been registered by the registrar of companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Our Company is incorporated, and a substantial part of our businesses is located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to the investments in our Company. Potential investors should also be aware that the regulatory frameworks in the PRC are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Regulations", "Appendix III — Taxation and Foreign Exchange", "Appendix IV — Summary of Principal Legal and Regulatory Provisions", and "Appendix V — Summary of Articles of Association" in this prospectus.

The Offer Price is expected to be fixed by agreement between BOCOM International Securities (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, December 14, 2016 and, in any event, not later than Monday, December 19, 2016.

The Offer Price will not be more than HK$3.74 and is currently expected to be not less than HK$3.00 unless otherwise announced. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK$3.74 for each H Share together with a brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. BOCOM International Securities (for itself and on behalf of the Underwriters), with the consent of our Company, may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative offer price range will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hbyc.com.cn**. not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus. **If, for any reason, the Offer Price is not agreed between our Company and BOCOM International Securities (for itself and on behalf of the Underwriters) on or before Monday, December 19, 2016, the Global Offering will not proceed and will lapse.**

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, BOCOM International Securities, for itself and on behalf of the Underwriters, has the right in certain circumstances, in the sole discretion of BOCOM International Securities, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in our H Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be on Wednesday, December 21, 2016). Further details of the terms of the termination provisions are set out in the paragraph headed "Grounds for Termination" under the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares may only be offered, sold or delivered outside the United States in offshore transactions in reliance on Regulation S under U.S. Securities Act.

* *For identification purposes only*

Friday, December 9, 2016

Our Company will issue an announcement in Hong Kong to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hbyc.com.cn** if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] . . . . 11:30 a.m. on Wednesday, December 14, 2016

Application lists open[3] . . . . 11:45 a.m. on Wednesday, December 14, 2016

Latest time for lodging **WHITE** and **YELLOW** Application Forms . . . . 12:00 noon on Wednesday, December 14, 2016

Latest time for giving **electronic application instructions** to HKSCC[4] . . . . 12:00 noon on Wednesday, December 14, 2016

Latest time to complete payment of **White Form eIPO** applications effecting internet banking transfer(s) or PPS payment transfer(s) . . . . 12:00 noon on Wednesday, December 14, 2016

Application lists close[3] . . . . 12:00 noon on Wednesday, December 14, 2016

Expected Price Determination Date[5] . . . . Wednesday, December 14, 2016

Announcement of: . . . . Tuesday, December 20, 2016

(i) the Offer Price;

(ii) the level of indication of interest in the International Offering;

(iii) the level of application in respect of the Hong Kong Public Offering; and

(iv) the basis of allotment of the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be published on our Company's website at **www.hbyc.com.cn** and the Stock Exchange's website at **www.hkexnews.hk** on or before

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the subsection entitled "How to Apply for Hong Kong Public Offer Shares — Publication of Results" in this prospectus from . . . . . Tuesday, December 20, 2016

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function from	Tuesday, December 20, 2016
Despatch of H Share certificates in respect of wholly or partially successful applications on or before[6]	Tuesday, December 20, 2016
Despatch of refund cheques or White Form e-Refund payment instructions in respect of wholly or partially unsuccessful applications on or before[7] [8]	Tuesday, December 20, 2016
Dealings in the H Shares on the Stock Exchange to commence on	Wednesday, December 21, 2016

(1) All dates and times refer to Hong Kong local dates and times, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) You will not be permitted to submit your application through the **White Form eIPO** service through the designated website, **www.eipo.com.hk**, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, December 14, 2016, the application lists will not open and close on that day. Further information is set out in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus. If the application lists do not open and close on Wednesday, December 14, 2016, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.

(4) Applicants who apply for Hong Kong Public Offering by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "Applying by Giving Electronic Application Instructions to HKSCC via CCASS" under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

(5) The Price Determination Date is expected to be on or around Wednesday, December 14, 2016 and, in any event, no later than Monday, December 19, 2016. If, for any reason, the Offer Price is not agreed on or before Monday, December 19, 2016, the Global Offering will not proceed and will lapse.

(6) H Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Tuesday, December 20, 2016 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, our Company will make an announcement as soon as possible. Investors who trade the Hong Kong Public Offer Shares on the basis of publicly available allocation details before the receipt of their H Share certificates or before the H Share certificate becoming valid certificates of title do so entirely at their own risk.

(7) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 Hong Kong Public Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and H Share certificates (if applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 20, 2016. Identification and (where applicable) authorization documents acceptable to the H Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their H Share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **White Form eIPO** service by paying the application monies through a single bank account may have e-Refund payment instructions (if any) despatched to their application payment bank account on Tuesday, December 20, 2016. Applicants who have applied through the **White Form eIPO** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through the **White Form eIPO** service, on or before Tuesday, December 20, 2016, by ordinary post and at their own risk.

Uncollected H Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the subsection headed "How to Apply for Hong Kong Public Offer Shares — Despatch/Collection of H Share Certificates and Refund Monies" in this prospectus.

(8) Refund cheques will be issued (if applicable) and e-Refund payment instruction will be despatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price per Hong Kong Public Offer Share payable on application.

For further details in relation to the Hong Kong Public Offering, see the sections headed "How to Apply for Hong Kong Public Offer Shares" and "Structure of the Global Offering" in this prospectus.

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Information contained in our website at **www.hbyc.com.cn** does not form part of this prospectus.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in the prospectus. Any information or representation not made in the prospectus must not be relied on by you as having been authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person involved in the Global Offering.

CONTENTS

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read this section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading rail fastening system provider to the PRC railway industry. According to Frost & Sullivan, we were the largest rail fastening system provider in the PRC in terms of revenue for the year ended December 31, 2015 accounting for approximately 17.1% of the rail fastening system market in the PRC. We have over 10 years of experience in supplying rail fastening systems to the PRC railway industry, and during the Track Record Period, we entered into supply contracts for rail fastening system projects with a total initial contract value of RMB2,704.5 million, including high speed railway projects with a total initial contract value of RMB1,866.3 million, metro series projects with a total initial contract value of RMB392.7 million, traditional track projects with a total initial contract value of RMB349.6 million and heavy haul railway projects with a total initial contract value of RMB95.9 million. According to Frost & Sullivan, the PRC rail fastening system market has experienced consistent growth over the last few years, and we expect to continue to benefit from such growth.

Our rail fastening systems have a nationwide coverage that include all Four Vertical and Four Horizontal High Speed Railway Corridors. Leveraging on such extensive experience, we have grown into one of the few rail fastening system manufacturers in the PRC with the capability to produce the core components of the rail fastening system. Through collaboration with our affiliate, Tieke Yichen, we have the capability to consistently supply all components of rail fastening systems. We have developed a comprehensive portfolio of rail fastening systems to meet the demands of all segments of the railway industry, ranging from high speed railway and heavy haul railway series to traditional track series and metro series.

We are one of the seven and the only private domestic enterprise approved by the CRCC to supply pre-assembled high speed rail fastening systems in the PRC. The CRCC, as a state-owned certification authority for the PRC railway transportation system, has set stringent approval qualifications for the suppliers of high speed rail fastening systems. We believe the qualifications established by CRCC create effective entry barriers for new market participants. Thus, we are well positioned to benefit from the expansion of the high speed railway industry in the PRC. We have completed various "first in China" landmark projects and participated in high speed railways, heavy haul railways and other railway projects under demanding operational conditions. Please see "Business — Overview" for our landmark projects.

We conduct sales of our rail fastening system products primarily through participating in competitive bidding process and contract negotiations. We have collaborated with the construction and operating units of the China Railway Corporation (中國鐵路總公司) ("**China Railway Corporation**") which are responsible for railway construction and operation, and in the urban transit sector, we have supplied to major metro construction and/or operation companies in 26 of the 28 cities in the PRC which have metro systems in operation. Furthermore, our relationship with our customers extend to collaboration in the testing of materials. In February 2013, we established a "Polymer Product Production Site" (高分子產品生產基地) with Tieke Shougang, a subsidiary of China Academy of Railway Sciences (中國鐵道科學研究院) in relation to the production of nylon and rubber that are to be used in railway fastening system products.

We have entered into four long-term technology license agreements with our key cooperation partner, Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所). Please see the section headed "Business — License Agreements with Key Cooperation Partner" for further details. Under the license agreements, we are required to pay 2.5% of our total sales for the relevant products in each year to our key cooperation partner as royalty fee. Such technology licenses are essential to the manufacturing of the corresponding high speed rail fastening system, and high speed rail fastening system is one of our core products. We rely on our key cooperation partner, and as a result of the increase in our sales of the licensed products, such royalty fees increased accordingly during the Track Record Period. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from sales of licensed products amounted to RMB96.3 million, RMB338.6 million, RMB359.1 million and RMB181.4 million, respectively, which accounted for approximately 15.8%, 39.6%, 39.6% and 34.8% of our total revenue for the same periods, respectively. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our gross profit generated from sales of licensed products was RMB48.3 million, RMB183.9 million, RMB192.4 million, and RMB95.5 million, respectively. As of the Latest Practicable Date, the monetary value of the outstanding contracts in connection with such licensed products was RMB716.2 million, representing 67.7% of our total backlog. If our key cooperation partner ceases to license the relevant technologies to us, or if our relationship with our key cooperation partner is terminated or our key cooperation partner terminates our license to use its intellectual property rights and technologies, we may need to adjust our production plans to manufacture alternative products by adopting other technologies. Such adjustment of our production plans may have a material adverse effect on our business, financial condition and results of operations. Please refer to the section headed "Risk Factors — Any significant changes to our long-term relationship with our key cooperation partner may have a material adverse effect on our operations" of this prospectus.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our total revenue was RMB609.3 million, RMB854.8 million, RMB907.0 million, and RMB521.9 million, respectively. There has been no material change to our principal business operation during the Track Record Period. As of June 30, 2016, we had 1,121 employees. As of June 30, 2016, our backlog amounted to RMB743.8 million (Value-added Tax included). Our customers generally provide production requests up to three months in advance to the delivery, while the timing and the quantity of each batch of delivery is subject to the progress of the relevant project. We, as the product supplier to such construction projects, have no control or direct involvement in determining the progress of such projects. Based on our past experience and a review of the current progress of the projects that correspond to our backlogs, we currently expect that RMB403.1 million of our backlog as of June 30, 2016 will be fulfilled between July 1, 2016 and December 31, 2016 and RMB340.7 million of such backlog will be fulfilled in 2017. However, our current estimate is subject to the actual construction progress of the relevant projects. See "Risk Factor — Risks Relating to Our Business Operations — Our backlog may not be indicative of our future results of operations." The table below sets forth our contract size range and average contract size by project type for the years indicated:

	For the year ended December 31,						For the six months ended June 30,	
	2013		2014		2015		2016	
	Contract size range	Average contract size	Contract size range	Average contract size	Contract size range	Average contract size	Contract size range	Average contract size
	(RMB'000)		*(RMB'000)*		*(RMB'000)*		*(RMB'000)*	
High Speed Rail	27,546.5 to 172,818.2	78,860.1	20,353.6 to 219,555.0	105,987.5	10,324.0 to 375,460.8	103,205.4	11,250 to 129,000	49,162.0
Traditional Rail	1,125.0 to 36,877.2	5,301.7	1,392.3 to 25,700.2	7,157.3	1,164.0 to 19,171.1	5,706.5	1,179 to 32,739.7	7,742.4
Metro Series	1,020.0 to 11,997.8	3,441.5	1,260.0 to 38,945.0	7,016.5	1,000.1 to 28,283.2	5,433.0	1,086.9 to 12,850.9	3,180.3
Heavy Haul Rail	—(1)	—(1)	5,445.0 to 81,550.0	31,914.6	37.5(2)	37.5(2)	—(3)	—(3)

Notes:

(1) We sold heavy haul parts and components at a per unit price ranging from RMB8.5 to RMB29.8 under the contract entered into in 2013.
(2) We entered into one heavy haul rail project contract in 2015.
(3) We sold heavy haul parts and components at a per unit price ranging from RMB5.1 to RMB68.9 under the contracts where we supplied products in 2016.

OUR PRODUCTS

Rail fastening system products & Flux cored wire

Rail fastening systems are connectors between the rails and railroad sleepers. They are essential to the fixing of the rails to railroad sleepers to provide strong and flexible connection between rail and its supporting structure. It is a fundamental component in ensuring the safe and efficient operation of each railway track. In addition, rail fastening systems play a critical role in reducing the vertical, lateral and longitudinal sliding of rail from the forces generated from a moving railway car. Rail fastening systems minimize such movements in order to ensure the smooth operation of rail tracks. We pioneered providing an entire suite of rail fastening systems independently in the PRC and we are currently the only provider for such pre-assembled rail fastening system products, according to Frost & Sullivan. For the advantages of providing pre-assembled rail fastening systems, please refer to the section headed "Business — Our Strengths — We are one of the seven CRCC approved high speed rail fastening system providers and a pioneer in providing pre-assembled rail fastening system in the PRC" in this prospectus. We supply our products to all segments of the railway transportation industry, ranging from high speed railway and heavy-haul railway series to traditional track series and metro series. Moreover, our rail fastening system products have been widely applied in the PRC railway network, including railways in plateaus, frigid and high-temperature areas, heavy-haul railways and other railway projects with demanding operational conditions.

We primarily produce flux cored wire products that are used for welding steel plates together. Our major customers for flux cored wire products primarily comprise of private shipbuilding companies and trading companies operating in the shipbuilding industry. Please refer to the paragraph headed "Business — Flux cored wire" in this prospectus for further details.

OUR PRODUCTION FACILITIES

We manufacture our rail fastening system products and flux cored wire products primarily in our production facility in Gaocheng, Hebei province. The utilization rates of our production facilities have generally improved over the Track Record Period reflecting the recovery of the railway construction industry in the PRC. Please refer to the section headed "Business — Production Facilities and Utilization Rate" in this prospectus for further details. The following table sets forth the annual production capacity, annual production volume and utilization rates of our production facilities for the major components to our rail fastening system during the Track Record Period:

	Year ended December 31,									Six months ended June 30,		
	2013			2014			2015			2016		
	Maximum annual production capacity	Actual production volume	Utilization rate	Maximum annual production capacity	Actual production volume	Utilization rate	Maximum annual production capacity	Actual production volume	Utilization rate	Maximum six-month production capacity	Actual production volume	Utilization rate
	(thousands)	*(thousands)*	*(%)*	*(thousands)*	*(thousands)*	*(%)*	*(thousands)*	*(thousands)*	*(%)*	*(thousands)*	*(thousands)*	*(%)*
I. Spring bars (pieces)	24,750	19,855	80.1	22,000	18,527	84.1	16,500	14,349	87.0	7,920	7,076	89.2
II. Bolts and screws (pieces)	30,000	23,936	79.7	30,000	24,189	80.6	30,000	24,768	82.5	14,400	12,314	85.5
III. Cast iron products (tons)	27	21	76.1	31	26	82.8	28	24	84.5	14	12	86.1

CUSTOMERS AND TENDERING

Our major customers primarily comprise state-owned enterprises. We have collaborated with construction and operating units of China Railway Corporation which are responsible for railway construction and operation, and in the urban transit sector, we have supplied to major metro construction and/or operation companies in 26 of the 28 cities in the PRC which have metro systems in operation. We purchase nylon and rubber from an associated company, Tieke Yichen, which is also a subsidiary of one of our major customers, Tieke Shougang. Aside from the aforementioned, none of our top five customers is our top five supplier, and vice versa.

We conduct sales of our rail fastening system products primarily through participating in competitive bidding process and contract negotiations. We derive a substantial portion of our revenue from sales conducted through competitive bidding process, as sales to such projects generally involve larger sales amounts. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we won 41, 38, 46 and 35 projects through a bidding process, and revenue attributable to projects awarded through the tendering process amounted to approximately RMB324.0 million, RMB511.0 million, RMB663.6 million, and RMB357.6 million, respectively.

The following table sets out the number of project bids, number of successful project bids and our success rate during the Track Record Period:

	For the years ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
Number of project bids	166	209	226	163
Number of successful project bids	41	38	46	35
Success rate (%)	24.7%	18.2%	20.4%	21.5%

OUR RAW MATERIALS AND SUPPLIERS

We primarily use steel and iron to manufacture our rail fastening system products and use steel strip to manufacture our flux cored wire. The principal raw materials we use are generally widely available and sourced from qualified domestic suppliers. Please refer to the paragraph headed "Business — Raw Materials and Suppliers" in this prospectus for further details. The following table sets forth the components of our cost of sales for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Raw materials used					
Steel material and iron	240,529	214,165	181,706	103,680	97,042
Spring plate	3,109	22,767	50,284	19,381	12,715
Rubber material[1]	4,443	23,572	24,830	11,339	10,581
Nylon material[1]	13,712	42,137	74,008	33,054	39,358
Others[2]	138,887	67,382	58,339	37,655	45,690
Subtotal	400,680	370,023	389,167	205,109	205,386
Changes in finished goods and work-in-progress	(101,920)	10,044	12,392	(19,994)	24,982
Utilities	44,256	49,174	43,776	23,795	19,063
Employee benefit costs	45,269	44,795	44,031	22,143	20,320
Depreciation and amortization	15,112	15,049	14,661	7,689	6,864
Tax and levies	3,489	9,574	9,869	5,885	5,788
Others	3,047	1,778	3,183	—	—
Total	409,933	500,437	517,079	244,627	282,403

Notes:

(1) Our costs incurred in relation to purchase of rubber and nylon (as opposed to purchase of chemicals or other raw materials to produce rubber and nylon) materials increased in 2014 primarily because we commenced to purchase such materials from Tieke Yichen following our disposal of certain production and testing equipment of rubber and nylon to Tieke Yichen.

(2) Others include the raw material used to produce our flux core products and our purchase of chemicals to produce certain components (i.e., rubber and nylon) of our rail fastening system products. Our other materials costs decreased significantly in 2014 mainly because we commenced to purchase nylon and rubber from Tieke Yichen in 2014 following our disposal of certain production and testing equipment of rubber and nylon to Tieke Yichen, which in turn, lead to a decrease in our purchase of chemicals and other raw materials used to produce nylon and rubber.

TRADE AND NOTES RECEIVABLES TURNOVER DAYS

Our trade and notes receivables turnover days were 284 days, 243 days, 280 days and 287 days for the year ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. A substantial portion of our revenue is derived from sales to state-owned enterprises operating in railway construction and major metro construction companies and/or operation companies. For such government related agencies/entities, it may take a longer period to complete their internal procedure for processing of payments to us. In addition, revenue from our rail fastening systems products are recognized when our customer has completed inspection and accepted the products and collectability of the related receivables is reasonably assured, but we only issue invoice to customers after completion of the relevant customers' internal procedure, including the products acceptance payment process. Furthermore, a portion of our trade and notes receivables is retention money for our projects. Retention money is 5% to 20% of each invoiced amount which are released to us after deducting any warranty claims, if any, upon expiring of the warranty period for a relevant project. Based on the foregoing, we have had turnover days longer than the credit period we generally offer to our customers. Please see "Financial Information — Factors Affecting Our Results of Operations — Progress of railway construction projects and timing of final inspection and acceptance of the relevant railway construction projects" and "Financial Information — Accounts Receivables — Reasons for Long Trade and Notes Receivables Turnover Days" for further details.

OUR COMPETITIVE STRENGTHS

- We are a leading rail fastening system provider to the PRC railway industry, and our products are critical components to ensure the safe and efficient operation of rail transportation in the PRC
- We are one of the seven CRCC approved high speed rail fastening system providers and a pioneer in providing pre-assembled rail fastening system in the PRC
- We have a sound track record of delivering quality products and have established solid relationships with key participants of the PRC railway industry
- We are well positioned to benefit from the abundant market opportunities driven by: (i) the expansion of the PRC railway industry in both domestic and overseas market; (ii) the high growth phase of the urban rail construction; and (iii) maintenance and upgrade of rail fastening systems

- We have an experienced management team with an outstanding track record and prominent industry expertise, a strong technical team of professional experts and a corporate culture of striving for excellence

OUR BUSINESS STRATEGIES

- Continue to enhance our leading position in the rail fastening system industry and capture the growing opportunities in the railway construction industry
- Continue to enhance our expertise and technical know-how
- Seek to pursue selective business acquisition opportunities and expansion into overseas market to enhance our competitiveness in the industry
- Continue to enhance our automated production process and enhance our information system

COMPETITION

According to Frost & Sullivan, the rail fastening system market in the PRC is relatively concentrated. Revenue of the top 10 rail fastening systems providers accounted for approximately 81.2% of the total PRC rail fastening systems market in 2015, the top seven high speed rail fastening systems providers constituted approximately 94.4% of the relevant market in 2015, the top five metro series fastening systems providers constitute approximately 79.8% of the total market in 2015, the top five traditional rail fastening systems providers constitute approximately 39.1% of the total market in 2015 and the top five heavy haul rail fastening systems providers constitute approximately 65.1% of the total market. Please refer to the paragraphs headed "Industry Overview — Rail Fastening System Market in China — Industry Concentration, Competitive Landscape and Market Share" and "Business — Competition" in this prospectus for further details.

OUR SHAREHOLDERS

Immediately following completion of the Global Offering, and taking no account of any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, our Company will be owned as to approximately 66.92% by the Controlling Shareholders Group, being a group of individuals acting in concert with each other. Details of the concert party agreement entered into by the members of the Controlling Shareholders Group are set out under the paragraph headed "History and Development — Relationship Amongst Shareholders — Concert party agreement" of this prospectus. All the members of the Controlling Shareholders Group will be our Controlling Shareholders immediately after the Listing.

SUMMARY OF OUR FINANCIAL INFORMATION

Our consolidated financial information has been prepared in accordance with IFRS. Selected items of our consolidated financial statements are set out below.

Key Information on Our Consolidated Statement of Comprehensive Income

	Year ended December 31,			**Six months ended June 30,**	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	609,318	854,777	907,049	437,699	521,949
Cost of sales	(409,933)	(500,437)	(517,079)	(244,627)	(282,403)
Gross profit	199,385	354,340	389,970	193,072	239,546
Selling and distribution expenses	(38,722)	(41,364)	(50,525)	(22,452)	(23,812)
General and administrative expenses	(52,455)	(51,223)	(54,147)	(21,155)	(28,967)
Other gains, net	1,737	11,808	2,235	1,100	2,909
Operating profit	109,945	273,561	287,533	150,565	189,676
Finance income	1,323	500	1,137	698	1,165
Finance costs	(24,342)	(29,784)	(20,888)	(12,767)	(8,826)
Finance costs, net	(23,019)	(29,284)	(19,751)	(12,069)	(7,661)
Share of profit of associate	2,345	6,170	7,588	2,440	2,745

	Year ended December 31,			**Six months ended June 30,**	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Profit before income tax	89,271	250,447	275,370	140,936	184,760
Income tax expense	(21,935)	(61,593)	(47,359)	(34,702)	(27,609)
Profit for the year/period	67,336	188,854	228,011	106,234	157,151

Over the Track Record Period, our revenue increased because of substantial growth in the sales of our rail fastening systems products, which in turn, was mainly a result of an increase in demand for our pre-assembled rail fastening system products for high speed rail and metro series projects. To capture this market opportunity, we entered into a larger number of bids for rail fastening system supply projects, particularly bids for high speed rail and metro series projects that require the supply of a pre-assembled rail fastening system products. For the number of our successful project bids during the Track Record Period, please refer to the section headed "Business — Our Business Model — Tendering" in this prospectus. In addition, we believe our commitment to research and development activities that enhance the quality and safety features of our products has made our products more attractive and has supported our business growth. Please see the section headed "Business — Research and Development" for further details. However, if the demand for rail fastening systems decreases, we may face a significant decrease in our revenue and our historical growth rate may not be sustained. For details, please see the section headed "Risk Factors — Risks Relating to our Business Operations — Sales of rail fastening systems contribute significantly to our total revenue. Any decrease in demand for rail fastening systems may significantly affect our revenue".

The following tables set forth a breakdown of our revenue by project type and by business segment for the periods indicated:

	For the Year Ended December 31,									For the Six Months Ended June 30,					
	2013			2014			2015			2015			2016		
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year
		(RMB'000)			(RMB'000)			(RMB'000)			(RMB'000)			(RMB'000)	
Railway fastening systems products															
High Speed Rail	68,096	170,352	238,448	256,071	254,459	510,530	283,653	194,014	477,667	97,155	87,847	185,002	234,782	126,606	361,388
Traditional Rail	6,424	199,363	205,787	5,550	157,383	162,933	3,915	111,010	114,925	1,201	72,160	73,361	5,678	51,964	57,642
Metro Series	18,883	52,237	71,120	20,327	51,266	71,593	103,854	71,441	175,295	50,972	35,977	86,949	20,159	37,397	57,556
Heavy Haul Rail	—	14,937	14,937	—	26,119	26,119	374	60,121	60,495	250	49,222	49,472	—	9,596	9,596

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Railway fastening systems products					
Pre-assembled products	93,403	281,948	391,796	149,578	260,619
Parts and components products	436,889	489,227	436,586	245,206	225,563
Subtotal	530,292	771,175	828,382	394,784	486,182
Welding materials	64,961	73,867	71,866	39,353	33,209
Others(1)	14,065	9,735	6,801	3,562	2,558
Total	609,318	854,777	907,049	437,699	521,949

Note:

(1) Others primarily include (i) rent and other payments received in association with leasing property to and (ii) payment of electricity expenses received from Tieke Yichen.

Our gross profit margin increased over the Track Record Period primarily because of (i) change of sales mix, which includes increase in sales of our higher margin products, such as pre-assembled rail fastening systems products for high speed rail and metro series projects, and (ii) decrease in our major raw material price. Please refer to the section headed "Financial Information — Description of Certain Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income" in this prospectus for further details.

Key Information on Our Consolidated Statements of Financial Position, Key Information on Our Consolidated Statements of Cash Flows and Key Financial Ratios

Please refer to the paragraph headed "Financial Information — Description of Certain Components of Statements of Financial Position — Current Assets and Liabilities" in this prospectus for further details.

For the year ended December 31, 2013, our net cash used in operating activities amounted to RMB69.5 million, which was mainly attributable to an increase in inventory. In turn, such inventory was used to meet a large number of orders for rail fastening system products we received in 2013 for delivery in 2014 in accordance with the construction schedule of various projects. Please refer to the section headed "Financial Information — Liquidity, Financial Resources and Capital Structures" in this prospectus for further details.

Our gearing ratio and net debt to equity ratio decreased over the Track Record Period mainly as a result of the decrease in our total borrowings in 2014 and increase in our equity, which in turn was primarily attributable to an increase in our net profit. Please refer to the paragraph headed "Financial Information — Financial Ratios" in this prospectus for further details.

The following tables set forth a breakdown of our gross profit and gross profit margin by business segment and by project type for the periods indicated:

	For the Year Ended December 31,														
	2013					2014					2015				
	Gross Profit			Gross Profit Margin		Gross Profit			Gross Profit Margin		Gross Profit			Gross Profit Margin	
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products
		(RMB'000)		%			*(RMB'000)*		%			*(RMB'000)*		%	
Railway fastening systems products															
High Speed Rail	39,161	51,737	90,898	57.5%	30.4%	133,935	110,712	244,647	52.3%	43.5%	149,121	90,398	239,519	52.6%	46.6%
Traditional Rail	2,902	56,136	59,038	45.2%	28.2%	983	49,686	50,669	17.7%	31.6%	2,476	23,750	26,226	63.2%	21.4%
Metro Series	8,932	19,109	28,041	47.3%	36.6%	9,871	19,931	29,802	48.6%	38.9%	57,421	18,573	75,994	55.3%	26.0%
Heavy Haul Rail	—	3,974	3,974	—	26.6%	—	9,612	9,612	—	36.8%	216	26,704	26,920	57.8%	44.4%

	For the Six Months Ended June 30,									
	2015					2016				
	Gross Profit			Gross Profit Margin		Gross Profit			Gross Profit Margin	
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products
		(RMB'000)		%			*(RMB'000)*		%	
Railway fastening systems products										
High Speed Rail	60,473	40,144	100,617	62.2%	45.7%	117,747	67,479	185,226	50.2%	53.3%
Traditional Rail	820	18,587	19,407	68.3%	25.8%	2,613	15,987	18,600	46.0%	30.8%
Metro Series	28,989	8,700	37,689	56.9%	24.2%	9,919	11,514	21,433	49.2%	30.8%
Heavy Haul Rail	157	23,875	24,032	62.9%	48.5%	—	7,119	7,119	—	74.2%

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	(RMB'000) Gross Profit	% Gross Profit Margin	*(RMB'000)* Gross Profit	% Gross Profit Margin	*(RMB'000)* Gross Profit	% Gross Profit Margin	*(RMB'000)* Gross Profit	% Gross Profit Margin	*(RMB'000)* Gross Profit	% Gross Profit Margin
Rail fastening systems products										
Pre-assembled products	50,995	54.6%	144,789	51.4%	209,234	53.4%	90,439	60.3%	130,279	50.0%
Parts and components products	130,956	30.0%	189,941	38.8%	159,425	36.5%	91,306	37.2%	102,099	45.3%
Subtotal	181,951	34.3%	334,730	43.4%	368,659	44.5%	181,745	46.0%	232,378	47.8%
Welding materials	14,751	22.7%	17,383	23.5%	19,664	27.4%	10,458	26.6%	7,113	21.4%
Others	2,683	19.1%	2,227	22.9%	1,647	24.2%	869	24.4%	55	2.2%
Total	199,385	32.7%	354,340	41.5%	389,970	43.0%	193,072	44.1%	239,546	45.9%

DIVIDEND AND DIVIDEND POLICY

We may distribute dividends in amounts not less than 10% of our net profit for a financial year by way of cash or by other means that we consider appropriate. As of June 30, 2016, we had distributable reserves of approximately RMB180.6 million which is available for distribution to our equity holders. We declared a dividend of approximately RMB73.1 million (which represents approximately 74.2% of our distributable reserves as of December 31, 2015) in February 2016 and paid RMB28.0 million (including related withholding tax) to the then shareholders in the first half year of 2016. The remaining dividend of approximately RMB45.1 million will be fully paid prior to Listing. Please refer to the paragraph headed "Financial Information — Dividend and Dividend Policy" in this prospectus.

SUMMARY OF MATERIAL RISK FACTORS

There are certain risks involved in our business operations, including:

- Sales of rail fastening systems contribute significantly to our total revenue. Any decrease in demand for rail fastening systems may significantly affect our revenue.
- Our business, financial condition and results of operations may be affected by changes in the PRC government policies with respect to the rail transportation industry.
- Loss of major customers or changes in their orders may have an adverse impact on our business, financial condition and results of operations.
- Any significant changes to our long-term relationship with our key cooperation partner may have a material adverse effect on our operations.
- Our backlog may not be indicative of our future results of operations.

Please refer to the section headed "Risk Factors" in this prospectus for further details.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

From July 1, 2016 up to the Latest Practicable Date, we had secured projects that have an initial contractual value of RMB698.1 million, and we expect to recognize RMB56.0 million, RMB558.5 million and RMB83.6 million of such contracts in the years ending December 31, 2016, 2017 and 2018, respectively. However, our current estimate is subject to the actual construction progress of the relevant projects. See "Risk Factor — Risks Relating to Our Business Operations — Our backlog may not be indicative of our future results of operations." We entered into two land use rights grant contracts in August 2016 for the acquisition of the land use rights of land in Gaocheng, Hebei province with an aggregate area of 90,069.0 square meters. The aggregate consideration for the acquisitions is RMB30.5 million which had been paid in full. We obtained the land use right certificate for the land in September 2016. We plan to design and construct new production plants on the land. As far as we are aware, there was no material change in the general economic, market and regulatory conditions in our industry that had materially and adversely affected our business operations or financial condition since June 30, 2016 and up to the date of this prospectus. Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2016, being the date to which our latest audited financial information was prepared.

LISTING EXPENSES

We expect to incur listing expenses (including underwriting fees) of approximately RMB60.8 million (assuming an offer price of HK$3.37 per H Share, being the mid-point of the stated range of the Offer Price between HK$3.00 and HK$3.74 per H Share). Since only the newly issued H Shares will be listed and traded on the Stock Exchange, substantially all of our listing expenses are incremental cost directly attributable to the issue of the H Shares and should be accounted for as a deduction from equity pursuant to IAS 32. Accordingly, only approximately RMB1.1 million and RMB1.5 million were recognized as administrative and general expenses for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively, and approximately RMB2.1 million is expected to be recognized as administrative and general expenses for the six months ending December 31, 2016, while the remaining listing expenses will be deducted from equity upon the Listing. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2016.

GLOBAL OFFERING STATISTICS

All statistics in the following table are based on the assumptions that: (i) the Global Offering of 224,460,000 H Shares has been completed; (ii) 897,840,000 Shares are issued and outstanding following completion of the Global Offering; and (iii) the Over-allotment Option is not exercised.

	Based on an Offer Price of HK$3.00 per H Share	Based on an Offer Price of HK$3.74 per H Share
Market capitalization upon completion of the Global Offering – H Share (1)	HK$673.4 million	HK$839.5 million
Unaudited pro forma adjusted consolidated net tangible assets per Share (2)	HK$1.83	HK$2.01

Notes:

(1) The calculation of market capitalization is based on 224,460,000 H Shares to be issued by us, all of which will be outstanding following the Global Offering, taking no account of any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any H Shares which may be issued or repurchased by the Company pursuant to the general mandate to issue H Shares and general mandate to repurchase H Shares.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in "Appendix II — Unaudited Pro Forma Financial Information."

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

	Consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company(4)	Unaudited pro forma adjusted consolidated net tangible assets per share	
	(in Thousands of RMB)			*(RMB)(3)*	*(HK$)(5)*
Based on the Offer Price of HK$3.00 per share	922,660	540,672	1,463,332	1.63	1.83
Based on the Offer Price of HK$3.74 per share	922,660	682,814	1,605,474	1.79	2.01

Notes:

(1) The consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the consolidated net assets attributable to shareholders of the Company as of June 30, 2016 of RMB922,793,000 with an adjustment for the intangible assets as of June 30, 2016 of RMB133,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$3.00 and HK$3.74 per share, being the lower end and higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and based on the assumption that the Over-allotment Option will not be exercised.

(3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustments as described in note 2 above and on the basis that 897,840,000 shares are in issue, assuming the share sub-division and the Global Offering had been completed on June 30, 2016 and the Over-allotment Option had not been exercised.

(4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2016.

(5) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of RMB0.8891 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vise versa, at that rate.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to our Company from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering payable by us and assuming that the Over-allotment Option is not exercised and an Offer Price of HK$3.37 per H Share, being the mid-point of the indicative Offer Price range stated in this prospectus) will be approximately HK$688.0 million. We currently intend to apply such net proceeds for the following purposes. Please see the section headed "Future Plans and Use of Proceeds" in this prospectus for further details.

Percentage and amount of the net proceeds	Purposes
Approximately 31% or HK$213.3 million	Expansion of our production capacity and fixed asset investments in Gaocheng, Hebei province relating to our high speed railway and heavy haul railway business segments, among which: • 15% on the construction of a manufacturing facility and offices; and • 16% on purchase of equipment, including various automated machines for our spring bar production and testing facilities, and on hiring of additional personnel.
Approximately 15% or HK$103.2 million	R&D and testing of new products, among which: • 5% will be used on the establishment of a research center; • 8% on the R&D of rail fastening systems for high speed rail, heavy haul rail, traditional rail and metro series; and • 2% on the R&D of new products for other projects

Percentage and amount of the net proceeds	Purposes
Approximately 15% or HK$103.2 million	General domestic and overseas acquisitions that, among others, accommodate our business strategies, complement our technologies, strengthen our manufacturing capabilities as well as enhance our product portfolio
Approximately 10% or HK$68.8 million	Deposits for future project bids
Approximately 4% or HK$27.5 million	Upgrade our information systems and automated production facilities
Approximately 15% or HK$103.2 million	Purchase additional raw materials in anticipation of increase in demand for our rail fastening system products
Approximately 10% or HK$68.8 million	Supplement working capital

NON-COMPLIANCE AND BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

During the Track Record Period, we failed to completely comply with certain applicable laws and regulations of the PRC. For further details of such incidents, please refer to the paragraph headed "Business — Regulatory Compliance".

Please refer to the section headed "Business — Sales to Sanctioned Countries" of this prospectus for details of our past product sales to customers in the Sanctioned Countries and our undertakings to the Stock Exchange in respect of future business activities in the Sanctioned Countries.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"Application Forms(s)"	**WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles" or "Articles of Association"	the articles of association of our Company, conditionally adopted on November 30, 2015 and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors of our Company
"BOCOM International Securities"	BOCOM International Securities Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities
"business day"	any day (excluding a Saturday, or a Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
"CAGR"	compound annual growth rate, a measurement to assess the growth rate of value over time
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or the "PRC"	the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macao Special Administrative Region of the People's Republic of China and Taiwan, and "Chinese" shall be construed accordingly
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Hebei Yichen Industrial Group Corporation Limited* (河北翼辰實業集團股份有限公司), formerly known as Hebei Yichen Industrial Group Co., Ltd.* (河北翼辰實業集團有限公司), a joint stock limited company incorporated on April 9, 2001 under the laws of the PRC
"connected persons"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules, and in the context of this prospectus, refers to the controlling shareholder(s) of our Company, being Mr. Zhang Haijun, Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋)
"Controlling Shareholders Group"	collectively, Mr. Zhang Haijun, Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋), being a group of 15 individuals

"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"CRCC"	China Railway Test & Certification Center (中鐵檢驗認證中心), an official certification authority of construction products of China Railway
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Deed of Indemnity"	a deed of indemnity dated December 5, 2016 executed by the Controlling Shareholders in favor of our Company (for ourselves and as trustee for each of our present subsidiaries), particulars of which are set out in the paragraph headed "Other Information — 14. Tax and other indemnities" in Appendix VI to this prospectus
"Director(s)"	the director(s) of our Company
"Domestic Shares"	domestic invested ordinary shares in our capital, with a nominal value of RMB1 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange, and each such share will be sub-divided into two shares with a nominal value of RMB0.5 each prior to the Listing
"EIT"	the enterprise income tax of the PRC
"EIT Law"	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was adopted by the National People's Congress on March 16, 2007 and became effective on January 1, 2008
"E.U."	the European Union
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (弗若斯特沙利文(北京)咨詢有限公司上海分公司)
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"GREEN Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited

"Group", "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"Guotai Junan Securities"	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities
"H Share(s)"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB0.5 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing, and permission to deal in, on the Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"HKD", "HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Public Offer Shares"	the 22,446,000 H Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in "Structure of the Global Offering" in this prospectus)
"Hong Kong Public Offering"	the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies, and Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in the paragraph headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus and the Application Forms

"Hong Kong Underwriters"	the several underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated December 8, 2016 relating to the Hong Kong Public Offering entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, BOCOM International Securities and the Hong Kong Underwriters, as further described in "Underwriting" in this prospectus
"IFRSs"	International Financial Reporting Standards
"Independent Third Party(ies)"	person(s) or company(ies) which is(are) not a connected person(s) or core connected person(s) (as defined in the Listing Rules) of our Company
"INED(s)"	independent non-executive Director(s) of the Company
"International Offer Shares"	the 202,014,000 H Shares initially being offered under the International Offering (subject to adjustment and the Over-allotment Option as described in the section headed "Structure of the Global Offering" in this prospectus)
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters to professional, institutional, corporate and/or other investors at the Offer Price, as further described in "Structure of the Global Offering" in this prospectus
"International Sanctions" or "International Sanctions laws"	all applicable sanctions-related laws and regulations, including those administered and enforced by the U.S., the E.U., the U.N. and Australia
"International Sanctions Legal Advisers"	DLA Piper UK LLP, our legal advisers as to International Sanctions laws
"International Underwriters"	the several underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement to underwrite the International Offering

"International Underwriting Agreement"	the underwriting agreement expected to be entered into on or around the Price Determination Date relating to the International Offering entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, BOCOM International Securities and the International Underwriters, as further described in "Underwriting" in this prospectus
"ISO"	The International Organization for Standardization
"JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a professional property valuer
"Joint Bookrunners"	BOCOM International Securities, Guotai Junan Securities and China Everbright Securities (HK) Limited
"Joint Global Coordinators"	BOCOM International Securities and Guotai Junan Securities
"Joint Lead Managers"	BOCOM International Securities, Guotai Junan Securities and China Everbright Securities (HK) Limited
"Latest Practicable Date"	December 1, 2016, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus
"Listing"	listing of the H Shares on the Main Board
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date on which dealings in the H Shares first commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Longji"	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd. (石家莊市藁城區隆基企業管理有限公司), a limited liability company established under the laws of the PRC on June 8, 2013 and controlled by connected persons of the Company as of the Latest Practicable Date
"Main Board"	the stock market operated by the Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Stock Exchange

"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Commission and other PRC government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time
"Mr. Zhang Haijun"	Mr. Zhang Haijun (張海軍), an executive Director, the chairman of the Board and the representative of the Controlling Shareholders Group
"Non-compete Undertaking"	a non-compete undertaking entered by the Controlling Shareholders in favor of our Company dated November 30, 2015 as further described in the section headed "Relationship With Our Controlling Shareholders — Non-competition — Non-compete Undertaking" in this prospectus
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Offer Price"	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levies, and Stock Exchange trading fees) of not more than HK$3.74 and expected to be not less than HK$3.00, such price to be agreed upon by our Company and BOCOM International Securities (for itself and on behalf of the Underwriters) on the Price Determination Date
"Offer Shares"	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with additional H Shares issued under the exercise of the Over-allotment Option
"Over-allotment Option"	the option granted by us to the International Underwriters, exercisable by BOCOM International Securities on behalf of the International Underwriters, pursuant to which we may be required to allot and issue up to 33,669,000 additional H Shares (representing up to 15% of the H Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocations in the International Offering, details of which are described in the section headed "Structure of the Global Offering" in this prospectus

"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People's Congress on December 29, 1993 and effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprise and interpretation of Accounting Standards for Business Enterprise and other relevant regulations
"PRC government" or "state"	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, the PRC law firm advising the Company on all related PRC legal issues
"Price Determination Agreement"	the agreement to be entered into between us and BOCOM International Securities (for itself and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around Wednesday, December 14, 2016 but no later than Monday, December 19, 2016, on which the Offer Price is fixed for the purposes of the Global Offering
"Province" or "province"	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
"Regulation S"	Regulation S under the Securities Act
"Reporting Accountant"	PricewaterhouseCoopers
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

"Sanctioned Country(ies)"	countries which are subject to International Sanctions, including Russia, Ukraine, Belarus, Egypt, Iran and the Balkans
"Sanctioned Person(s)"	certain person(s) and entity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the E.U., the United Nations or Australia
"Securities Act"	the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares of RMB0.5 each in capital of our Company
"Shareholders"	holder(s) of the Share(s)
"Sole Sponsor"	BOCOM International (Asia) Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
"Special Regulations"	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
"sq.m"	square meter
"Stabilizing Manager"	Guotai Junan Securities
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires
"Supervisor(s)"	the supervisor(s) of our Company

"Supervisory Board"	the supervisory board of our Company
"Tieke Shougang"	Beijing Tieke Shougang Rail Technology Co., Ltd. (北京鐵科首鋼軌道技術股份有限公司), a joint stock company established under the laws of the PRC on October 30, 2006 and is owned as to 35% by 中國鐵道科學研究院 (China Academy of Railway Sciences*), 26.88% by 首鋼總公司 (Shougang Corporation*), 16% by 北京中冶天譽投資管理有限公司 (Beijing Zhongye Tianyu Investment Management Co., Ltd.*), 15% by 北京市鐵鋒建築工程技術開發公司 (Beijing City Tiefeng Construction Engineering Technology Development Company*) (which in turn is wholly- owned by China Academy of Railway Sciences) and 7.12% by 北京首鋼股份有限公司 (Beijing Shougang Company Limited*)
"Tieke Yichen"	Hebei Tieke Yichen New Material Technology Co., Ltd. (河北鐵科翼辰新材科技有限公司), a limited liability company established under the laws of the PRC on April 20, 2012 and an associate of our Company owned as to 51% by 北京鐵科首鋼軌道技術股份有限公司 (Beijing Tieke Shougang Rail Technology Co., Ltd.*) and 49% by our Company as of the Latest Practicable Date
"Track Record Period"	the three financial years ended December 31, 2015 and the six months ended June 30, 2016
"U.N."	the United Nations
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America
"White Form eIPO"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website for the White Form eIPO Service Provider at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited

"Yichen Corporate"	Shijiazhuang City Gaocheng District Yichen Corporate Management Services Co., Ltd. (石家莊市藁城區翼辰企業管理服務有限公司), a limited liability company established under the laws of the PRC on May 6, 2011 and a wholly-owned subsidiary of our Company
"Yichen Railway"	Shijiazhuang City Gaocheng District Yichen Railway Maintenance Equipments Co., Ltd. (石家莊市藁城區翼辰鐵路工務器材有限公司), a limited liability company established under the laws of the PRC on March 31, 1994 and a wholly-owned subsidiary of our Company
"Yichen Trading"	Hebei Yichen Trading Co., Ltd. (河北翼辰貿易有限公司), a limited liability company established under the laws of the PRC on September 27, 2013 and a wholly-owned subsidiary of our Company
"%"	per cent

This glossary contains explanations of certain technical terms used in this prospectus in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"°C"	degree Celsius
"axle load"	the axle load of a wheeled vehicle is the total weight felt by the roadway for all wheels connected to a given axle. On railways, the axle load is the term designed to tolerate a maximum weight-per-axle; exceeding the maximum rated axle load will cause damage to the roadway or rail tracks
"ballast"	the broken rocks placed between railway sleepers and tracks to fix the track, sustain weight and reduce traffic-induced noise
"ballast track"	the railway track with track ballast packed between, below and around the railway sleepers that is used to bear the load from the railway sleepers. The track consists of flat-bottom steel rails supported on timber or pre-stressed concrete sleepers, which themselves laid on crushed stone ballast
"ballastless track"	the railway track without the ballast placed between railway sleepers and tracks. It consists of a continuous slab of concrete with the rails supported directly on its upper surface using a resilient pad. The ballastless track is usually considered for new high speed or very high loading routes
"bolts and screws"	components of the rail fastening system that are used to fix rails to the railway sleepers
"cast iron"	a group of iron-carbon alloys with a carbon content greater than 2% which is the material to construct the railroads
"cold forming"	the process where spring steel is placed in a machine for molding
"embedded iron seat"	the cast iron constructed to be embedded
"flexible lock washer"	locking washers, which are usually spring washers, that prevent fastening loosening by preventing unscrewing rotation of the fastening systems. It is one of the components of the rail fastening system

"flux cored wire"	opposite of the covered electrode. The outer shell is made of steel and the powder in it works as flux. The steel-made coast would be exposed to the air first and be oxidized during the process of welding
"Four Vertical and Four Horizontal High Speed Railway Corridors"	the national high speed railway network consisting of eight trunk lines, where there are four vertical lines and four horizontal lines across China, respectively
"gage"	the track gage is the spacing of the rails on a railway track and is measured between the inner faces of the load-bearing rails. Gage can safely vary over a range
"gage rod"	one of the important railway equipment accessories. Gage rod is in orbit with a bar connecting two rails in order to improve the lateral stability of the rail and improve the ability to keep track the tracks
"gas shielded wire"	using of a shielding gas that supplied by an external supply. It uses both a flux core electrode and an external shielding gas. It is preferable for welding thicker and out-of-position metals
"heavy haul railway"	freight dedicated railway with tractive ton no less than 8,000 tons, axle load on rail reaching 25 tons or more, and annual freight volume no less than 40 million tons
"high speed railway"	newly constructed passenger dedicated railway with a designated speed of up to 250 km/h and a preliminary operating speed of at least 200 km/h
"hot forming"	the process where spring steel is heated to approximately 1,200°C into a red hot state in order to prepare for molding
"injection-type insulated gage rod"	the gage rod that is insulated (very low conductivity). It is injected to connect another rod when connecting the two rails in order to maintain the normal operation of the railway keepers
"intercity railway"	rapid, convenient and high-density passenger dedicated railway with a designed speed of 200 km/h and lower that is dedicated to serving cities or among cities
"km/h"	kilometer per hour

"metal inert gas welding"	the welding process where an electric arc forms between a consumable wire electrode and the workpiece metals, which heats the workpiece metals, causing them to melt and join. Along with the wire electrode, an inert shielding gas feeds through the welding gun, which shields the process from containments in the air
"metro"	a passenger railway in an urban area with high capacity and frequency
"mm"	millimeter
"nylon and rubber"	a component of the rail fastening systems used to enhance the fix rails to the railway sleepers
"rail fastening system" or "rail fastening systems" or "rail fastening systems products"	a railway component used to fix sleeper and steel rail to ensure the safe operation of the railway, including its parts and components
"rail joint splint"	the splint used to joining the rails. The fixed lengths' rails are joined end-to-end to make a continuous surface on which trains may run
"railroad sleeper"	a sleeper is a rectangular object on which the rails are supported and fixed. It has two main roles: to transfer the loads from the rails to the track ballast and the ground underneath, and to hold the rails to the correct width apart
"railway"	the generic term for national railway and intercity railway. National railway includes normal-speed railway and high speed railway
"self-shielded wire"	commonly referred to as inner-shield wires. It relies solely on the slag system and the gases produced from the chemical reactions in the arc to protect the molten metal from the atmosphere
"solid wire"	solid-core or single-strand wire that consists of one piece of metal wire. It is used where there is low demand for flexibility in the wire
"spring bar"	a metal spring fastener whose one side is fastened on the bottom edge of the steel rail, and the other side is buckled on the fastening system which is fixed on the sleeper

"spring steel"	a kind of steel that is able to keep elastic, pressed and fatigue resistant at the same time
"steel shoulder"	the sleepers in the fastening system of the rail track, where the shoulder is made from steel
"traditional track"	traditional tracks on which traditional trains run
"urban transit"	passenger trains in city, where most are underground trains and some are over ground trains
"25 cities in the PRC with metro systems in operation"	as of December 31, 2015, 25 cities in China have metro in operation, including Beijing, Shanghai, Tianjin, Chongqing, Guangzhou, Shenzhen, Wuhan, Nanjing, Shenyang, Changchun, Dalian, Chengdu, Xi'an, Harbin, Suzhou, Zhengzhou, Kunming, Hangzhou, Foshan, Changsha, Ningbo, Wuxi, Qingdao, Huaian and Nanchang
"12th Five Year Plan"	the 12th five-year plan for national economic and social development (2011–2015) approved by the fourth meeting of the State Council at the Eleventh National People's Congress in 2011
"13th Five Year Plan"	the 13th five-year plan for national economic and social development (2016–2020) approved by the fourth meeting of the State Council at the Twelfth National People's Congress in 2016

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development of our businesses, our ability to implement such strategies and plans, and the expected timetable of such implementation;
- our financial condition;
- our dividend distribution plans;
- the prospects of our business and operations, including development plans for our businesses;
- the regulatory environments, as well as the general industry outlooks, for the rail fastening systems industries in the PRC and overseas, respectively;
- further developments in, and competitive environments for, the rail fastening systems industries in the PRC and overseas, respectively; and
- the general economic trends of the PRC and overseas, respectively.

The words "aim", "anticipate", "believe", "contemplate", "continue", "could", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "predict", "project", "schedule", "seek", "should", "target", "will", "would", and the negatives forms of these terms, as well as similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Hence, should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section. Our Directors have confirmed that the forward-looking statements contained in this prospectus are made after due and careful consideration and on the basis and assumptions that are fair and reasonable.

In this prospectus, statements of or references to the intentions of our Company or those of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our H Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of the risks mentioned in this section. The trading price of our H Shares could decline due to any of these risks, and you may lose part or all of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC, our business is primarily located in the PRC and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. For more information concerning the PRC and certain related matters discussed below, see "Regulations", "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association" in this prospectus for further details.

RISKS RELATING TO OUR BUSINESS OPERATIONS

Sales of rail fastening systems contribute significantly to our total revenue. Any decrease in demand for rail fastening systems may significantly affect our revenue

We derive a substantial portion of our revenue from the sales of rail fastening systems. If we are unable to maintain the sales volumes, pricing levels and profit margins of our rail fastening systems, our revenue and profitability could be adversely affected. Sales of our rail fastening systems contributed approximately 87.0%, 90.2%, 91.3% and 93.1% of our revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We expect that sales of our rail fastening systems will continue to be a substantial portion of our total revenue in the near future. Any reduction in sales or profit margins of our rail fastening systems will thus have a direct impact on our business, financial condition and results of operations.

Many of the factors discussed in this section below could adversely affect sales of rail fastening systems, including but not limited, to the change in PRC governmental policies with respect to the rail construction industry or decrease in rail construction investment by the PRC government. We cannot assure you that the demand for rail fastening systems will remain at its current level or continue its growth momentum in the future. If the demand for rail fastening systems decreases, we may face a significant decrease in our revenue, leading to a material and adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations may be affected by changes in the PRC government policies with respect to the rail transportation industry

Our business, financial condition and results of operations are closely correlated with the growth of the PRC rail fastening system industry, which in turn, is closely correlated with the development of the rail construction projects in the PRC. However, the nature, scale and timetable of these projects may be affected by a number of factors, including the macroeconomic condition in the PRC, the market sentiment towards investment in rail construction and rail transportation projects and the governmental approval process of new rail construction and rail transportation projects. The PRC government's industrial policy may be amended from time to time and it may adopt new policies or measures to further regulate the rail transportation industry due to changes in macroeconomic trends or certain unexpected events. If the PRC government implements policies or economic measures that materially affect or restrict the PRC rail transportation industry, it may significantly reduce the number of new railway construction projects, the amount of capital expenditures in the PRC rail transportation industry, and any of the aforementioned could have a material adverse effect on our business, financial condition and results of operations.

The PRC government's annual investment in railway projects has fluctuated in recent years. According to the Frost & Sullivan Report, the total investment in railway fixed assets in the PRC was RMB842.7 billion in 2010, and decreased to RMB590.6 billion in 2011. The total investment in railway fixed assets in the PRC has recovered since 2012, and increased to RMB823.8 billion in 2015. There is no assurance that the total annual investment in and the market size of the PRC rail transportation industry will continue to grow in the future. If the total annual investment or the market size declines, our business, financial condition and results of operations may be affected.

Loss of major customers or changes in their orders may have an adverse impact on our business, financial condition and results of operations

We supply rail fastening systems for our major customers primarily through their public bidding processes and to a lesser extent the competitive negotiation process. Revenue from our five largest customers accounted for 43.9%, 55.8%, 52.9% and 60.1% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, at the same time, our largest customer accounted for 21.7%, 21.0%, 26.3% and 36.2% of our revenue, for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We expect to continue to rely on our current major customers for a significant portion of our revenue in the future due to the nature of our business. In terms of business operation, such customers have sole discretion to decide and select the supplier for their rail fastening system projects. If any of our major customers significantly reduce, modify, postpone or cancel their purchase orders with us, we may not be able to get substitute orders with similar terms from other customers in a timely manner or at all, and our business, financial condition and results of operations may be adversely affected. Moreover, due to the nature of our business, the contract value of a single contract is typically large. As a result, losing any single contract or bid may adversely affect our results of operations. If we are unable to be awarded expected contracts from our major customers or to enter into contracts on terms favorable to us or at all, our business, financial condition and results of operations may be adversely affected.

Any significant changes to our long-term relationship with our key cooperation partner may have a material adverse effect on our operations

We have entered into four long-term technology license agreements with our key cooperation partner, Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所), principally of a term of 19 to 20 years, under which our key cooperation partner has licensed us to non-exclusive use of certain of its intellectual property rights and technologies. Under the relevant agreements, we have agreed to sell relevant products manufactured in accordance with the designs stipulated in the technology license agreements, otherwise our rights to use such technologies will be revoked.

We rely on our key cooperation partner. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from sales of licensed products was RMB96.3 million, RMB338.6 million, RMB359.1 million and RMB181.4 million, respectively, which accounted for approximately 15.8%, 39.6%, 39.6% and 34.8% of our total revenue for the same periods, respectively. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our gross profit generated from sales of licensed products was RMB48.3 million, RMB183.9 million, RMB192.4 million and RMB95.5 million, respectively. As a result of an increase in the sales of the licensed products, the royalty fee paid to our key cooperation partner increased during the Track Record Period. As of the Latest Practicable Date, the monetary value of the outstanding contracts in connection with licensed products was RMB716.2 million, representing 67.7% of our total backlog.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes with our key cooperation partner in relation to our technology license agreements. However, there can be no assurance that disputes will not occur in the future between us and our key cooperation partner under the technology license agreements. Furthermore, according to the termination provisions in the technology license agreements, we will be fined RMB1.0 million in the event of default. If our key cooperation partner ceases to license the relevant technologies to us, or if our cooperation relationship with our key cooperation partner is terminated or our key cooperation partner terminates our license to use its intellectual property rights and technologies, we may need to adjust our production plans to manufacture alternative products by adopting other technologies. Such adjustment of our production plans may have a material adverse effect on our business, financial condition and results of operations. For more details of our key cooperation partner and the technology license agreement, please see the section headed "Business" in this prospectus.

We may not be able to sustain growth rates similar to those we experienced during the Track Record Period, or maintain our financial performance in the future.

Our revenue grew over the Track Record Period, from RMB609.3 million to RMB907.0 million, representing a CAGR of approximately 22.0% from 2013 to 2015. In particular, our revenue increased by 40.3%, from RMB609.3 million in the year ended December 31, 2013 to RMB854.8 million in the year ended December 31, 2014. The increase in our revenue in 2014 was primarily due to a high demand from the PRC rail fastening system market, the high growth phase of the urban rail construction and the maintenance and upgrade of rail fastening systems. Our future success and growth will continue to depend on the demand from our primary customers, the construction and operating units of the China Railway Corporation and major metro construction companies and/or operation companies. In addition, our growth will continue to be affected by factors that are beyond our control, including the macroeconomic conditions in the PRC, demand for our products and the availability or costs of raw materials. As a result, we cannot assure you that we will continue to attain growth rates similar to those achieved during the Track Record Period or be able to maintain our current revenue and profit levels in the future. You should not rely on our results of operations for any prior period as an indication of our future financial or operating performance.

Our backlog may not be indicative of our future results of operations

Backlog refers to the total estimated contract value of work that remains to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. Backlog is not a standard financial measure that has been defined by generally accepted accounting principles, and may not be indicative of future operating results. However, this figure is based on the assumption that our relevant contracts will be performed in full and in accordance with their terms. In addition, scope adjustments of relevant projects may occur from time to time, which could reduce the dollar amount of our backlog and the turnover and profits that we ultimately earn from the contracts. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our backlog. Projects may also remain in our backlog for an extended period of time. We cannot guarantee that the amount estimated in our backlog will be realized in full, in a timely manner, or at all, or that, even if they are realized, such backlog will result in profits as expected. As a result, you should not rely on our backlog information presented in this prospectus as an indicator of our future earnings.

Periodic inspections, examinations, inquiries or audits by regulatory authorities in the PRC may result in fines, other penalties or actions that could materially and adversely affect our business, financial condition and results of operations, and we may not be able to obtain or renew the appropriate permits, licenses and certificates required for our continued operations

We are required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions, including CRCC, under relevant laws and regulations for our businesses of railway and welding products. We must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain our permits, licenses, approvals and certificates. For our licenses and permits, see the paragraph headed "Business — Licenses, Permits and Qualifications — License Renewal". If we fail to comply with any of the regulations or meet any of the conditions required for the maintenance of our permits, licenses, approvals and certificates, our permits, licenses, approvals and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our business, financial condition and results of operations.

Our production process and future growth prospects may be adversely affected by constraints in production capacity. In addition, we may be negatively affected if we fail to upgrade or procure new equipment at a reasonable cost or maintain a sufficient skilled labor force

Our ability to manufacture rail fastening systems is limited by the capacity of our production facilities and workforce. To expand our capacity we must either upgrade our existing production facilities and equipment or acquire new equipment and hire additional skilled workers. The industries that we operate in are highly specialized and capital intensive, requiring expensive and specialized equipment. Acquisition of new equipment may require significant capital expenditures, which we may not be able to fund. Installation and operation of such equipment may require highly qualified personnel. In addition, many of the specialized equipment may not be readily available in the market, and we may have to allow for a long construction time after we place an order. We cannot assure you that equipment will be available to us in a timely manner or at a reasonable cost or that we will have access to a sufficient number of skilled employees to upgrade, install or operate the equipment. If we are unable to increase our production capacity effectively or in a timely manner, our capability of contracting for and performing new projects will be limited and we may lose projects to our competitors.

The competitiveness of our manufacturing facilities will also depend on our ability to optimize the product mix at each facility and increase the overall efficiency of each facility and its labor force. Our inability to maintain or improve our competitiveness to compete with other players primarily in the rail fastening systems industry may reduce our market share and profitability.

We acquire a significant portion of our raw materials and parts and components from our five largest suppliers

Our supplier base is relatively concentrated. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, purchases from our five largest suppliers, in aggregate, accounted for approximately 45.2%, 46.1%, 51.9% and 61.5% of our total purchases, respectively. Purchases from our single largest supplier accounted for approximately 17.9%, 19.7%, 23.2% and 26.6% of our total purchases for each of the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. During the Track Record Period, we have not experienced any material disruptions to our production and operations due to any delay in delivery or issue with the quality of raw materials provided by our five largest suppliers. If there occurs any adverse change in our relationship with any of our major suppliers, or if any major supplier fails to deliver raw materials, especially the spring steel, that meet the required standards according to the delivery schedule, and we are unable to procure such raw materials from other suppliers under acceptable commercial terms and in a timely manner, our manufacturing operations and financial results may be materially and adversely affected.

We are exposed to various risks in expanding our manufacturing facilities

We plan to expand our manufacturing facilities. We also plan to invest in the rail fastening systems production facilities for high speed rail and heavy haul rail. The success of our expansion is subject to a variety of factors beyond our control such as changes in the economy, governmental policies and regulations.

In addition, our expansion plans may involve the following risks:

- Our future growth is dependent on our making the right investments at the appropriate time to support our product development initiatives and manufacturing capacity in markets and product lines where we can support our customer base. If these markets or product lines do not grow at the pace that we expect or at all, or if we are unable to deepen existing and develop additional customer relationships in these markets and product lines, we may fail to realize expected rates of return on our existing investments, incur losses on such investments and be unable to redeploy effectively the invested capital to take advantage of other markets and opportunities, potentially resulting in lost market share to our competitors. As a result, our business, financial condition and results of operations may be materially and adversely affected.

- In addition, we expect to incur increased cost, such as direct labor costs (as a result of additional production, factory workers, procurement staff and quality control staff).

- We cannot assure you that our production capacity expansion plans will be successfully implemented without delay or at all. Any failure or delay in implementing any part of these plans may result in a lack of production capacity to support our growth and market expansion, which in turn could materially and adversely our business, financial condition and results of operations.

If we fail to expand our manufacturing facilities effectively or as expected, or fail to achieve anticipated results, our business, financial condition and results of operations may be materially and adversely affected.

Our business, financial condition and results of operations could be materially and adversely affected if we fail to manage our purchase costs or obtain raw materials on a timely basis or at reasonable prices

The success of our business largely depends on our ability to obtain from suppliers sufficient key raw materials at acceptable prices, in satisfactory quality and in a timely manner. We are exposed to the market risk of fluctuations in certain commodity prices for raw materials such as steel and other materials utilized in our business. The price and availability of such raw materials may vary significantly from year to year due to factors such as consumer demand, producer capacity, market conditions and costs of materials. In particular, steel, which is critical to our operations, is subject to substantial pricing cyclicality and periodic shortages in the PRC. During times of short supply, we may have to pay significantly higher prices to obtain sufficient raw materials. In addition, we have not entered into any raw materials hedging contracts.

We cannot assure you that the production capacity of these suppliers will remain stable, always adequately serve our needs in a timely manner or our procurement costs will not increase in the future. Any negative impact on the production capacity of our suppliers may potentially increase our procurement cost, which will in turn, lead to an increase to our production cost. Furthermore, delays in deliveries of particular raw materials may result in curtailed production or delays in production requiring such raw materials. If we are unable to obtain sufficient raw materials on a timely basis, our sales could be reduced and our business, financial condition and results of operation could be materially and adversely affected.

We may experience delays or defaults in payment of accounts receivables or in release of retention money by our customers, which may adversely affect our cash flow and working capital, financial condition and results of operations

A substantial portion of our revenue is derived from sales to state-owned enterprises operating in railway construction and major metro construction companies and operation companies. For such government related agencies/entities, it may take a longer period to complete their internal procedure for processing of payments to us. In addition, revenue from our rail fastening systems products are recognized when our customer has completed inspection and accepted the products and collectability of the related receivables is reasonably assured, but we only issue invoice to customers after completion of the relevant customers' internal procedure, including the products acceptable payment process. As a result, even when our customers strictly adhere to our contractual terms, there generally would be a difference between the time we recognize our revenue and receipt of payment. Furthermore, our customers typically withhold approximately 5% to 20% of each invoiced amount as retention money after completion of the project, which are usually released without interest after deducting warranty claims, if any, upon expiring of the warranty period. The warranty period may take various forms: (i) for six months to two years beginning from the date of completion of the customer's rail construction project; or (ii) up until the completion of their rail construction project. Therefore, our accounts receivables also include such retention money accumulated.

We also face the risk that customers may delay or fail to meet their settlement with us as scheduled. As of December 31, 2013, 2014 and 2015 and June 30, 2016, our trade and notes receivables were RMB500.0 million, RMB636.7 million, RMB753.4 million and RMB883.6 million, respectively. See the paragraph headed "Financial Information — Description of Certain Components of Statements of Financial Position — Accounts receivables". Delays or failures in payments or release of retention money by customers may affect our cash flow and ability to meet working capital requirements. Furthermore, defaults in payments to us on projects for which we have already incurred significant costs and expenses can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available to fund other projects. As of December 31, 2013, 2014 and 2015 and June 30, 2016, our provision for impairment of trade receivables was RMB36.6 million, RMB49.9 million, RMB63.5 million and RMB71.0 million, respectively. The provision for impairment of trade and notes receivables represented 6.8%, 7.3%, 7.8% and 7.4% of our trade and notes receivables before impairment, respectively. However, we cannot assure you that such provision may be sufficient in the future, and we cannot assure you that payments from customers will be made in a timely manner or at all, or that delays or defaults in payments will not affect our financial condition and results of operations.

We are exposed to risks associated with public project contracts

Due to the nature of our industry, we are exposed to risks associated with public project contracts. For example, many of our contracts are for large and high-profile infrastructure projects, which can result in increased political and public scrutiny of our work. The majority of our customers are affiliated with government authorities. Due to the fact that these projects are publicly funded, changes in government budget and policy considerations could result in delays or changes to these projects. In addition, disputes with customers that are affiliated with government authorities may last for considerably longer periods of time than for those that occur with private sector counter parties, and payments from public bodies may be delayed as a result.

Moreover, government-affiliated customers generally have strong bargaining position with regard to contract negotiation and may request that we provide additional services, such as installation guidance, purchase specific equipment, or modify other contractual terms from time to time for the social benefit or other administrative purposes, resulting in additional costs incurred by us if not reimbursed by such customers in full. While provisions of installation guidance is generally not stipulated under our agreements, we provide such services when requested to enhance our collaboration with such customers. During the Track Record Period, additional costs relating to the provision of such services were minimal, and we have not been required to purchase specific equipment for particular projects or modify any contractual terms regarding our cooperation with government-affiliated customers. However, if any early termination by any government-affiliated customers occurs or if we fail to renew the contracts with them in the future, our backlog may be reduced and our investment plan may be hindered, which may have a material adverse effect on our business and financial performances.

We require substantial capital and any failure to obtain the capital we need on acceptable terms, or at all, may adversely affect our expansion plans and growth prospects

We are in a capital intensive industry. We require significant capital to build, maintain and operate our production and operation facilities, resulting in high fixed costs. We also require significant capital to purchase production equipment, develop new products as well as develop and implement new technologies. We incur a substantial portion of our capital expenditures in advance of any additional turnover to be generated by new or upgraded production facilities or technology resulting from the expenditure. In addition, capital expenditures may increase as a result of our further upgrade of production facilities and expansion of our operation scales, which may result, or have resulted, in increases in our borrowing needs. Our working capital requirements may further increase if we are required to give our customers more favorable payment terms to compete successfully for certain projects. These terms may include reduced advance payments from customers and payment schedules from customers that are less favorable to us. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional debt or equity financing or to defer planned expenditures. In the past, we have financed our working capital and capital expenditures through a combination of sources, including cash flow from our operations and bank and other borrowings. If we are unable to obtain financing in a timely manner and at a reasonable cost, our expansion plans may be delayed, our projects may be hindered, and our growth, competitive position and future profitability may be adversely affected.

We have had, and may continue to have, negative operating cash flow

Due to our business nature, we had long trade and notes receivables turnover days and our trade and notes receivables turnover days were generally longer than our trade and notes payables turnover days. Please see "— Accounts receivables" and "— Trade and notes payables" for further details. Given the timing difference in receipts from customers and settlements to suppliers, we may incur net cash outflow from operating activities from time to time, which in turn, may adversely affect our working capital. For the year ended December 31, 2013, we recorded RMB69.5 million net cash outflows from operating activities. For details of our negative cash flow in operating activities during the Track Record Period, see the section headed "Financial Information — Liquidity, Financial Resources and Capital Structures — Cash Flow." We cannot assure you that we will not have negative operating cash flow in the future. If we have significant negative operating cash flow, our working capital may be subject to constraints, which might materially and adversely affect our business, financial condition and results of operations.

Loss of our Directors, senior management, or failure to attract and retain senior managers and key technical experts could adversely affect our business and prospects

The growth of our business operations depends on the continuous service of our Directors and senior management. For their relevant details, please see the section headed "Directors, Supervisors, Senior Management and Staff". If one or more of our Directors and senior management were unable or unwilling to continue in their present positions, we might not be able to replace them easily, or at all, and our business, financial condition and results of operations may be materially and adversely affected.

We rely on experienced and talented senior managers and highly skilled technical personnel to operate our businesses and to develop our new products. We expect increased competition for senior managers and skilled technical personnel from our competitors in the future, driven partly by growth in the PRC rail fastening system industry. We cannot assure you that we will be able to recruit suitable candidates or retain our existing senior managers and technical personnel. High turnover of senior management could adversely affect our existing customer relationships, our operations and our development as well as hinder our future recruiting efforts. In addition, we must successfully integrate any new management personnel in order to achieve our operating objectives. Changes in key management positions may temporarily affect our operations as new management will need time to become familiar with our businesses and our operations. We expect to increase our effort to recruit more industry and technical experts to fulfill our future business plans. If we are unable to recruit and retain experienced senior management and key technical experts in the future, our business, financial condition and results of operations may be materially and adversely affected.

We may incur material losses and costs as a result of warranty claims and product liability actions that may be brought against us

Due to the nature of our business, we are exposed to risks of product liability claims or government penalties relating to the manufacturing and sales of our rail fastening system products. The manufacturing of the products that we produce is a complex and precise process. Our customers specify the quality, performance and reliability standards. Although we provide limited product warranties to our customers, we may be subject to product liabilities in the event that our products fail to perform as expected and, in the case of product liability actions, such product failure results in bodily injury and/or property damage as determined by accident investigations even if the accident occurs after the expiration of the warranty period. We cannot guarantee that we will be able to have our actual or alleged product or service defects remedied in a timely manner, at reasonable costs, or at all.

We may be held liable for any damages or losses incurred in connection with or arising from defective products manufactured by us, and if the damages or losses are severe, we may also be subject to administrative penalties imposed by the government. If our products or services are proven to be defective and have caused personal injury, property damage or other losses to rail passengers, we may be held responsible under liability claims under the laws of the PRC or other jurisdictions in which our products or services are sold, used or provided. We may need to devote substantial funds and other financial and administrative resources to rectifying, preventing potential product liability incidents, delay, cancel or rescheduling of orders for our products or increase product returns or discounts, which could affect our working capital, cash flow and results of operation. In addition, negative publicity concerning any defects of our products or services could adversely affect our reputation, customer satisfaction and market share.

Any operational failure or disruption with our production facilities could negatively affect our business

A disruption to, or shortage of, water, electricity or gas may adversely affect our production output. Our reliance on electricity from local utilities will further increase as we expand our production capacity. A significant disruption to, or shortage of, utilities may prevent us from manufacturing sufficient products during the affected period and may materially and adversely affect our business, financial condition and results of operations.

In addition, our ability to adequately preserve our inventory of raw materials and to produce, distribute and sell our products is critical to our success. If all or a portion of the raw materials we hold in inventory is damaged, our ability to produce, distribute or sell our products could be partially or materially hindered. Furthermore, we may experience difficulties and delays inherent in the production and sale of our products due to a variety of factors, including:

- accidents resulting in a temporary suspension of our production facilities;
- the loss or failure to obtain or protect of our patents or any limitations imposed on our use of the same;
- our failure, or the failure of any of our suppliers, to comply with applicable regulations and quality assurance guidelines that could lead to temporary product seizure or recalls, production shutdowns, production delays and product shortages; and
- other production or distribution problems, including limitations to manufacturing capability due to the imposition of new regulatory requirements on the types, size and weight of the products.

Our failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could materially and adversely affect our business, financial condition and results of operations.

Defaults by counterparties that we do business with could materially and adversely affect our business, financial condition and results of operations

We do business and enter into a wide variety of contracts with different counterparties, including our major customers, our raw material suppliers and our affiliate, Tieke Yichen. We may lose revenue and profits and incur additional operating expenses if our counterparties default. However, we cannot assure you that all our counterparties are reputable and creditworthy and will not default against us in the future. With the exception of our affiliate, Tieke Yichen, there is limited financial or public information on our counterparties and as such, we are exposed to counterparty risks to the extent that our counterparties fail to fulfill their obligations under the contracts.

Any non-compliance with relevant anti-bribery and anti-corruption laws, any fraud or other misconduct which may be committed by our employees or third parties may materially and adversely affect our business operation

Fraud and other misconduct which may be committed by our employees or third parties can be difficult to prevent or deter despite our internal control and corporate governance practices. Also, our industry is subject to anti-bribery and anti-corruption laws and regulations. In the PRC, where we operate the majority of our business and where most of our revenue is generated from state-owned enterprises, we must strictly comply with the PRC criminal laws and other applicable regulations, which prohibit companies and their intermediaries from making improper payments or other benefits to government officials or other parties for the purpose of obtaining or retaining business, including improperly influencing the results of tenders. While we have internal controls and procedures in place to monitor internal and external compliance with anti-corruption laws, regulations and policies, we cannot assure you that such internal controls and procedures will always protect us from penalties that may be imposed by PRC government authorities due to violations committed by our employees or other third parties. If our employees or other third parties are found or alleged to be in violation of anti-corruption regulations, we may face or be involved in fines, lawsuits, regulatory investigations, loss of permits and licenses and loss of key personnel, as well as damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

If any of our products fails to meet the business needs of our customers, our sales and profitability may be adversely affected, which will have a material adverse effect on our business, financial condition and results of operations

Providing reliable and competitive rail fastening systems that appeal to the relevant participants of the PRC railway construction industry is the key to our success. We cannot assure you that we will be able to anticipate changes in customers' business needs and regulatory standards on a timely basis to remain competitive or that certain of our products will not become obsolete. If any of our products fails to meet the market needs, or if we are unable to develop and manufacture competitive products in a timely manner, we may be unable to recover our development, production and marketing costs, thereby leading to a material adverse effect on our business, financial condition and results of operations.

Our business involves inherent industry risks and occupational risks

The industry we are operating in has inherent industry risks and occupational risks. We may be confronted with unpredictable difficulties associated with our businesses, due to various reasons including bad weather and geological conditions, violation of safety procedures by employees and other third parties and the usage of machines. These risks, dangers and difficulties may result in personal injuries, damage or destruction of the assets or manufacturing equipment, business interruption, potential legal responsibilities and harm to our reputation and image, and even fatalities. We cannot assure you that the measures we may take will effectively avoid such accidents. If such accidents happen, our reputation and image may be harmed and our business operation and results of operations may be affected.

We are also confronted with various types of operational risks, some of which may be beyond our control. Such operational risks include that the equipment essential to our operation may need maintenance because of accidents or may malfunction from time to time. If we cannot conduct necessary maintenance or replacement in a timely manner when such equipment is damaged or malfunctioned, our business may be interrupted or suspended, which may result in increased labor costs and may affect the assets and our results of operations.

We have limited insurance coverage

The development of the PRC insurance industry remains premature. As such, insurance companies in China offer limited commercial insurance products. We have purchase and maintain insurance policies in accordance with the needs of our operation. However, we cannot guarantee that our insurance policies will provide adequate coverage should we face extraordinary occurrences that result in losses. For example, we do not carry product liability insurance for our products. In addition, under PRC law, we are not required to maintain business interruption insurance or litigation insurance. Accordingly, we have not maintained such types of insurance to cover our operations. Any uninsured loss or damage to property, litigation, business disruption or product liability claims may result in us incurring substantial costs or diverting our resources. The occurrence of certain incidents, including fire, severe weather, earthquake, war, flooding, power outages and the consequences resulting from them may not be covered adequately, or at all, by our insurance policies. If we incur substantial liabilities that are not covered by our insurance policies, or if our business operations are interrupted for a significant period of time, or we could lose all or a portion of our production capacity as well as future revenues expected to be generated by the relevant facilities, we could incur costs and losses that could materially and adversely affect our business, financial condition and results of operations.

We may be subject to fines and penalties under the relevant PRC laws and regulations due to late payment in salary, failure to make appropriate contributions for housing provident fund and social insurance for our employees

We are required under the relevant PRC laws and regulations to pay the monthly salary in full in a timely manner to our employees, to provide our employees in the PRC with welfare schemes covering a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, maternity leave insurance, and occupational injury insurance. We are also required to contribute, as an employer, to housing provident funds for our employees. For details on relevant PRC laws and regulations and non-compliance, see the paragraph headed “Regulations — Laws and Regulations Relating to Labor — Social Insurance and Housing Provident Fund” and the paragraph headed “Business — Non-compliance” of this prospectus.

During the Track Record Period, we did not make full social insurance contributions for all employees. As a result of our failure to pay or untimely payment of our social insurance contribution to the relevant local social insurance authorities, we may be ordered by the relevant local social insurance authorities to make all outstanding contributions within a prescribed time and be charged with a late payment fee at a rate of 0.05% per day from the due date of the contribution. If the overdue contribution remains outstanding after the expiration of the time limit, the relevant administration department may impose a fine equivalent to one to three times of the overdue amount.

During the Track Record Period, we did not fully pay our contribution to the housing provident fund. As a result of our failure to pay or untimely payment of our contribution to the housing provident funds, we may be ordered by the relevant housing provident fund authorities to make the payment and deposit within a prescribed time. If the payment and deposit is not made after the expiration of the time limit, an application may be made to the legal authorities for compulsory enforcement.

Please refer to the paragraph headed "Business — Employees" and the sub-paragraph headed "Social Insurance Contribution and Housing Provident Fund Contribution" of this prospectus for further details. In the event that the said fine is imposed on our Group, or other administrative sanction is ordered by the relevant PRC authorities against us, for our previous failure to make contributions to social insurance scheme and/or housing provident fund, such penalty or administrative sanction may adversely affect our financial condition and reputation.

We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive. Our failure to comply with environmental, safety, and health laws and regulations may subject us to penalties

As part of our business operation, we are required to comply with various and extensive environmental as well as health and safety laws and regulations promulgated by the PRC government. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, there can be no assurance that the PRC government will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers.

Insufficient protection to intellectual property rights could have an adverse effect on us

Intellectual property rights are critical to our success and we have obtained or applied for trademarks and patents on various products and technologies as set out in the section headed "Appendix VI — Statutory and General Information" in this prospectus for the purpose of protecting our intellectual property rights. The legal regime governing intellectual property in China is still evolving and the level of protection of intellectual property rights in China may differ from those in other jurisdictions. In the event that the steps we have taken and the protection provided by law do not adequately safeguard our intellectual property rights, we could suffer losses due to the provision or the sale of competing services or products by others which exploit our intellectual property rights.

In addition, there can be no assurance that any of our intellectual property rights will not be challenged, misappropriated or circumvented by third parties, or that our competitors will not independently develop alternative technologies that are equivalent or superior to our proprietary technologies. Although we have not experienced any difficulties in exercising our rights against unauthorized use of intellectual property rights which had a material adverse effect to our business, financial condition and results of operations, we cannot assure you that we will be successful in all of our applications for trademarks and patents on our products or that we will successfully prevent all misappropriation or infringement of our intellectual property rights.

Furthermore, we cannot assure you that in the future, we will not receive notice of any claims from any third party alleging infringement by us of any such third party's intellectual property rights, or that we will prevail in any proceedings arising from such a claim. In the event that any such claim is initiated or upheld, our business, financial condition and results of operations could be materially and adversely affected.

Future acquisitions may not be successful and our effort to integrate the acquired business into our existing operation may not be successful

We may in the future acquire businesses that we believe would benefit us in terms of production capacity and business development. Our ability to grow through acquisitions will depend on our ability to identify, negotiate, complete and integrate suitable targets and to obtain any necessary financing for such acquisitions. Our acquisition strategy may expose us to the following risks which could have adverse effects on our business, financial condition, operating results and future prospects:

- unidentified or unforeseeable liabilities or risks may exist in the potential assets or business to be acquired;
- failure to assimilate acquired business and personnel into our operations or failure to realize anticipated cost savings or other synergies from the acquisition;
- incurring additional debts which could reduce our available funds for operation and other purposes as a result of increased debt repayment obligations;
- inability to retain employees;
- loss of customers; and
- diverting efforts of the management and other resources.

In addition, even if we successfully complete an acquisition, we may experience difficulties in integrating the acquired business, its personnel or its products into our existing business. Examples of difficulties may include delays or failures in realizing the benefits of the acquired business or its products, diversion of our management's time and attention from other business concerns, higher costs of integration than we anticipated, or difficulties in retaining key employees who are necessary to manage the acquired business. We cannot assure you that all acquisitions will generate long-term benefits for us, or that we will be able to integrate the acquired business effectively. Any failure to achieve the above results may have material adverse effects on our business, financial condition and operating results.

Increases in interest rates will affect our business, financial condition, operating results and the level of our indebtedness and interest payment obligations may limit our financing capabilities

We are subject to a high degree of financial leverage. Our substantial indebtedness may affect our ability to secure funding for various projects, including current and future projects. We have relied upon both short-term and long-term borrowings to fund a portion of our capital expenditure and operations and we expect to continue to do so in the future. In addition, we may incur additional debt to fund our planned capital expenditure and future projects. The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the financing required to fund future capital expenditure and working capital. A shortage of such funds could in turn impose limitations on our ability to plan for, or react effectively to, changing market conditions or to expand through organic and acquisitive growth, thereby reducing our competitiveness.

Our business, financial condition and results of operations may be affected by increases in capital expenditures and depreciation or other operating expenses

During the Track Record Period, we had made significant investments in our property, plant and equipment for the new production facilities and the enhancement of equipment and machineries. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we invested RMB28.1 million, RMB14.3 million, RMB16.1 million and RMB4.0 million, respectively. We expect to continue to invest in land, property, plant and equipment as we expand our business to solidify our leading position as a rail fastening systems products provider in the PRC. We estimate that our planned capital expenditures for the six months ending December 31, 2016, and the year ending December 31, 2017 will be RMB63.2 million and RMB113.8 million, respectively, mainly for (i) construction of new plant, (ii) purchase of new equipment and upgrade our existing production facilities, and (iii) purchase of land use rights. Please see "Business — Production Facilities and Utilization Rate — Expansion Plan" for further details. Accordingly, we expect to incur depreciation charges of RMB0.5 million and RMB9.7 million, for the years ending December 31, 2016 and 2017, respectively. Our estimated depreciation charges are calculated with reference to planned capital expenditure project schedules and estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition and other factors.

In connection to our expansion plans, we expect to incur capital expenditures, and accordingly, higher depreciation, and other operating expenses that will negatively impact our cash flow and profitability. At the same time, any of the aforementioned could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected if our competitors consolidate or enter into strategic alliances

Our industry is capital intensive and requires substantial investments in manufacturing, machinery, research and development, product design, engineering, technology and marketing in order to meet both consumer business needs and regulatory requirements. Large competitors are able to benefit from economies of scale by leveraging their investments and activities on a global basis across brands. If our competitors consolidate or enter into strategic alliances, they may be able to take better advantage of these economies of scale. In addition, our competitors could use consolidation or alliances as a means of enhancing their competitiveness or liquidity position. Any such consolidation or strategic alliance by our competitors could materially and adversely affect our business, financial condition and results of operations.

Our Controlling Shareholders can exert significant influence on our Group and could cause our Group to act in a way that may not be in the best interests of our Group's minority shareholders

The Controlling Shareholders Group, being a group of 15 individuals acting in concert, is our largest and Controlling Shareholder. Upon completion of the Global Offering, the Controlling Shareholders Group will in aggregate hold approximately 66.92% of our total issued share capital assuming no exercise of the Over-allotment Option (or approximately 64.50% if the Over-allotment Option is exercised in full). As a result, subject to our Articles of Association and applicable laws and regulations, the Controlling Shareholders Group will effectively be able to control the composition of the Board, and through the Board, exercise a significant influence over our management and corporate decisions including, but not limited to, those relating to our overall strategy and investment, such as:

- exerting undue influence over our Board regarding the selection of the senior management of our Group and our Group's major business decisions;

- approving or rejecting our Group's dividend distributions;
- approving or rejecting our Group's annual budgets and/or business plans;
- prevent or delay transactions that might be desirable to our other shareholders, such as takeovers or changes in our control or management; and
- effecting corporate transactions without the approval of the minority shareholders of our Group; and approving our Group's notifiable and connected transactions relating to our Entities in lieu of holding a general meeting.

To the extent that the Controlling Shareholders Group has interests that conflict with those of our Group and our other Shareholders, it may take actions in its capacity as the Controlling Shareholders that may not be in the best interest of our Shareholders as a whole.

Our business operations may be affected by an occurrence of widespread public health problems, acts of war, natural disasters or other events beyond our control

Our business may be interrupted for reasons beyond our control, which may include widespread health problems, acts of war or natural disasters such as bad weather conditions, flooding, typhoons, tsunamis, snowstorms, landslides, earthquakes and fires, as well as labor strikes or social turmoil. We operate our business in the PRC. Our operations and business could be adversely affected by the above factors that are beyond our control. Our operations in the PRC may encounter epidemics, which may cause different degrees of damage to the national and local economies and result in material disruptions to our operations. The occurrence of natural disasters, unanticipated catastrophic events or a recurrence of an epidemic and other adverse public health developments in the PRC could severely disrupt our business operations, and in turn materially and adversely affect our business, financial condition and results of operations.

In addition, if our employees were to engage in a strike or other work stoppage, we could experience a significant disruption of operations and/or continuously increasing labor costs, which may have a material adverse effect on our business and results of operations.

We are subject to litigation risks

In our ordinary course of business, we may be involved in litigation with our customers or suppliers from time to time. Claims may be brought against us for alleged liabilities for defective products, delayed delivery of goods, personal injuries and deaths, breaches of warranty, delayed payments to our suppliers, labor disputes or late completion of projects or other contracts. If we were found to be liable on any of the claims, we would have to incur additional costs. Both claims brought against us and by us, if not resolved through negotiation, may be subject to lengthy and expensive litigation or arbitration proceedings. Charges associated with claims brought against us and write-downs associated with claims brought by us could have a material adverse impact on our cash flow, financial condition and results of operations. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and damage our prospects for future contract awards.

The preferential tax treatment we currently enjoy may be unfavorably changed or discontinued

Our Company was certified as a High-tech Enterprise on September 29, 2015, valid for three years (from 2015 to 2017). During this period, our Company can enjoy the preferential income tax rate of 15%. Our effective income tax rate decreased from approximately 24.6% in 2014 to 17.2% in 2015, primarily due to decrease in the statutory tax rate of our Company from 25% to 15% in 2015. However, we cannot assure you that such reduction that we currently enjoy can be renewed and/or will not be cancelled in the future. If we are not able to maintain or renew our existing certificate on a timely basis or at all, our business, financial condition and results of operations may be adversely affected.

Our historical dividends may not be indicative of our future dividend policy

We may pay dividends to our Shareholders in the future. However, such payments will depend upon a number of factors, including our results of operations, cash flow, financial condition, future prospects and other factors that the Board may consider relevant. There can be no assurance that we will declare or distribute any dividend on the H Shares. In addition, our ability to service our debts and pay dividends may be further subject to restrictive covenants contained in indentures and/or loan agreements governing, in each case, indebtedness we may incur. We cannot guarantee whether and when any dividends will be paid in the future. The historical dividend distribution record of our Group in the past should not be used as an indicator or basis to determine the level of dividends that may be declared or paid by us in the future. Further details on our dividends policy are set out in the paragraph headed "Financial Information — Dividend and Dividend Policy" in this prospectus.

For the years ended December 31, 2013, 2014 and 2015, our Group declared and paid dividends in cash of RMB10.0 million, RMB10.0 million and RMB10.0 million from distributable profits to the then shareholders of our Group, respectively. For the six months ended June 20, 2016, our Group declared dividend of RMB73.1 million and paid RMB28.0 million (including related withholding tax) in cash by June 30, 2016. The remaining shall be paid prior to Listing. Under PRC law, dividends may be paid only out of distributable profits. Distributable profits means our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any accumulated losses and appropriations to the statutory surplus reserve and general reserve which we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. Please refer to the description on dividends contained in the sections headed "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association" in this prospectus.

We could be adversely affected as a result of our sales to customers in certain countries that are subject to evolving economic sanctions of the U.S. government, the U.N., the E.U. and other relevant sanctions authorities

The U.S., the E.U., Australia and the U.N. impose International Sanctions targeting both Sanctioned Countries and Sanctioned Persons. For details on relevant sanctions laws, see the section headed "Regulations — Descriptions of Sanctions Laws" of this prospectus.

During the Track Record Period, we made certain sales of our welding materials to customers in Russia, Ukraine, Belarus, Egypt, Iran and the Balkans (including Croatia and Slovenia), which are Sanctioned Countries. Our revenue derived from sales made to these Sanctioned Countries, in aggregate, accounted for less than 1% of our revenue for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. For details of our sales to in the Sanctioned

Countries, see the paragraph headed "Business — Sales to Sanctioned Countries". As advised by our International Sanctions Legal Advisers, our business dealings in Russia, Ukraine, Belarus, Egypt, Iran and the Balkans during the Track Record Period do not breach any International Sanctions imposed by the E.U., Australia, the U.N. and primary sanctions laws imposed by the U.S. Our sales of flux cored wire products to a customer in Iran for the year ended December 31, 2014, amounted to approximately RMB8,000, comprising less than 0.001% of our total sales for that year, and as such, our International Sanctions Legal Advisers are of the view that such sales present a very remote risk of being sanctioned under the relevant secondary U.S. laws because the volume of sales is not likely to be determined by relevant U.S. authorities to be a sale of "significant" goods to a person in the shipbuilding industry within the meaning of those sanction laws. We can provide no assurance that our future business activities will be free of risk under International Sanctions.

We have undertaken to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any Sanctioned Country which are prohibited under international sanction laws and regulations or with any Sanctioned Person. We have also undertaken to the Stock Exchange that we will not enter into sanctionable transactions that would expose us or the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to risks of being sanctioned. If we breach any of these undertakings to the Stock Exchange after the Listing, it is possible that the Stock Exchange may delist our Shares. In order to ensure our compliance with these undertakings to the Stock Exchange, we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details of our internal control procedures, see "Business — Sales to Sanctioned Countries — Our undertakings and internal control procedures".

As a Group with business operations in China, we will comply with all PRC laws and applicable laws in the jurisdictions where we have business transactions. We will also seek to prevent our transactions in relation to the Sanctioned Countries from being subject to sanctions under the laws of the U.S., the E.U., Australia or the U.N., and avoid carrying out business transactions with any Sanctioned Persons. However, to the extent such sanctions are imposed on our Company, our business and Shareholders' interests may be materially and adversely affected.

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the E.U., Australia, the U.N. or other applicable jurisdictions with respect to any current or future activities by us or our affiliates in the Sanctioned Countries and/or with Sanctioned Persons. We have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the U.S., the E.U., Australia or the U.N.. However, we can provide no assurance that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the U.S. authorities or the authorities of any other government that does not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the U.N., the government of the U.S., the E.U., Australia, the U.N. or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. In addition, certain U.S. state and local governments and universities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries. As a result, concern about potential legal or reputational risk associated with our historical and on-going operations in the Sanctioned Countries and/or with Sanctioned Persons could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders' interests in us, despite our commitment not to direct the proceeds from the Global Offering to dealings with any parties subject to international sanctions. Before investing in our Shares, you should consider if such investment would expose you to any of the U.S., the E.U. or other sanctions law risk arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

RISKS RELATING TO OUR INDUSTRY

The rail construction and rail transportation industry in the PRC is continuously evolving and has uncertainties, and the PRC Government may adopt measures to slow down growth in the public transport industry, thereby adversely affecting the demand for products

The rail construction and rail transportation industry in the PRC has been continuously evolving in recent years, and may continue to evolve in the future. This evolution is driven by a number of factors such as the reforms initiated by the PRC government, the restructuring and integration of enterprises in rail transportation industry, the urbanization trend in the PRC and the macroeconomic policies and conditions in the PRC and other countries. In particular, the PRC government's administration of the PRC railway industry is still in a transition period following the division of the former Ministry of Railway of the PRC into the National Railway Administration of the PRC and the China Railway Corporation to separate the regulatory functions of the government authorities from the management of operating enterprises in this industry, and the PRC government may still exert significant influence on the development of this industry by implementing industry policies and other economic measures. Recently, two major rail transportation train manufacturing companies in China merged under the lead of the PRC government. The PRC government may direct further restructuring and integration in the rail construction and/or transportation industry that may affect our customers, suppliers and business partners, or even ourselves if we were to experience any material corporate restructuring or reorganization. Such ongoing or future industry-wide restructuring may cause uncertainties with respect to our competitive landscape, customers' demand of our products and services and business strategy, and our operating results may be affected if any of such factors change adversely.

The PRC Government has in the past adopted, and may in the future adopt from time to time, restrictive measures to curtail the growth of various industry sectors in an effort to control inflation and stabilize the value of RMB. Such measures may extend to the infrastructure industry, such as public transport systems. We cannot assure that the PRC Government will not take actions in the future that would adversely affect the demand and prices for our products in the PRC. In addition, in recent years, there have been a number of publicized cases involving corruption or other misconduct of senior government officials in the PRC railway industry. This negative publicity may lead to a slowdown of the overall development and harm the reputation of the PRC railway industry, and in turn reduce the demand of our products and services, which could materially and adversely affect our business, financial condition and results of operations.

Increasing competition in the PRC rail fastening systems market could have an adverse impact on our ability to maintain competitiveness

Increasing demand for rail transportation in China has resulted in significant growth in the demand for rail fastening systems. Such growth in the rail fastening system market has encouraged, and is likely to continue to encourage, foreign competitors, sino-foreign equity joint ventures established in the PRC and new domestic rail fastening system providers to further expand their production capacity. Some of our competitors, especially international competitors, may have advantages over us in terms of capacity, access to capital and management experience, while some domestic competitors may have advantages over us in terms of pricing, and in bidding for projects sponsored by local government that may prefer to contract with locally based contractors.

China's rail fastening system manufacturing industry is under intensive supervision and it is the primary threshold for new entrants to obtain certificate from CRCC. Currently, we are one of the seven and the only private domestic enterprise approved by the CRCC to provide for pre-assembled high speed rail fastening systems in the PRC. CRCC imposed stringent procedures on the qualification, generally including application, sample inspection, expert assessment, inspection record investigation and decision outcome. In addition to the industry entry barrier abovementioned, products manufactured by enterprises with CRCC certificate are further regulated by various laws and regulation, such as Regulation on the Administration of Railway Safety (《鐵路安全管理條例》), Regulations of the PRC on Certification and Accreditation (《中華人民共和國認證認可條例》) and Circular of issuing Measures for Administration of Railway Product Certification (《關於印發〈鐵路產品認證管理辦法〉的通知》) regarding products standards. For details, please see the section headed "Regulations — Laws and Regulations relating to the Industry" to this prospectus. As a result, the seven enterprises who passed the unified CRCC qualification selection procedures and are strictly regulated by similar applicable law and regulations may offer highly similar products with less differentiated specifications. For the year ended December 31, 2015, we were the largest rail fastening system provider out of the seven CRCC certified enterprises in the PRC in terms of revenue and the industry entry barriers may be further enhanced by relevant authorities to prevent malicious price competition which may affect product quality according to the Frost & Sullivan. However, we cannot assure you that our leading position will not be affected by the competition from other current players or new entrants. If our current or potential competitors offer services or products comparable or superior to those that we offer at the same or lower prices, develop more advanced technology and upgrade their capacity, or adapt more quickly than we do to evolving industry trends or changing market conditions, we may lose our customers to our competitors. The pricing, recognition and loyalty to our brand of products and the financial and technical resources allocated to our products may be materially and adversely affected if competing rail fastening systems, domestic or foreign, gain a competitive advantage.

Reliance on the overall demand of rail construction and rail transportation industry exposes our Group to risks

The business of our Group is largely dependent on the development of the rail construction and rail transportation industry. The demand of our products may be significantly affected by the investment, profitability, and overall demand on those industries. Slowing economic growth or a recession could slow down the growth or expansion or upgrading of the public transport systems which, in turn, have a material adverse effect on our business, financial condition and results of operations as well as affecting our expansion strategies. Periods of relatively slow economic growth or a recession may decrease the demand for our products, thereby adversely affecting our sales and profitability. We cannot assure that those industries will not experience market contractions in the future, which may materially and adversely affect our business, financial condition and results of operations.

We may be adversely affected by competition from other modes of transportation in the PRC

The five main transportation modes for passenger and freight transportation in the PRC are aviation, railway, road, waterway and pipeline. In the PRC, passengers mainly rely on railway and road networks to travel; freight is transported mostly on railway, road and waterway networks; and liquids and gases are usually delivered through pipelines. In the event that changes occur to passenger and freight transportation traffic patterns and lead to reduced overall volumes on rail transportation, our business, financial condition and results of operations could be adversely affected. In addition, the demand for our rail fastening system may be reduced if there are unexpected events, such as terrorist attacks and environmental and other safety concerns, which would result in the decreased use of railway or urban transit systems.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Economic, political and social conditions in the PRC, as well as government policies, could affect our business, financial condition, results of operations and prospects

All of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in the PRC. In particular, the PRC government continues to exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in reforming the economy. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall economy of the PRC, but may have an adverse effect on us.

The PRC has been one of the world's fastest growing economies as measured by GDP in recent years. However, the PRC may not be able to sustain such a growth rate. In an effort to continue the growth of the Chinese economy, the PRC government has implemented and may continue to implement various monetary and other economic measures to expand investments in infrastructure projects, increase liquidity in the credit markets and encourage employment. However, there is no assurance that such monetary and economic measures will succeed. If the Chinese economy experiences a slowdown or even a recession, we may experience a delay or reduction in, or cancelation of, projects available to us and demand for the products we provide in our various business segments may grow at a lower-than-expected rate or otherwise decrease. Furthermore, we cannot assure you that we are able to make timely adjustments to our business and operational strategies so as to capture and benefit from the potential business opportunities presented to us as a result of the changes in the economic and other policies of the PRC government. Also, the PRC Government will continue to make adjustments to its economic policy objectives and measures in the future, which may include or result in a significant reduction in its budget for investments in infrastructure and other projects. This could have an adverse effect on our business and operations. Moreover, unfavorable financing and other economic conditions for the industries that we serve could negatively impact our customers and their ability or willingness to fund capital expenditures in the future or pay for past products.

The PRC legal system is still evolving. There exist uncertainties as to the interpretation and enforcement of PRC laws, and PRC laws are different from those of common law countries

We are incorporated under the laws of the PRC and most of our activities are conducted in the PRC, hence our business operations are regulated primarily by PRC laws and regulations. PRC laws and regulations are based on written statutes, and past court judgments may be cited only for reference. Since

1979, the PRC government has been committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing economic matters, such as in foreign investment, company organization and management, business, tax and trade. However, as these laws and regulations are still evolving, and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and enforcement.

In addition, the PRC Company Law is different in certain important respects from company laws in common law countries or territories such as Hong Kong and the United States, particularly with regard to investor protection, including areas such as derivative actions by shareholders and other measures protecting non-controlling shareholders, restrictions on directors, disclosure obligations, variations of class rights, procedures at general meetings and payments of dividends. Protection for investors is increased, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Association have incorporated the provisions in the Mandatory Provisions and the Listing Rules. Despite the incorporation of those provisions, there is no assurance that you will enjoy an equal level of protection that you may be entitled to when investing in companies incorporated in common-law jurisdictions.

Foreign individual holders of our H Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our H Shares remain uncertain

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares. In general, non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law. We are required to withhold such tax from dividend payments, unless applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations.

For non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, under the EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 10% rate subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

There remains uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including the taxation of capital gains by non-PRC resident enterprises, and individual income tax on gains realized on the sale or other disposition of H Shares. The PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

Government control of currency conversion may adversely affect the value of your investments

A portion of the revenue of our Group is denominated in Renminbi, which is also the reporting currency of our Group. Renminbi is not freely convertible into foreign currencies. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on dividends declared on our H Shares. Under existing foreign exchange regulations of the PRC, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies through current account transactions without prior approval from the SAFE by complying with various procedural requirements.

However, if the PRC Government were to impose restrictions on our access to foreign currencies for current account transactions at its discretion, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. On the other hand, foreign exchange transactions under capital accounts in the PRC still require approvals of the SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or capital expenditures.

Furthermore, the net proceeds from the Global Offering are expected to be deposited overseas in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected, as we will not be able to invest these proceeds in RMB-denominated assets onshore or deploy them in uses onshore where Renminbi are required, which may adversely affect our business, financial condition and results of operations.

Payment of dividends is subject to restrictions under PRC law

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits is defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable our Group to make dividend distributions to its shareholders in the future, including periods for which our Group's financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries, Jointly-controlled Entities and associated companies may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice-versa. Accordingly, our Group may not receive sufficient distributions from our subsidiaries and associated companies which could have a negative impact on our Group's cash flow and ability to make dividend distributions to our Shareholders in the future, including those periods in which our Group's financial statements indicate that our operations have been profitable.

It may be difficult to enforce a judgment obtained from non-PRC courts against our Group or our Directors, Supervisors or senior executive officers residing in China

Except for Mr. Jip Ki Chi, all of our Directors, Supervisors and senior management members reside within the PRC, and substantially all of our assets and the assets of our Directors, Supervisors and senior management members are located within the PRC. The legal framework that applies to us is substantially different from the Companies Ordinance or corporate law in Hong Kong and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework that applies to us are also relatively undeveloped and untested.

Although we will be subject to the Listing Rules and the Takeovers Code upon Listing, the holders of the H Shares will not be able to bring actions on the basis of any violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Takeovers Code does not have the force of law and only provides standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. Under this arrangement, where any designated People's Court of the Mainland in the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. This arrangement came into effect on August 1, 2008. However, even if the arrangement is implemented, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Our Articles of Association and the Listing Rules provide that most disputes between holders of H Shares and our Group, our Directors, Supervisors or senior management arising out of the Articles of Association or the Company Law and related regulations concerning our Group's affairs, such as transfer of its H Shares, are to be resolved through arbitration. On June 21, 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. Under the arrangement, awards that are made by the PRC arbitral authorities pursuant to the Arbitration Law of the PRC are enforceable in Hong Kong, and awards made in Hong Kong pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC. However, so far as we are aware, no action has been brought in the PRC by a holder of H shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favor of a holder of H shares. Accordingly, we are unable to predict the outcome of any such action. China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with foreign countries such as the United States, the United Kingdom and Japan, and therefore enforcement in the PRC of judgments of a court in these jurisdictions may be difficult or impossible.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares, and the liquidity and market price of our H Shares may be volatile

Prior to the Global Offering, there has been no public market for our H Shares. The Offer Price range for our H Shares was the result of negotiations between us and BOCOM International Securities on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for listing of, and permission to deal in, our H Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, that it will be sustained following the Global Offering or that the market price of our H Shares will not decline following the Global Offering. Furthermore, the market price and trading volume of our H Shares may be volatile. The following factors may affect the trading volume and market price of our H Shares:

- actual or anticipated fluctuations in our operating performance and revenue;

- news regarding recruitment or departure of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies and industries, and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of H Shares by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant price and trading volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our H Shares.

An active and liquid trading market for our Shares may not develop

Prior to the Global Offering, our Shares were not traded on any market. We cannot assure you that an active and liquid trading market for our Shares will be developed or be maintained after the Global Offering. Liquid and active trading markets usually result in less price volatility and more efficiency in carrying out investors' purchase and sale orders. The market price of our Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Shares, you could lose a substantial part or all of your investment in our Shares.

Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins, as a result of unfavorable market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

The market price and trading volume of our H Shares may be volatile, which could result in rapid and substantial losses for our shareholders

The market price of our H Shares may be highly volatile and could be subject to significant fluctuations. In addition, the trading volume of our H Shares may fluctuate, which may cause significant price variations. Some of the factors that could negatively affect the price of our H Shares, or result in fluctuations in the price or trading volume of our H Shares include:

- variations in our operating results;
- failure to meet the market's earnings expectations;
- departures of key personnel;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation and governmental investigations; and
- general market and economic conditions.

Future sales or perceived sales or conversion of substantial amounts of our securities in the public market, including any future public offering in the PRC or conversion of our Domestic Share into H Shares, could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholdings

Future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares or public offering in the PRC, or the perception that such sales or issuances may occur could all cause a decline in the market price of our H Shares. Future sales, or perceived sales, of substantial amounts of our securities or other securities relating to our H Shares, including part of any future offerings, could also materially and adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate.

Our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes (but without the necessity of Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "**Arrangement**"). In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to unlisted Shares. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

As the Offer Price of our H Shares is higher than our net tangible asset book value per share, purchasers of our H Shares in the Global Offering may experience immediate dilution upon such purchases

As the Offer Price of our H Shares is higher than the net tangible assets per share in issue, which was issued to our existing Shareholders immediately prior to the Global Offering, purchasers of our H Shares in the Global Offering will experience an immediate dilution to HK$1.92 per H Share (assuming an Offer Price of HK$3.37 per H Share, being the midpoint of the stated Offer Price range, and assuming the Over-allotment Option for the Global Offering is not exercised). Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters.

The words "anticipate", "believe", "could", "potential", "continue", "expect", "intend", "may", "plan", "seek", "will", "would", "should" and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in the section headed "Risk Factors" in this prospectus. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

The industry data and forecasts in this prospectus obtained from various government publications have not been independently verified

This prospectus includes industry data and forecasts that we obtained from various government publications. We cannot assure you of the accuracy or completeness of information obtained from such government publications. We have not independently verified any of the data from such sources, nor have we ascertained that the underlying economic assumptions relied upon in those sources. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, these facts, forecasts and other statistics have not been independently verified by us, the Underwriters, their respective directors and advisors or any other parties involved in the Global Offering and none of them make any representation as to the accuracy or completeness of such information. Moreover, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and other media regarding us and the Global Offering

Prior to the publication of this prospectus, there has been and there may also be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us, our business, our industries and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of such projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transaction(s), which would constitute continuing connected transactions subject to reporting, annual review and announcement requirements but exempt from independent Shareholders' approval requirements under Chapter 14A of the Listing Rules after the Listing. Details about such transactions together with the application for a waiver from strict compliance with the relevant announcement requirements under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE

Rules 8.12 and 19A.15 of the Listing Rules require that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Our business operation is located in the PRC. Our senior management team is and will continue to be based in the PRC. At present, all of our executive Directors and two out of three of the INEDs are not ordinarily resident in Hong Kong. Further, our Directors consider that it would be practically difficult and not commercially feasible for our Company to appoint two more Hong Kong residents as executive Directors or to relocate any two of the existing Directors in the PRC to Hong Kong merely for the purpose of complying with Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules subject to the following conditions:

(a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Zhang Haijun, one of our executive Directors and chairman of the Board and Ms. Lo Yee Har Susan, one of the joint company secretaries of our Company. The alternate to Mr. Zhang Haijun is Ms. Fan Xiulan (樊秀蘭), one of our executive Directors, and the alternate to Ms. Lo Yee Har Susan is Mr. Zhou Encheng (周恩成), one of our Supervisors. Each of the authorized representatives (including the alternate authorized representatives) has confirmed that he or she will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time frame upon request of the Stock Exchange, if required. They will be readily contactable by telephone, facsimile or email and are authorized to communicate on our behalf with the Stock Exchange;

(b) both authorized representatives (including the alternate authorized representatives) have means to contact all our Directors (including the INEDs) promptly at all times as and when the Stock Exchange wishes to contact the members of our Board for any matters. To enhance communication between the Stock Exchange, our authorized representatives (including the alternate authorized representatives) and our Directors, we have implemented a policy whereby (i) each Director will have to provide his/her office phone number, mobile phone number, facsimile number and email address to the authorized representatives (including the alternate authorized representatives); and in the event that a Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation or other means of communication to the authorized representatives (including the alternate authorized representatives); and (ii) each Director will provide their mobile phone number, office phone number, facsimile number and email address to the Stock Exchange;

(c) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong and can meet the Stock Exchange in Hong Kong within a reasonable period when required;

(d) we have, in compliance with Rule 3A.19 of the Listing Rules, appointed a compliance adviser, who will have access at all times to our Company's authorized representatives (including the alternate authorized representatives), Directors and other officers. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after listing and, where the authorized representatives and the alternate authorized representatives of our Company are unavailable, act as an additional channel of communication between our Company and the Stock Exchange at least for the period commencing from the Listing Date and ending on the date that our Company publishes its first full financial year results pursuant to Rule 13.46 of the Listing Rules;

(e) meetings between the Stock Exchange and our Directors could be arranged through the authorized representatives, the alternate authorized representatives or our compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in the authorized representatives, the alternate authorized representatives and our compliance adviser; and

(f) we shall also appoint other professional advisors (including legal advisors) after the Listing to assist our Company in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be an efficient channel of communication with the Stock Exchange.

COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers (i) a member of The Hong Kong Institute of Chartered Secretaries; (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); or (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)) to be acceptable academic or professional qualifications. In assessing an individual's "relevant experience", the Stock Exchange will consider the individual's (i) length of employment with the issuer and other issuers and the roles he played; (ii) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Code on Takeovers and Mergers; (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and (iv) professional qualifications in other jurisdictions.

We have appointed Mr. Zhang Chao (張超), our executive Director and secretary to the Board, as one of our joint company secretaries. Mr. Zhang joined our Company in January 2012 as secretary to the Board. Mr. Zhang has sound understanding of the operations of our Board and our Company. Mr. Zhang, however, does not possess any of the qualifications as stipulated in Rule 3.28 of the Listing Rules and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Ms. Lo Yee Har Susan, who meets the requirements under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to work closely with and to provide assistance to Mr. Zhang for an initial period of three years commencing from the Listing Date so as to enable Mr. Zhang to acquire the relevant experience as required under Rule 3.28 of the Listing Rules to discharge the duties and responsibilities as company secretary.

In addition, Mr. Zhang will endeavor to attend relevant training and familiarize himself with the Listing Rules and duties required for a company secretary of a PRC issuer listed on the Stock Exchange, including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organized by our Company's Hong Kong legal advisers on an invitation basis and/or seminars organized by the Stock Exchange for PRC issuers from time to time.

Ms. Lo, who will familiarize herself with the affairs of our Company, will communicate regularly with Mr. Zhang on matters relating to corporate governance, the Listing Rules as well as other laws and regulations which are relevant to our Company and its other affairs. Ms. Lo will work closely with, and provide assistance to, Mr. Zhang in the discharge of his duties as company secretary. Mr. Zhang will also be advised by the compliance adviser and the Hong Kong legal advisers of our Company, particularly in relation to Hong Kong corporate governance practices and regulatory compliance, on matters concerning our Company's ongoing compliance obligations under the Listing Rules and the applicable laws and regulations as and when required.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years commencing from the Listing Date and will be revoked immediately if Ms. Lo (or her successor candidate who fulfills the requirements under Rules 3.28 and 8.17 of the Listing Rules) ceases to provide assistance to Mr. Zhang as our joint company secretary during the three years after the Listing Date. Upon the expiry of the initial three-year period, the qualifications of Mr. Zhang will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. In the event that Mr. Zhang has obtained relevant experience under Rules 3.28 and 8.17 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive and that there are no other facts the omission of which would make any statement in this prospectus materially misleading.

CSRC APPROVAL

We submitted an application to the CSRC on December 4, 2015 to apply for listing of the H Shares on the Stock Exchange and for the Global Offering and we obtained the letter of acceptance from the CSRC on December 10, 2015.

The CSRC issued an approval letter on January 18, 2016 for the Global Offering and the making of the application to list our H Shares on the Stock Exchange. In granting such approval, the CSRC accepts no responsibility for the financial soundness of us or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing of our H Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between BOCOM International Securities (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Global Offering is managed by the Joint Global Coordinators. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his/her acquisition of Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the Application Forms and the offering and sales of the Offer

Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and in the relevant Applications Forms.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, our H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option.

Save as disclosed herein, no part of the equity or debt securities of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be void if the listing of, and permission to deal in, our H Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our H Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangement that may affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants should consult their professional advisers if they are in any doubt as to the tax implications of subscription for, purchasing, holding, disposing of and dealing in our H Shares. It is emphasized that none of our Group, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for the tax effects or liabilities resulting from your subscription for, purchase, holding, disposal of or dealing in our H Shares.

H SHARE REGISTER AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on the H Share register to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in our H Shares registered on the H Share register will be subject to Hong Kong stamp duty. Please refer to the section headed "Appendix III — Taxation and Foreign Exchange" in this prospectus for further details.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the shareholders listed on the H Share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

STABILIZATION AND OVER-ALLOTMENT

In connection with the Global Offering, Guotai Junan Securities, as Stabilizing Manager, or any person acting for it may over-allot H Shares or effect any other transactions with a view to stabilizing and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the date of Listing. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action.

In connection with the Global Offering, our Company is expected to grant to the International Underwriter the Over-allotment Option, which is exercisable in full or in part by BOCOM International Securities (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to issue at the Offer Price up to an aggregate of 33,669,000 H Shares, representing 15% of the total number of H Shares initially available under the Global Offering, to cover over-allocations in the Global Offering, if any.

Further details with respect to stabilization and the Over-allotment Option are set out in the paragraph headed "Structure of the Global Offering — Stabilization and Over-allotment" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and in the relevant Application Forms.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the acquirer of H Shares:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

- agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each Shareholder to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

- agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and

- authorizes us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Hong Kong dollars have been translated, for the purpose of illustration only, into Renminbi, and vice versa, in this prospectus at the following rate:

HK$1.0000: RMB0.8891

No representation is made that any amounts in Renminbi, Hong Kong dollars or US dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. In this prospectus, if there is any inconsistency between the Chinese name of the entities or enterprises established in China, PRC nationals, PRC government entities or PRC laws, rules and regulations and their English translations, the Chinese names shall prevail. English translations of names of entities or enterprises established in China and PRC laws, rules and regulations are for identification purpose only.

DIRECTORS

Executive Directors

Name	Residential Address	Nationality
Mr. Zhang Haijun (張海軍)	Room 101 No. 19 Yongxing Road Nanshangzhuang Village Lianzhou Town Gaocheng City Hebei Province The PRC	Chinese
Mr. Zhang Ligang (張立剛)	No. 15 Yongxing Road Nanshangzhuang Village Lianzhou Town Gaocheng City Hebei Province The PRC	Chinese
Mr. Wu Jinyu (吳金玉)	Room 202, Unit 4, Tower 1 No. 29 Sitong Lane Siming South Street Gaocheng City Hebei Province The PRC	Chinese
Mr. Zhang Chao (張超)	No. 804, Tower 10 Jianxiong Community Jiuxian Town, Yanqing County Beijing The PRC	Chinese
Mr. Zhang Lihuan (張力歡)	Room 102 No. 19 Yongxing Road Nanshangzhuang Village Lianzhou Town Gaocheng City Hebei Province The PRC	Chinese
Ms. Fan Xiulan (樊秀蘭)	No. 303, Unit 1, Tower 4 No. 40 Pingan South Avenue Qiaodong District Shijiazhuang City Hebei Province The PRC	Chinese

Independent non-executive Directors

Name	Residential Address	Nationality
Mr. Jip Ki Chi (葉奇志)	Flat F, 23/F Block 1, Vianni Cove 33 Tin Kwai Road Tin Shui Wai New Territories Hong Kong	Australian
Mr. Wang Qi (王琦)	Beijing Urban Construction Design Institute No. 5 Fuchengmen North Avenue Xicheng District Beijing The PRC	Chinese
Mr. Zhang Liguo (張立國)	No. 401, Door 3, Tower 14 Bajiaozhong Lane Shijingshan District Beijing The PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Mr. Zhang Xiaosuo (張小鎖)	No. 99 Yongxing Road Nanshangzhuang Village Lianzhou Town Gaocheng City, Hebei Province The PRC	Chinese
Mr. Zhou Encheng (周恩成)	No. 84 Xiaokang West Road Zhijin Village, Xingan Town Gaocheng City Hebei Province The PRC	Chinese
Ms. Liu Jiao (劉姣)	Room 101 No. 19 Yongxing Road Nanshangzhuang Village Lianzhou Town Gaocheng City Hebei Province The PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	BOCOM International (Asia) Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
Joint Global Coordinators	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Joint Bookrunners and Joint Lead Managers	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong China Everbright Securities (HK) Limited 24th Floor, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

Legal advisers to our Company	*as to Hong Kong law:* Chiu & Partners 40th Floor, Jardine House 1 Connaught Place, Central Hong Kong *as to PRC law:* Jingtian & Gongcheng 34/F, Tower 3 China Central Place 77 Jianguo Road Beijing 100025 PRC *as to International Sanctions law:* DLA Piper UK LLP 3 Noble Street London EC2V 7EE United Kingdom
Legal advisers to the Sole Sponsor and the Underwriters	*as to Hong Kong law:* Morrison & Foerster 33/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong *as to PRC law:* Jiayuan Law Offices F408 Ocean Plaza 158 Fuxing Men Nei Avenue Xicheng District Beijing PRC
Reporting accountant and auditor	PricewaterhouseCoopers *Certified Public Accountants* 22/F, Prince's Building Central Hong Kong
Receiving banks	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong

Registered office and headquarters	No. 1 Yichen North Street Gaocheng District Shijiazhuang City Hebei Province PRC
Principal place of business in Hong Kong	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company's website	**www.hbyc.com.cn** ***(information contained in this website does not form part of this prospectus)***
Joint company secretaries	Ms. Lo Yee Har Susan (盧綺霞) *(FCS (PE), FCIS)* Mr. Zhang Chao (張超)
Authorized representatives	Mr. Zhang Haijun Room 101 No. 19 Yongxing Road Nanshangzhuang Village Lianzhou Town Gaocheng City Hebei Province The PRC Ms. Lo Yee Har Susan (盧綺霞) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong *Alternate to the authorized representatives* Ms. Fan Xiulan (樊秀蘭) No. 303, Unit 1, Tower 4 No. 40 Pingan South Avenue Qiaodong District Shijiazhuang City Hebei Province The PRC Mr. Zhou Encheng (周恩成) No. 84 Xiaokang West Road Zhijin Village, Xingan Town Gaocheng City Hebei Province The PRC

Compliance adviser	BOCOM International (Asia) Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
Audit committee	Mr. Jip Ki Chi (葉奇志) *(Chairman)* Mr. Wang Qi (王琦) Mr. Zhang Liguo (張立國)
Remuneration committee	Mr. Zhang Liguo (張立國) *(Chairman)* Mr. Wu Jinyu (吳金玉) Mr. Jip Ki Chi (葉奇志)
Nomination committee	Mr. Wang Qi (王琦) *(Chairman)* Ms. Fan Xiulan (樊秀蘭) Mr. Zhang Liguo (張立國)
Corporate governance committee	Mr. Jip Ki Chi (葉奇志) *(Chairman)* Mr. Wang Qi (王琦) Mr. Zhang Ligang (張立剛)
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	Industrial and Commercial Bank of China Ltd. Gaocheng Sub-branch 2 Shengli East Road Gaocheng District Shijiazhuang Hebei Province PRC
	China Construction Bank Ltd. Gaocheng Sub-branch 27 Lianzhou West Road Gaocheng District Shijiazhuang Hebei Province PRC
	Bank of Hebei Co., Ltd. Gaocheng Sub-branch 79 Siming Street Gaocheng District Shijiazhuang Hebei Province PRC

The information that appears in this Industry Overview section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. Our Directors believe that the sources of information contained in this Industry Overview section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this Industry Overview section has not been independently verified by the Group, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective affiliates or advisors, or any other party involved in the Global Offering. No representation is given as to the accuracy or completeness of such information and the information should not be relied upon in making, or refraining from making, any investment decision.

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of PRC. Our Directors confirm that, after taking reasonable due diligence, there is no material adverse change in the market information disclosed in this section since the date of the Frost & Sullivan Report.

REPORT COMMISSIONED BY FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to report on, the railway construction market, the rail fastening system industry and the welding material industry in the PRC for the period from 2010 to 2020. The report we commissioned (the "**Frost & Sullivan Report**"), has been prepared by Frost & Sullivan independently. We paid Frost & Sullivan a fee of RMB1.1 million. Founded in 1961, Frost & Sullivan has 40 global offices with more than 1,700 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Frost & Sullivan has been covering the Chinese market from its offices in the PRC since the 1990s.

The Frost & Sullivan Report includes information on the PRC's rail fastening system industry and the welding material industry and its sub-segments and other market and economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the railway construction market, the rail fastening system industry and the welding material industry. Primary research involved interviewing industry participants and third-party industry associations. Secondary research involved review of company annual reports, official bureaus' databases, independent research reports or journals and Frost & Sullivan proprietary database built up over the past decades. Historical data for market size and competition analysis was obtained both from primary research including top-down interviews with industry participants and from a variety of secondary research. The Frost & Sullivan Report is based on the following basis and assumptions:

- China's economy is expected to maintain a steady growth during the forecast period;
- China's social, economic, and political environment is expected to remain stable during the forecast period;
- China's railway fixed asset investment is expected to maintain a steady growth rate; and
- Key market drivers such as China's national railway network improvement, acceleration of domestic urban rail transit construction, demand of intercity high speed railway constructions, development of heavy haul railway construction as well as maintenance and replacement demand of rail fastening system are likely to drive the market demand of the rail fastening system market.

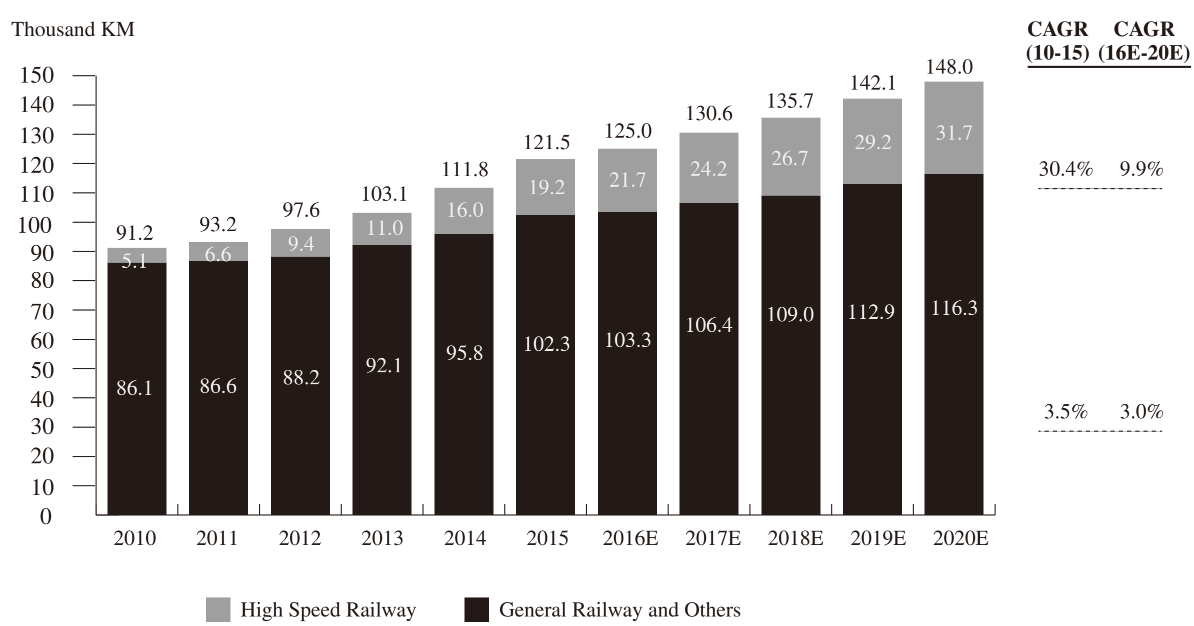
RAILWAY CONSTRUCTION INDUSTRY IN CHINA

The growth of the PRC's railway construction industry has been correlated with the PRC's (i) investments in fixed assets, in particular investment in railway fixed assets, and (ii) total operating mileage of railway and high speed railway in the PRC. The PRC's investment in railway fixed assets has been on an uneven path over the last few years. According to the National Bureau of Statistics of China, investments in railway fixed assets was at RMB842.7 billion in 2010 and was reduced to a low of RMB590.6 billion in 2011, and increased to RMB823.8 billion in 2015. According to the Frost & Sullivan Report, the increase of passenger traffic demands has put substantial amount of pressure on the railway industry to construct new railway networks in China and refine the existing ones. It is expected that the PRC government will make another RMB3,800 billion investments on railway fixed assets before 2020.

According to the Frost & Sullivan Report, the total operating mileage of railway in the PRC is expected to grow at a CAGR of 4.3% between 2016 and 2020, while the total operating mileage of high speed railway is expected to expand at a CAGR of 9.9% for the same period. As the total operating mileage of railway and high speed railway increases, the demand for railway maintenance services is also expected to increase.

Further, according to the PRC government's "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》) set out in 2016, the current Four Vertical and Four Horizontal High Speed Railway Corridors will be expanded to eight vertical and eight horizontal high speed railway corridors. Based on this plan, China's total operating mileage is expected to reach 200,000 km, including 45,000 km in high speed railway, by 2030.

Total Operating Mileage of Railway and High Speed Railway, China, 2010-2020E



Note: Others include heavy haul railway and special railway like forestry railway
Source: National Bureau of Statistics, Frost & Sullivan

Railway Construction Market Growth Drivers

The growth in railway fixed asset investment is expected to be primarily driven by (i) the mid-west development, whereby according to the regional railway plan, the mid-western will be the new focus of railway construction in the future; (ii) further development of urban traffic networks, through which first tier cities are expected to continue to expand their metro systems, while construction of metro systems in second and third tier cities is expected to commence in the next few years and to complete within the next 10 years; (iii) upgrades of existing railway lines, with the focus on upgrades of high speed railways and heavy haul railways; and (iv) overseas opportunities, as China engages in more overseas railway constructions especially high speed railway construction in line with the "one belt one road" and "high speed railway diplomacy" policies.

As of December 31, 2015, China has the second longest railway mileage in the world and the longest high speed railway mileage. According to the Frost & Sullivan Report, it is expected that building on the driving factors aforementioned, the total mileage of high speed railway in the PRC will increase at a CAGR of 9.9% and general railway and others will increase at a CAGR of 3.0% between 2016 and 2020.

RAIL FASTENING SYSTEM MARKET IN CHINA

Rail fastening systems are essential to the fixing of the rails to railroad sleepers. It is a pillar to the safe and efficient operation of each railway track. With train traveling at rapidly growing speeds, rail fastening systems are expected to better counter the pressures on the tracks brought by trains traveling at high speeds. Furthermore, rail fastening systems play a critical role in ensuring the smooth operation of high speed rail tracks. High speed rail tracks generally rely on the rail fastening systems to adjust the precisions of the ballastless tracks, and with China's rapid growth in high speed rail the importance of rail fastening systems has been enhanced correspondingly.

Rail Fastening System and Parts Market

The rail fastening system market can generally be divided into four sectors, namely the high speed railway, metro series, general railway and heavy haul railways. The projected growth for the PRC rail fastening system and parts market is expected to be driven by the increase in demand for high speed rail, the metro series and the heavy haul railway. The market size of rail fastening system had increased from 2010 to 2012 but fluctuated from 2012 to 2015. From 2010 to 2015, overall market size of rail fastening system and parts in the PRC increased at a CAGR of 5.3%, and is expected to grow at a CAGR of 10.8% from 2016 to 2020 according to Frost & Sullivan. The high speed rail fastening system, which currently constitutes over 50% of the PRC rail fastening system and parts market is expected to grow at a CAGR of 15.3% between 2016 and 2020 and continue to dominate this market. At the same time, the metro series fastening system market and the heavy haul fastening system markets are both expected to grow at a CAGR of 2.5% and 3.6%, respectively, while the general rail fastening system is expected to grow at rate of 0.3% for the same period. According to Frost & Sullivan, the projected growth in the market size of China's rail fastening systems, especially the high speed rail fastening systems, is estimated on the bases and assumptions that there will be (i) stable growth of macro economy at least 6.5% during the 13th Five Year Plan period; (ii) more fixed asset investment in railway as the total fixed asset investment in railway during the 13th Five Year Plan period is 15% higher than that of 12th Five Year Plan period with at least 70% of the fixed asset investment in railway projects during the 13th Five Year Plan period contributed by high speed railway projects; (iii) considerable incremental mileage of high speed railway in 13th Five Year Plan period; (iv) high replacement demand of high speed rail fastening system as the replacement period of high speed rail fastening system is eight to ten years and the first high speed railway operated in 2008 which should generate the replacement demand from 2016 and (v) increasing demand projects under "one belt one road" with railway construction being the key investment. By the end of 2015, China has successively cooperated with Hungary, Russia, and Indonesia on high speed railway construction projects with a total mileage of 1,080 km and investment value of USD25.7 billion.

According to Frost & Sullivan, with regard to the main drivers behind the growth of the high speed rail fastening system market in the PRC for the next five years, it is expected that at least 70% of the growth is to come from (i) fixed asset investment in railway in the PRC under the 13th Five Year Plan and (ii) replacement demand in the PRC. At least 70% of the fixed asset investment in railway projects in the PRC will be contributed by high speed rail railway projects, whereby the accumulated fixed asset investment in railway under the 13th Five Year Plan period is estimated to reach RMB3.8 trillion. At the same time, it is projected that there will be substantial growth created by the replacement demand coming from the high speed rail segment in the PRC for the next five years (which is estimated to be approximately 7.0 thousand km). Overseas demand as a result of the "one belt one road" policy is also expected to contribute to some of the growth. The table below sets forth the replacement demand of rail fastening system from historical mileage of high speed railway:

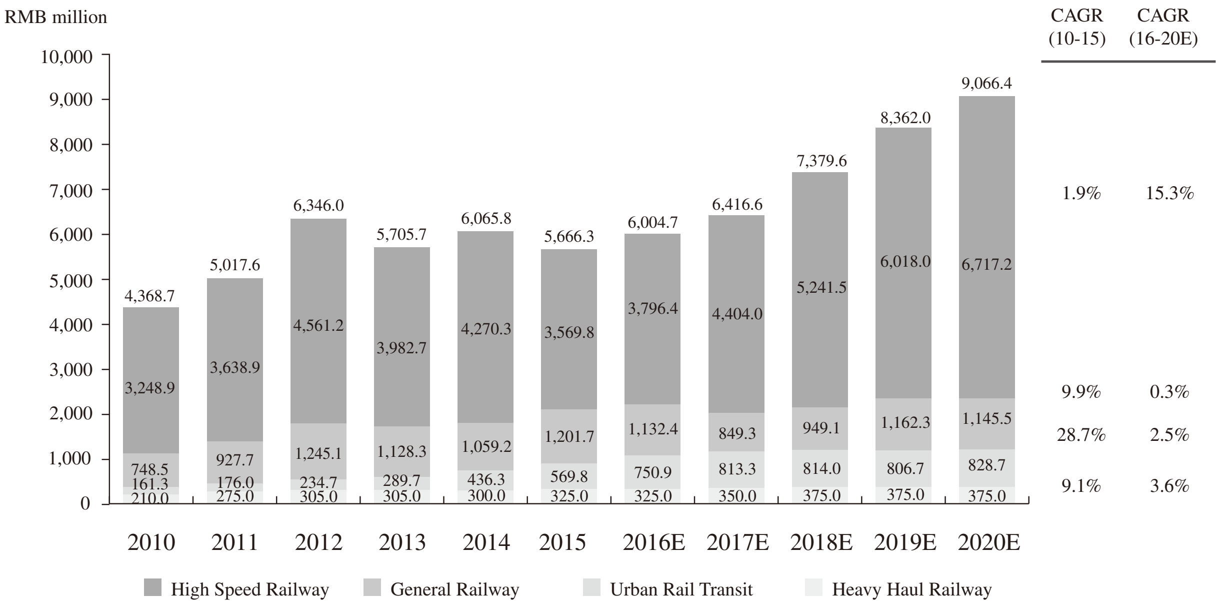
Replacement Demand of Rail Fastening System from Historical Mileage of High Speed Railway, China, 2008-2015

Year	2008	2009	2010	2011	2012	2013	2014	2015
New mileage of high speed railway (thousand KM)	0.5	2.03	2.43	1.47	2.76	1.67	4.97	3.20
Years generate replacement demand	2016-2018	2017-2019	2018-2020	2019-2021	2020-2022	2021-2023	2022-2024	2023-2025

Source: Frost & Sullivan

During the forecast period, the replacement demand is expected to contribute to the market size of rail fastening system. With an eight to ten years replacement period, the new mileage of high speed railway will generate replacement demand for rail fastening system from 2016 to 2020.

Market Size of Rail Fastening System and Parts in the PRC
Breakdown by Railway Type, 2010–2020E



Source: Frost & Sullivan

Rail Fastening System Industry Growth Drivers

The growth of the PRC rail fastening system industry has and is expected to continue to correlate with the PRC railway construction industry. In particular, according to the Frost & Sullivan Report, the key growth drivers for the PRC rail fastening system industry include the following:

Export of Chinese High Speed Railway Technology and Products. High speed railway construction has become one of the most important investment projects under the "one belt one road" initiative of China. According to Frost & Sullivan, in the first half of 2015, China has met and discussed with 28 countries regarding the introduction of China high speed railway construction technique or cooperative development of high speed railway. By the end of 2015, China has successfully cooperated with Hungary, Russia, and Indonesia on high speed railway projects with total mileage of 1,080 km and investment value of USD25.7 billion. As of current, under the influence of China's "high speed railway diplomacy", China is expected to participate in approximately one-third of anticipated global high speed railway construction when measured by mileage, whereby the Southeast, South and Central Asia area are the emphasis of the first phase of the policy, and other countries in Asia, Eurasia and Pacific area are considered as the focus of the second phase. It is expected that Chinese standard railway, including rail fastening system, will be used in these projects.

Promotion of Heavy Haul Railway Construction. It is expected that China may accelerate the promotion of heavy haul railway construction, which is comprised of (i) transformation and construction of freight heavy haul railway and (ii) separation of passenger and freight railways by transforming mixed railway into heavy haul railway for freight only. Such heavy haul railways are expected to be used to transport commodities efficiently and at low cost from one region to another, as certain commodities are generally only available in particular regions.

Acceleration of Urban Rail Transit Construction. Due to the rapid urbanization and fast population growth in selected cities, demand for urban rail transit systems has increased. China is entering into a period of high growth in urban rail traffic construction. According to National Development and Reform Commission, as of the end of 2015, 25 cities in the PRC have metro in operation, over 30 cities in the PRC have received approval from the national government on their latest construction plans and around 40 cities have completed or drafted their respective urban rail transit plans, ranging from metro routes expansion in Beijing, Shanghai, Guangzhou, Shenzhen and other provincial capitals as well as first time construction in smaller cities. Such development is likely to drive the growth of city metro construction. In addition, the PRC government has simplified the approval procedure of construction projects, which in turn, has helped promote the construction of urban rail transit in certain third tier cities.

Construction of Intercity High Speed Railway. China commenced construction of intercity high speed railways in 2008. Intercity high speed railway network is viewed as an efficient approach to achieve coordinated development of regional economy. Intercity high speed railway construction is regarded as a crucial part of the 13th Five Year Plan. Construction of intercity railway network between the 11 economic regions is expected to continue to grow in the following years to come with 19,600 km of intercity high speed railway expected to be constructed by 2030.

Maintenance and Replacement of Rail Fastening Systems. Rail fastening systems generally need to be replaced every eight to 10 years to ensure the safety and efficiency of such systems. Hence, it is expected that there will be an increase in demand for rail fastening system industry in the PRC from 2016 to 2018 led by the needs created by replacement. In addition, as the total mileage of general railway in the PRC increases, the demand for maintenance of rail fastening systems should grow correspondingly.

Please see the table below for the level of influence of the drivers aforementioned:

Main drivers	**Influence (1-2 years)**	**Influence (3-5 years)**
Export of Chinese High Speed Railway Technology and Products	Medium	High
Promotion of Heavy Haul Railway Construction	Medium	High
Acceleration of Urban Rail Transit Construction	High	High
Construction of Intercity High Speed Railway	High	High
Maintenance and Replacement of Rail Fastening Systems	Medium	High

Entry Barriers

The entry barriers in rail fastening system industry are relatively high, and they include the following:

Certification and Technology: China's rail fastening system manufacturing industry is under intensive supervision. Receipt of relevant certificates from China Railway Test & Certification Center is a primary threshold in joining this market. Only companies that have obtained CRCC certificate are qualified to produce rail fastening system or its components. For technical and historical reasons, CRCC imposed strict procedures on the qualifications of rail fastening system providers, such process include the need to complete expert assessment and inspection record investigation. Only six domestic enterprises (which includes us), and one foreign enterprise are certified providers of high speed rail fastening system. Moreover, the six CRCC certified domestic enterprises were engaged in the formulation of the PRC high speed rail fastening system industry standard. Such roles give the six enterprises an advantage over other market participants, and thus making it very difficult for other companies to receive the same certification.

In addition, CRCC certified rail fastening system providers are required to possess the ability to produce spring bars. This is another technical barrier as the production of spring bars poses a technically demanding process and not all providers of rail fastening system in the PRC have the ability to produce spring bars.

Experience and Reputation: China's rail fastening system manufacturing industry is under intensive supervision. Companies with long-term experience in providing high quality and safe products, and have collaborated with relevant authorities are more likely to be awarded CRCC certificate. Moreover, the relevant construction departments typically purchase rail fastening systems through bidding held by authorities. Although all CRCC certified market participants are qualified to participate in the bidding process, generally those who have collaborated with relevant authorities and have a track record of supplying quality products of strong safety track record are more likely to win the bid. New entrants generally do not have the necessary experience required to join the bids for rail fastening system supply projects nor have the established relationship with authorities.

Capital Requirement: Rail fastening system manufacturing is a capital intensive industry. Market participants must deploy a substantial amount of initial capital to construct a plant, hire employees and purchase production facilities and other necessary equipment. In addition, railway engineering projects typically take several years, resulting in long supply cycle of rail fastening system products. Meanwhile, there are market risks such as fluctuation of raw material prices and increase in energy prices. Hence, a significant capital reserve to meet the various changes in the market condition during a railway engineering project is required.

Research and Development Capacity: As the rail fastening system is crucial to the safety of rail transportation and the market requirements for the technology advancement, safety and reliability of rail fastening systems are stringent, especially for high speed rail fastening systems. Entrants to market must possess certain research and development capacity to fulfill such requirements.

Industry Concentration, Competitive Landscape and Market Share

According to the Frost & Sullivan Report, the rail fastening systems market is relatively concentrated with the revenue of the top 10 rail fastening systems providers accounting for approximately 81.2% of the total market in 2015. In terms of revenue, the top seven high speed rail fastening system providers constitute approximately 94.4% of the total market in 2015, the top five metro series fastening systems providers constitute approximately 79.8% of the total market in 2015, the top five traditional rail fastening systems providers constitute approximately 39.1% of the total market in 2015 and the top five heavy haul rail fastening systems providers constitute approximately 65.1% of the total market. The following tables illustrate the market share of the main rail fastening system providers in the rail fastening system and parts market, the high speed rail fastening systems and parts market, the top metro series fastening system and parts market, the traditional rail fastening system and parts market and the heavy haul rail fastening system and parts market for 2015 measured by revenue:

Competitive Landscape of Rail Fastening System and Parts Market (Revenue), China, 2015

Rank	Company	Sales Revenue (RMB Million)	Market Share
1	Yichen Group	969.2	17.1%
2	Company A	581.6	10.3%
3	Company B	544.7	9.6%
4	Company C	528.8	9.3%
5	Company D	493.7	8.7%
6	Company E	477.7	8.4%
7	Company F	466.2	8.2%
8	Company G	324.8	5.7%
9	Company H	150.0	2.6%
10	Company I	75.0	1.3%
	Others	1,054.5	18.8%
	Total	**5,666.2**	**100%**

Source: Frost & Sullivan

Competitive Landscape of High Speed Rail Fastening System and Parts Market (Revenue), China, 2015

Rank	Company	Sales Revenue (RMB Million)	Market Share
1	Yichen Group	558.9	15.7%
2	Company C	520.9	14.6%
3	Company D	469.0	13.1%
4	Company A	465.3	13.0%
5	Company B	463.0	12.9%
6	Company E	458.0	12.8%
7	Company F	438.2	12.3%
	Others	196.5	5.6%
	Total	**3,569.8**	**100%**

Source: Frost & Sullivan

Competitive Landscape of Metro Series Fastening System and Parts Market (Revenue), China, 2015

Rank	Company	Sales Revenue (RMB Million)	Market Share
1	Yichen Group	205.1	36.0%
2	Company G	129.9	22.8%
3	Company H	52.5	9.2%
4	Company I	37.5	6.6%
5	Company B	29.6	5.2%
	Others	115.2	20.2%
	Total	**569.8**	**100%**

Source: Frost & Sullivan

Competitive Landscape of Traditional Rail Fastening System and Parts Market (Revenue), China, 2015

Rank	Company	Sales Revenue (RMB Million)	Market Share
1	Yichen Group	134.5	11.2%
2	Company G	131.6	10.9%
3	Company H	97.5	8.1%
4	Company A	69.8	5.8%
5	Company I	37.5	3.1%
	Others	730.9	60.9%
	Total	**1,201.8**	**100%**

Source: Frost & Sullivan

Competitive Landscape of Heavy Haul Rail Fastening System and Parts Market (Revenue), China, 2015

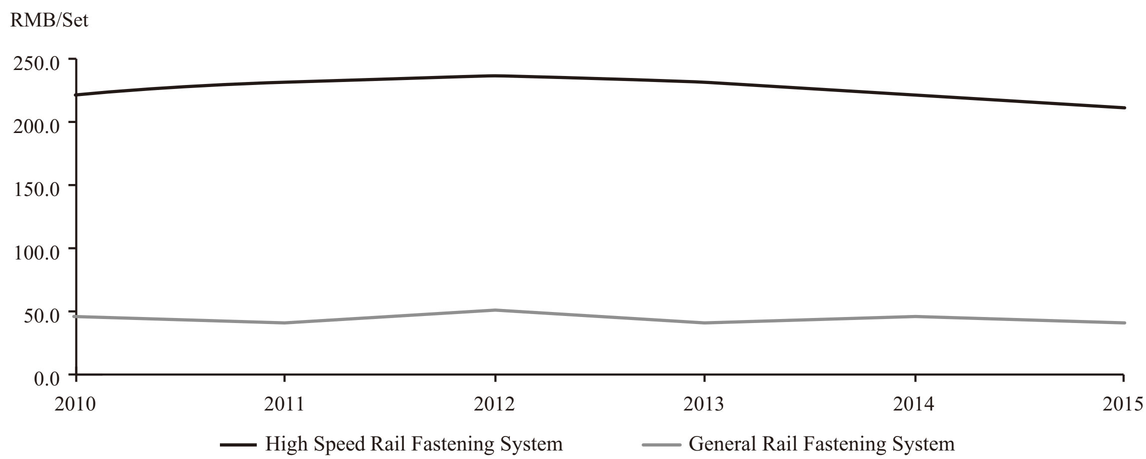
Rank	Company	Sales Revenue (RMB Million)	Market Share
1	Yichen Group	70.8	21.8%
2	Company G	63.3	19.5%
3	Company A	46.5	14.3%
4	Company B	22.0	6.8%
5	Company J	8.8	2.7%
	Others	113.6	34.9%
	Total	**325.0**	**100%**

Source: Frost & Sullivan

Rail Fastening System Prices

The price of rail fastening systems for the high speed railways is generally much higher than the prices of the systems for other types of railways. The price difference is mainly attributable to the differences in raw materials applied and the technologies involved. Over the last few years, the price of high speed rail fastening systems and the fastening systems for general railways have been relatively stable, with the price of high speed rail fastening systems fluctuating between RMB220 per set and RMB240 per set and the price of general rail fastening systems has generally been no larger than RMB50 per set. The following diagram illustrates the pricing trend of high speed and general rail fastening systems between 2010 and 2015:

Price Trend of High Speed and General Rail Fastening System, 2010-2015



Source: Frost & Sullivan

PRC Rail Fastening System Development Trends

Continuous Improvement of Product Quality. Product safety has been and will continue to be of utmost essence for rail fastening systems. From February 2016, 18 new standards have been implemented to further ensure the quality of railway construction and the safety of railway operation. It is expected that the new standards will elevate the quality of China's rail fastening system.

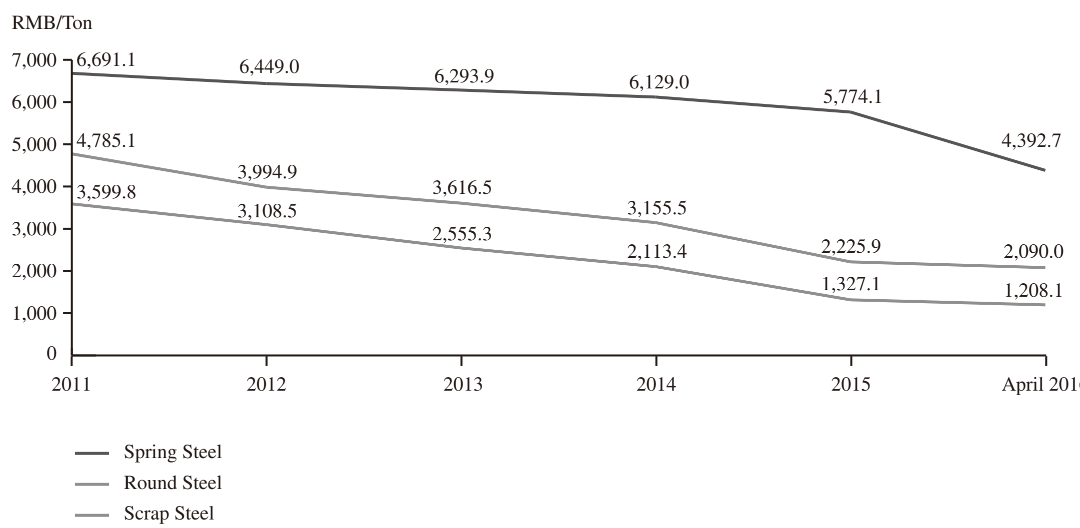
Rising Demand of Heavy Haul Railway. The heavy haul railway is considered a priority in the railway development in the PRC. The construction of heavy haul railway is considered a priority because of the increase in volume of heavy haul freight and demand for transportation at competitive cost. In addition, the technological breakthrough for heavy haul railways in early 2015 is also likely to contribute to the further development of heavy haul railway.

Moderate Market Competition. The strict certification and qualification requirements for rail fastening system participants is expected to continue to be one of the key entry barriers to the market and is expected to keep the market competition at moderate level. In addition, it is projected that the PRC government will continue to monitor the number of market participants in the rail fastening system market to better regulate quality of rail fastening systems and avoid excessive price competition amongst market participants.

Raw Materials Trends

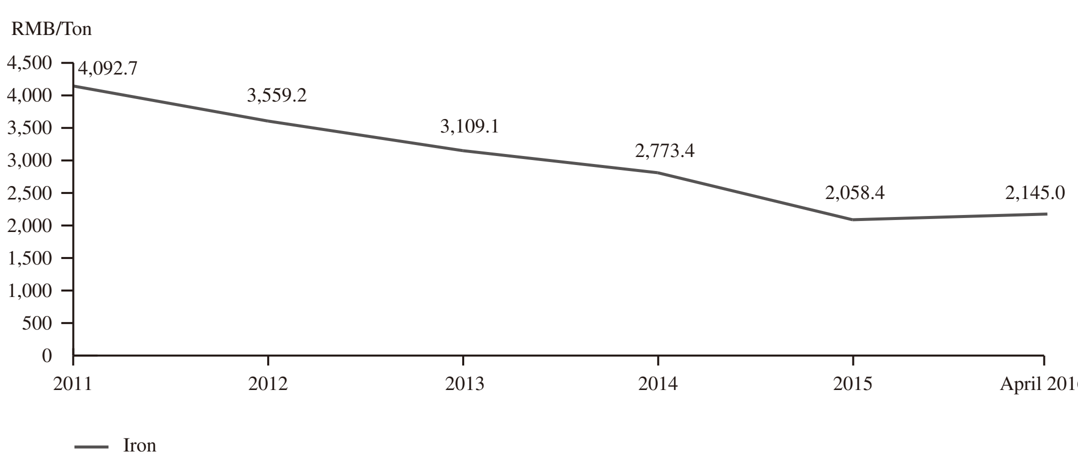
The major raw material used in the rail fastening system market is the spring steel. Spring steel is made of special type of steel that is harder to process and is stronger than average steel. As a result, the price is higher than that of other general plates such as round steel and scrap steel. Since 2011, the price of spring steels is generally between RMB4,393 to RMB6,691 per ton, while the market prices of round steel and scrap steel are generally between RMB2,090 to RMB4,785 per ton and RMB1,208 to RMB3,560 per ton, respectively. While during the same period, price of iron is generally between RMB2,058 per ton and RMB4,093 per ton. Steel prices in the PRC have been on a general decline since 2011, with the price decrease in round steel and scrap steel more evident than the reduction in price for spring steel. Iron price in the PRC has generally decreased since 2011.

Steel Price Trend by Various Steel Type, China, 2011-April 2016



Source: *Frost & Sullivan and China Iron and Steel Industry Association*

Iron Price Trend, China, 2011-April 2016



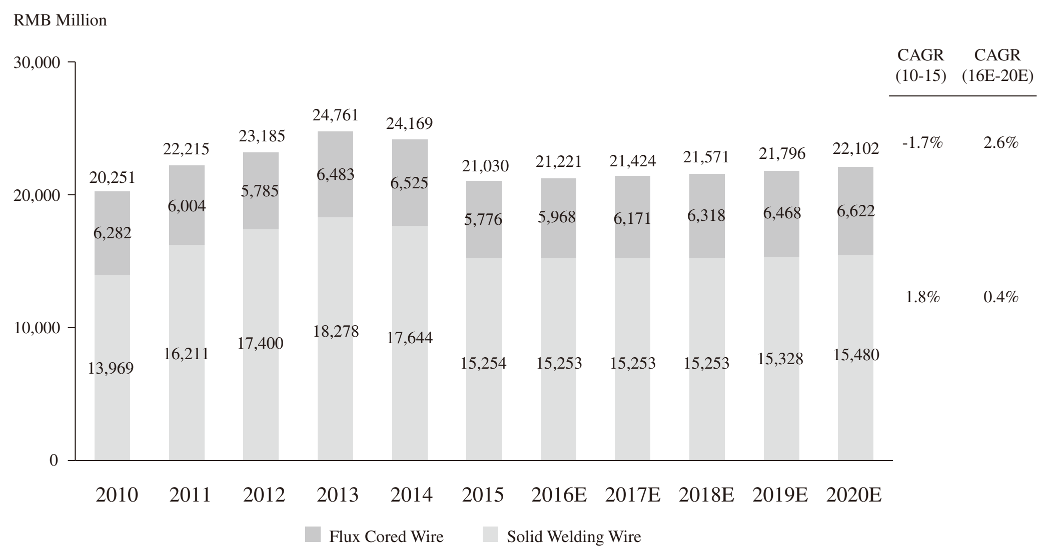
Source: *Frost & Sullivan*

FLUX CORED WIRE MARKET IN CHINA

Market Size of China's Welding Wire Industry

China's welding wire industry is generally classified into two different sectors: (i) flux cored wire and (ii) solid welding wire. From 2010 to 2015, overall market size of welding wire industry in China increased at CAGR of 0.8%, and is expected to grow at CAGR of 1.0% from 2016 to 2020. The flux cored wire sector is expected to grow at a faster CAGR of 2.6% in the following five years than the solid welding wire sector.

Market Size of Welding Wire Breakdown by Material Types, China, 2010-2020E



Source: Frost & Sullivan

Drivers of China's Flux Cored Wire Market

The key growth drivers for Flux Cored Wire Market include:

Favorable governmental policies. The flux cored wire industry is heavily influenced by Chinese government policy. The Chinese government's encouragement of automatic manufacturing and welding has contributed to the development of welding wire since 2011.

Industrial automation. Industrial automation is expected to drive the demand for welding materials, as the PRC slowly adopts industrial robots to conduct welding, welding activities are expected to increase. In particular, materials such as flux cored wire, solid welding wire and submerged arc welding materials are used for semi or full automation welding and it is expected that there will be a significant growth in demand for flux cored wire market in China.

The shipbuilding industry is the main market for flux cored wires. The shipbuilding industry has shrunk over the past few years. However, the government will implement financial policies to help adjust industry structure that will eliminate the overcapacity and outdated technologies and enhance innovation in the industry. Hence it is expected that the export volume and demand would gradually increase in the next 5 years.

Energy construction is another vital application of flux cored wire. It has been reported in the One Belt and One Road Initiative as one of the six key aspects of the economic constructions. It includes the construction of gas transportation, cross-border transportation of electricity, regional power grid and other related infrastructures. The demand of flux cored wire with high quality and technology is expected to increase, especially the self-shielded and stainless flux cored wires, as the energy construction flourishes.

Raw Material

The major raw material for flux cored wire is wire steel. The price of wire steel decreased by approximately 55.7% between 2010 and 2015, from about RMB4,400 per ton in 2010 to RMB1,950 per ton in 2015. The decline in price is mainly attributable to the over capacity of the steel industry, the decline of the market of the downstream business and the decrease in demand from the infrastructural projects, manufacture business and real estate sectors.

The Price of Wire Steel, 2010-2015

Source: Frost & Sullivan

Entry Barriers

The primary entry barriers to the flux cored wire market industry include the following:

Competitive environment. Currently, there is an excess in production capacity in the flux cored wire market in the PRC. There has been fierce competition amongst the flux cored wire providers, whereby the number of such suppliers has been reduced from 800 in 2010 to 700 in 2015. It is expected that the excess production capacity would deter new entrants from entering into the market.

Flux cored wire specific technical requirements. Due to the fierce competition of flux cored wire in the shipbuilding industry, the flux cored wire industry moved onto the energy construction industry. The energy construction industry requires the products with higher quality and performance, in particular, self-shielded and stainless wires. Such products are often manufactured by the enterprises with a longer track record and better production capacity. Overall, only experienced enterprises with a good track record in the flux cored wire can produce the leading product in the market.

Capital intensive. Flux cored wire industry is capital intensive. Market participants must deploy a substantial amount of initial capital to construct a plant, hire employees and purchase production facilities and other necessary equipment. Also the day-to-day operation of flux cored wire companies requires a substantial amount of capital.

Certifications. The China Classification Society issues certifications to the qualified flux cored wire manufacturers. In addition to the necessary certification from China Classification Society, companies looking to export their products are also required to receive the necessary approvals from local classification society or other organizations before engaging in such sales.

Competitive Landscape and Market Share

According to the Frost & Sullivan Report, the flux cored wire market is relatively fragmented with over 700 players. In terms of revenue, the top five players constitute approximately 29.2% of the total market in 2015 and the top 10 players constitute approximately 37.8% of the total market in 2015. The following table illustrates the market share of the main players in the flux cored wire market for 2015 measured by revenue:

Rank	**Company**	**Revenue**	**Market Share**
		(RMB Million)	
1	Company a	459.23	8.0%
2	Company b	412.50	7.1%
3	Company c	393.34	6.8%
4	Company d	255.48	4.4%
5	Company e	165.00	2.9%
6	Company f	160.28	2.8%
7	Company g	135.59	2.3%
8	Company h	78.79	1.4%
9	Yichen Group	71.86	1.2%
10	Company i	54.12	0.9%
	Others	3,589.88	62.2%
	Total	**5,776.1**	**100%**

Note: The rank is measured by flux cored wire domestic income of each player.

Source: Frost & Sullivan

A summary of the main PRC laws, rules and regulations applicable to our current business and operations is set out below.

Preferential Tax Policies for High-tech Enterprises

According to Circular of the Ministry of Science and Technology, the Ministry of Finance ("**MOF**") and the State Administration of Taxation ("**SAT**") on Revising and Issuing the Administrative Measures for the Accreditation of High-tech Enterprises (科技部、財政部、國家稅務總局關於修訂印發《高新技術企業認定管理辦法》的通知), which was promulgated on January 29, 2016 and became effective on January 1, 2016, high-tech enterprises refer to resident enterprises registered within China (excluding Hong Kong, Macao and Taiwan regions) that are engaged in continuous research and development as well as commercialization of their technological achievements in the fields as prescribed in the Hi-tech Fields with Key State Support (《國家重點支持的高新技術領域》), have developed their core independent intellectual property rights and have conducting operations based on the said intellectual property rights. High-tech enterprises accredited in accordance with these Measures, may apply for preferential tax policies in accordance with Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) , Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) and Rules for the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法實施細則》) and other relevant provisions. After an enterprise obtains the qualification as a high-tech enterprise, it will be granted with the tax incentives as of the year in which the certificate of high-tech enterprise was issued and may complete the formalities for tax incentives with the competent tax authority. The period of validity for the qualification of accredited high-tech enterprises shall be three years as of the issuance of the relevant certificates.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Pursuant to Regulation on the Administration of Railway Safety (《鐵路安全管理條例》), which was promulgated by the State Council on August 17, 2013 and became effective on January 1, 2014, special-purpose railway equipment, other than locomotives, which has a direct impact on railway transport safety, may not leave the factory or be sold, imported or used until it has passed the certification required by law. If there is any defect in locomotives or any other special-purpose railway equipment, namely, a non-compliance with the national standards or professional standards for the protection of personal or property safety or any other unreasonable danger to personal or property safety generally exists in a same batch, model or type of special-purpose railway equipment due to design, manufacturing, labeling or other reasons, the production, sale, import and use of such equipment shall be immediately stopped. The locomotive or equipment manufacturer shall recall the defected products and take steps to eliminate the defect. The specific measures shall be made by the Railway Administrative Department of the State Council.

Pursuant to Regulations of the PRC on Certification and Accreditation (《中華人民共和國認證認可條例》), which was promulgated by the State Council on September 3, 2003 and became effective on November 1, 2003 and amended on February 6, 2016, the State implemented a uniform certification and accreditation supervision system. For those products that must be certified, the State unified the catalogs of products, the compulsive requirements, the standards and conformity assessment procedures of the technical norms, the marks, and the charging rates. The products listed in the catalogs must be certified by the certification bodies as designated by the certification and accreditation administration department of the State Council. Where any of the uncertified products listed in the catalogs is moved out from the factory, sold, imported or used in other business activities without approval, the concerned certification authority shall be ordered to make corrections and be imposed upon a fine of over RMB50,000 and below RMB200,000 and the illegal gains if any shall be confiscated.

Pursuant to Circular of issuing Measures for Administration of Railway Product Certification (《關於印發〈鐵路產品認證管理辦法〉的通知》), which was promulgated by the Ministry of Railways and the State Committee of Certification and Accreditation Supervision and Management on May 11, 2012 and became effective on July 1, 2012, products in relation to railway, for which administrative licensing is not needed, shall be subject to the State's product certification management. Such products shall be evaluated by qualified certification bodies in order to determine whether they conform to relevant standards and technical specifications. With respect to the certification of railway products, both compulsory certification and voluntary certification are adopted. Where the compulsory certification is adopted, laws and regulations in relation to the compulsory certification shall be complied with. Where the voluntary certification is adopted, stipulations set forth in Measures for Administration of Railway Product Certification shall be complied with. The Admissibility Catalog for Railway Product Certification (《鐵路產品認證採信目錄》) which is subject to voluntary certification shall be formulated, modified and promulgated by the Ministry of Railways. Railway products which are subject to compulsory certification and falls into the categories set forth in the Admissibility Catalog cannot be used in the field of railway until the obtaining of legitimate certification.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**"), which was amended by the Standing Committee of the National People's Congress (the "**NPC**") on April 24, 2014 and became effective on January 1, 2015, establishes the legal framework of environmental protection in the PRC. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and for pollutants discharge. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

Prevention and Control of Pollutions

The Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was amended by the Standing Committee of the NPC on February 28, 2008, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was amended by the Standing Committee of the NPC on April 29, 2000 and became effective on September 1, 2000, and whose amendments made on August 29, 2015 will take effect on January 1, 2016, the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the Standing Committee of the NPC on October 29, 1996 and became effective on March 1, 1997, and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was amended by the Standing Committee of the NPC on November 7, 2016, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

Construction Project Environmental Protection

The Law of the PRC on Environmental Impact Appraisal (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC on October 28, 2002 and amended on July 2, 2016 and became effective on September 1, 2016, the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council and became effective on November 29, 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局) on December 27, 2001 and became effective on February 1, 2002 and amended on December 22, 2010, require enterprises planning construction projects to engage qualified professional institution to provide assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises shall file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or into use only if the corresponding environmental protection facilities have passed the acceptance examination.

LAWS AND REGULATIONS RELATING TO LABOR

Employment Contracts

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the "**Labor Contract Law**"), which was amended by the Standing Committee of the NPC on December 28, 2012 and became effective on July 1, 2013, governs the relationship between employers and employees and provides special provisions concerning the terms and conditions of employment contract. The Labor Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers upon entering into fixed-term employment contracts, hiring temporary employees and dismissing employees.

Social Insurance and Housing Provident Fund

Under applicable PRC laws and regulations, including the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee of the NPC on October 28, 2010 and became effective on July 1, 2011, and the Regulations on the Administration of Housing Accumulation Fund (《住房公積金管理條例》), which was amended by the State Council on March 24, 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity leave insurance. Employers and/or employees (as the case may be) are required to contribute to housing provident funds as well. These payments are made to local administrative authorities. Employers who fail to contribute may be fined and ordered to rectify within a stipulated time.

If an employer fails to make social insurance contributions in full and on time, the social insurance contribution collection agency shall order it to make all outstanding contributions within a specified period and charge a late payment fee at the rate of 0.05% per day from the due date of the contribution. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to one to three times of the overdue amount.

If an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the payment and deposit within a prescribed time limit. If the payment and deposit has not been made after the expiration of the time limit, an application shall be made to the people's court for compulsory enforcement.

LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY AND CONSUMER PROTECTION

Product Quality

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "**Product Quality Law**"), which was promulgated by the Standing Committee of the NPC on February 22, 1993 and became effective on September 1, 1993 and was amended on July 8, 2000 and August 27, 2009, separately The Product Quality Law applies to all activities of production and of sale of any product within the PRC. The manufacturers and sellers shall be liable for product quality in accordance with the Product Quality Law.

According to the Product Quality Law, consumers or other victims who suffer personal injury or property losses due to defective products may demand compensation from the manufacturers as well as from the seller. If the responsibility for product defects lies with the manufacturers, the seller, after settling compensation, has the right to recover such compensation from the manufacturers, *vice versa*. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or manufacturer may be ordered to suspend operation, and its business license may be revoked. Criminal liability may be incurred under severe circumstance.

Consumer Protection

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) (the "**Consumer Protection Law**"), which was promulgated by the Standing Committee of the NPC on October 25, 2013 and became effective on March 15, 2014.

According to the Consumer Protection Law, the rights and interests of the consumers, who buy or use commodities for the purposes of daily consumption, or of those who receive services are protected. All manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties. Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the operator will be ordered to suspend operations, and its business license will be revoked. Criminal liability may be incurred under severe circumstance.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

China has adopted legislations related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory party to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on the International Registration of Marks and Madrid Protocol, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights ("**TRIPs**").

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the "**Trademark Law**"), which was amended by the Standing Committee of the NPC on August 30, 2013 and became effective on May 1, 2014, and Implementation Regulations on the Trademark Law of the PRC (《中華人民共和國商標法實施條例》), which was amended by the State Council on April 29, 2014 and became effective May 1, 2014, the right to exclusive use shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years from the day the registration is approved. According to the Trademark Law, using a trademark, which is identical with or similar to a registered trademark, on the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right. The infringer shall, in accordance with the regulations, cease the infringement, take remedial action, and pay damages, etc.

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the "**Patent Law**"), which was amended by the Standing Committee of the NPC on December 27, 2008 and became effective on October 1, 2009, after granting the patent right for an invention or utility model, except provided otherwise in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent. In other words, no entity or individual may make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process for production or business purposes, without authorization. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Once the infringement of patent is decided, the infringer shall, in accordance with the regulations, cease the infringement, take remedial action, and pay damages, etc.

DESCRIPTIONS OF SANCTIONS LAWS

United States

The United States has certain economic sanctions (principally the Trading with the Enemy Act ("**TWEA**") and the International Economic Emergency Powers Act ("**IEEPA**")) and regulations issued under TWEA and IEEPA that affect commerce with specific countries and with certain listed individuals, entities and organizations known as Specially Designated Nationals ("**SDNs**"). These sanctions principally apply to the activities of U.S. persons (e.g., U.S. citizens and permanent residents, entities established in the U.S. and their non-U.S. branch offices, any individual located in the territory of the U.S., and, in the case of Cuba and Iran sanctions, any entities owned or controlled by the foregoing); however, some of these sanctions also target the activities of non-U.S. companies doing business with Iran in certain sectors or with respect to certain activities. United States sanctions and related export control laws and regulations also prohibit (with certain limited exceptions) the export and re-export of U.S. origin items from the U.S. or third countries to certain sanctioned countries.

As of August 2015, the United States had near total trade embargoes against Crimea, Cuba, Iran, Sudan and Syria. In addition, as of August 2015, the United States had other less restrictive embargoes against certain listed individuals, groups and entities and against other nations including the Balkans, Belarus, Congo, Cote d'Ivoire, Iraq, Lebanon, Liberia, Libya, Myanmar (Burma), North Korea, Somalia, South Sudan, Russia/Ukraine, Yemen and Zimbabwe.

Sanctions against Iran

With respect to Iran, the Iranian Transaction and Sanctions Regulation (the "**ITSR**") provide for a near total trade embargo. The ITSR applies to every United States person ("**U.S. person**"), which includes any: (a) U.S. citizen or permanent resident alien, whether any such citizen or permanent resident alien lives and works in the United States or anywhere else in the world; (b) any entity (e.g., a corporation) organized under the laws of the United States (including any state thereof) or a foreign branch of such a U.S.-organized entity that is not separately chartered under local law; and (c) any person who is physically within the United States at a relevant time. In addition, the ITSR, as currently in effect, apply to any entity that is owned or controlled by a U.S. person and established or maintained outside the United States. Among the various restrictions under the ITSR, no person subject to U.S. jurisdiction may:

- Export, reexport, sell or supply any goods (except for informational materials and certain humanitarian donations), technology (including technical data, software or other information) or services from the United States to Iran or import any such items from Iran, directly or through a third country;

- Approve, finance, facilitate or guarantee any transaction by a foreign person where the transaction would be prohibited by the ITSR if performed by a U.S. person;

- Invest in Iran or in property (including entities) owned or controlled by the Government of Iran;

- Engage in any transaction or dealing in or related to: (a) goods or services of Iranian origin or owned or controlled by the Government of Iran; (b) goods, technology or services for exportation, reexportation, sale or supply, directly or indirectly, to Iran or the Government of Iran;

- Enter into or perform: (a) a contract that includes overall supervision and management responsibility for the development of petroleum resources located in Iran or a guaranty of another person's performance under such contract; (b) a contract for the financing of the development of petroleum resources located in Iran or a guaranty of another person's performance of such contract; or

- Evade, avoid or attempt to violate any of the prohibitions contained in the ITSR.

Unlike the ITSR, the Comprehensive Iran Sanctions and Divestment Act of 2010 ("**CISADA**") and the Iran Threat Reduction and Syria Human Rights Act of 2012 (the "**ITRSHRA**"), each of which amends the Iran and Libya Sanctions Act of 1996 ("**ISA**"), apply to all "persons," rather than only U.S. persons. Under the ISA, sanctionable activities include certain investments in Iran's energy sector, the provision of weapons of mass destruction or related technology, and the enhancement of Iran's military capabilities. Under CISADA, certain investments in the petroleum industry and in petroleum-related products are prohibited. The ISA also places restrictions on foreign financial institutions in their dealings with Iran. U.S. financial institutions, and persons controlled by U.S. financial institutions, are prohibited from knowingly engaging in any transactions with or benefitting Iran's Revolutionary Guard Corps or any blocked person. On January 3, 2012, the U.S. Congress passed the ITRSHRA. The ITRSHRA, among other things, expanded the sanctions imposed by the ISA, including sanctions targeting persons who (i) issue or purchase Iranian sovereign debt; (ii) enter into joint ventures with the Government of Iran to develop petroleum resources outside of Iran; (iii) construct infrastructure that can be used to transport Iran's energy products; (iv) support Iran's production of petrochemical products; (v) own, operate or insure vessels used to transport crude oil out of Iran and (vi) participate in joint ventures with Iran or Iranian entities related to mining, production or transportation of uranium.

Following the passage of the ITRSHRA, the President of the United States has passed Executive Orders 13608, 13622, 13628 and 13645, all of which have expanded the sanctions applicable to non-U.S. persons. Executive Order 13608, among other things, prohibits facilitation of deceptive transactions for or on behalf of any person subject to U.S. sanctions concerning Iran. Executive Orders 13622 and 13628 prohibited, among other things, certain petroleum-related transactions. Executive Order 13645 implemented certain sanctions on the automotive, energy, shipping and shipbuilding sectors of the Iranian economy.

On January 16, 2016, the United Nations, United States and European Union implemented certain Iran sanctions relief pursuant to the Joint Comprehensive Plan of Action (JCPOA). Accordingly, as of January 16, 2016, the UN, US, and EU have lifted certain nuclear-related sanctions that were previously imposed on Iran in connection with its nuclear activity. As such, most UN sanctions related to Iran's nuclear program have been lifted. In addition, the US has issued contingent waivers of various nuclear-related secondary sanctions and the EU has lifted a majority of its sanctions in relation to Iran's nuclear program.

Property Blocking Sanctions

The U.S. sanctions against Belarus, Iraq, Lebanon, Libya, Russia/Ukraine and Serbia (the Balkans) are property blocking measures (the "**Property Blocking Sanctions**"). Unless exempted or otherwise licensed or authorized, such Property Blocking Sanctions prohibit all transfers and dealings in a target's (e.g., an SDN) property or interests in property within the United States or otherwise within the possession or control of a U.S. person (regardless of the location of that U.S. person). U.S. persons must retain or "freeze" blocked property interests within their possession or control and they may not engage in any unauthorized disposition of a frozen asset. This means that U.S. persons may not perform blocked contracts. Each of the Property Blocking Sanctions also contains a provision which prohibits a U.S. person from entering into a transaction which evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Property Blocking Sanctions. The Property Blocking Sanctions do not extend to foreign subsidiaries of U.S. entities.

Export Administration Regulations

The U.S. Department of Commerce's Bureau of Industry and Security ("**BIS**") administers and enforces the Export Administration Regulations ("**EAR**"). The EAR controls so-called "dual-use" items (i.e., those items that can be used in a military or defense application but that are primarily commercial or civilian in nature). In general, the term "subject to the EAR" includes: (i) all products, materials, test and inspection equipment, software and technology (collectively, "**Items**") in the United States; (ii)

U.S.-origin Items outside of the United States; and (iii) certain foreign-origin Items outside the United States that incorporate, or were manufactured using, U.S.-origin Items. The BIS has published a detailed list of Items that are considered controlled and that would require an export license for exports to certain destinations. This list is known as the Commerce Control List ("**CCL**"). The CCL is very precise and technically detailed. Using the CCL and the EAR's Country Chart, one can determine whether a BIS export license is required to export a controlled item to a particular end-user in a particular country.

The BIS also maintains the "Entity List." The Entity List initially arose in 1997 as a list setting forth foreign end-users known to be involved in proliferation activities and the development of weapons of mass destruction or missiles to deliver those weapons. Since its initial publication, grounds for inclusion on the Entity List have expanded to activities sanctioned by the State Department and activities contrary to U.S. national security or other foreign policy interests. Any export, reexport or transfer of an Item subject to the EAR to an entity on the BIS Entity List requires a license. Further, BIS has a license review policy establishing a presumption that any license application for an export, reexport or transfer to an entity on the BIS Entity List be denied.

Secondary U.S. Sanctions

In the case of secondary U.S. sanctions, two provisions are relevant to Company's sale to Iran.

(a) Section 1244(c) of the Iran Freedom and Counter-Proliferation Act of 2012 ("**IFCA**"), Pub. L. 112-239, authorizes the President of the United States to block the U.S. property of any non-U.S. person who is determined to knowingly provide significant goods or services in support of any activity or transaction on behalf of or for the benefit of:

    (i) A person determined to be part of the shipbuilding sector of Iran; or,

    (ii) An Iranian person included on the list specially designated nationals and blocked persons maintained by the Office of Foreign Assets Controls.

(b) Section 1244(d) of IFCA authorizes the Secretary of the Treasury to impose additional sanctions on any person who knowingly supplies significant services used in connection with the shipbuilding sector of Iran. This provision delegates to the Treasury Secretary wide discretion in both the determination of whether the subject activity is sanctionable, and, if it is, what type of sanctions "penalty" should be imposed.

European Union

The E.U. also imposes economic sanctions against certain countries which include, but are not limited to, Iran, Russia, Ukraine, Egypt, Libya and Lebanon.

The E.U. sanctions are sector specific and their scope varies significantly from case to case. The scope of the E.U. sanctions also changed significantly over time in relation to each sanctioned country.

Many of the sanctions involve arms embargoes and restrictions on the supply of "dual-use" items and items and technologies used for human rights abuses and repression purposes to the sanctioned countries as well as asset freezing measures and travel bans in relation to listed individuals and entities. In some cases, such as the sanctions against Iran and Russia, various sanctions were imposed by the E.U.

in relation to the supply of goods and technical assistance relating to a number of specified sectors (such as nuclear proliferation, enrichment activities and uranium mining, the oil and gas industry, deep sea and Arctic drilling and the financial industry).

E.U. sanctions apply subject to territorial limitations. The E.U. sanctions are effective: (i) within the territory of the E.U., including its airspace; (ii) on board any aircraft or any vessel under the jurisdiction of an E.U. member state; (iii) to any person inside or outside the territory of the E.U. who is a national of a Member State; (iv) to any legal person, entity or body, inside or outside the territory of the E.U., which is incorporated or constituted under the law of a Member State; and (v) to any legal person, entity or body in respect of any business done in whole or in part within the E.U. Persons and entities to whom E.U. sanctions apply are referred to hereafter as "E.U. Persons". E.U. sanctions are introduced through E.U. regulations, which are directly applicable in the 28 Member States of the E.U., and do not require further implementing legislation. Under the E.U. sanctions regime, certain activities are either prohibited or require approval from the competent authority of an E.U. member state.

E.U. sanctions have been extended to overseas territories of E.U. member states including (amongst others) the Cayman Islands and the British Virgin Islands. Accordingly, entities incorporated in these territories and nationals of these territories are also E.U. Persons as referred to herein.

E.U. sanctions may further prohibit provision of technical assistance, brokering services and/or financing or financial assistance in support of certain prohibited activities, and contain wide anti-circumvention provisions, which prohibit E.U. Persons from taking steps knowingly to assist, directly or indirectly, in the circumvention of the sanctions or in facilitating their contravention.

In some cases, a limited number of grandfather provisions may apply, which may allow the fulfillment of certain obligations which would otherwise be prohibited where those obligations arise under an agreement or contract concluded before the entry into force of E.U. sanctions or before a specific date as specified by the relevant E.U. regulation. Notification to or approval by national competent authorities may be required.

Whilst E.U. regulations are directly applicable, each Member State sets the penalties for breaches of E.U. sanctions, generally by way of national legislation. In some Member States, national legislation creates criminal offenses and may further elaborate on activities that will be regarded as being contrary to the E.U. regulations. In the UK, for example, as is the case in the Cayman Islands and the BVI, legislation imposes criminal offenses not only in relation to the contravention of the E.U. regulations, but also in relation to assisting in "*facilitating*" a contravention. Accordingly, if E.U. sanctions apply to a party subject to UK, BVI or Cayman islands jurisdiction, then the approach to risk will be informed by these provisions.

Further, in order to fully assess E.U. sanctions risk it is necessary to consider the effect of E.U. regulations, the domestic legislation in each E.U. member state governing penalties for breaches of E.U. sanctions, and applicable Member State national legislation which may be engaged by the particular circumstances of a proposed investment.

E.U. sanctions against Iran are provided for under Council Regulation No. 359/2011 of April 12, 2011 (as amended), relating to perpetrators of human rights abuses; and Council Regulation No. 267/2012 of March 23, 2012 (as amended), relating to nuclear proliferation. The E.U. sanctions targeting Iran include, *inter alia*: (i) asset freezes and prohibitions on the making available of funds and economic resources, directly or indirectly, to or for the benefit of listed natural and legal persons; (ii) restrictions on the sale, supply, transfer or export, directly or indirectly, of listed goods and technology (including weapons of mass destruction, military and dual-use goods and technology and goods, services and technology relating to the nuclear industry, uranium mining, enrichment and missiles) to any Iranian person, entity or body or for use in Iran; (iii) a prohibition on the sale, supply, transfer or export of graphite and listed raw or semi-finished metals, directly or indirectly, to any Iranian person, entity or body, or for use in Iran; (iv) prohibitions on the import into the E.U. and the purchase of crude oil and petroleum products located in, originating in, or exported from Iran; (v) prohibitions on the supply of goods, services, technologies and financial assistance relating to the Iranian petrochemical industry; (vi) severe restrictions on provision of financial services to Iranian banks and other entities, on the trading in Iranian bonds and on the transfer of precious metals, on the provision of insurance and shipping services to Iran; and (vii) subject to certain exemptions, restrictions on transfers of funds to or from Iranian persons, entities or bodies. There are also prohibitions on the provision of technical assistance, brokering services, financing and financial assistance in support of certain prohibited activities.

E.U. sanctions concerning Ukraine and Russia are provided for under Council Regulation No. 208/2014 of March 5, 2014 (as amended), relating to misappropriation of state funds and violations of human rights; Council Regulation No. 269/2014 of March 17, 2014 (as amended), relating to the territorial integrity, sovereignty and independence of Ukraine; Council Regulation No. 692/2014 of June 23, 2014 (as amended), relating to Crimea and Sevastopol; and Council Regulation No. 833/2014 of July 31, 2014 (as amended), relating to Russia. These E.U. sanctions include, *inter alia*: (i) asset freezes and prohibitions on making available funds and economic resources, directly or indirectly, to or for the benefit of listed natural and legal persons; (ii) restrictions on access to the capital market for, and lending to, certain listed Russian financial institutions and military and energy companies; (iii) restrictions on the sale, supply, transfer or export, directly or indirectly of listed items relating to deep sea and Arctic drilling, specialist floating vessels, shale gas production and other aspects of the oil industry, to any natural or legal person, entity or body in Russia or in any other State, if such items are for use in Russia; and (iv) a prohibition on the sale, supply, transfer or export, directly or indirectly, of military and dual-use goods and technology to any natural or legal person, entity or body in Russia or for use in Russia. There are also prohibitions on the provision of technical assistance, brokering services, financing and financial assistance in support of certain prohibited activities.

E.U. sanctions against Libya, Egypt and Lebanon cover asset freezing sanction against listed entities and individuals and in the case of Libya, restrictions on the supply of arms and other military equipment.

Australia

In Australia, sanctions laws are implemented through two related regimes: the United Nations Security Council sanctions regimes (“UN sanctions”) and Australian autonomous sanctions regimes (“autonomous sanctions”). The relevant Australian legislation which underpins the sanctions are as follows: (a) UN sanctions are implemented primarily under the Charter of the United Nations Act 1945 (Cth) and its set of regulations; and (b) autonomous sanctions are implemented primarily under the Autonomous Sanctions Act 2011 (Cth) and the Autonomous Sanctions Regulations 2011 (Cth).

The autonomous sanctions regimes can either operate separate to or in addition to the UNSC sanctions regimes. For example, and as is extrapolated below in greater detail, both the U.N. sanctions and Australian autonomous sanctions apply to Iran, whereas the U.N. sanctions only apply to Iraq, for example.

Australian sanctions have extraterritorial reach and apply to: (a) Australian citizens; (b) persons incorporated in Australia and persons controlled by a person incorporated in Australia; (c) persons located in Australia; (d) conduct or a result of the conduct occurring on board an Australian aircraft or an Australian ship, and (e) activities conducted in or through Australia.

Breaches of controls on trade in sanctioned goods and services, or dealings with sanctions-designated individuals and entities, are criminal offenses under the Autonomous Sanctions Act 2011 (Cth).

It is possible to obtain a "sanctions permit" authorizing otherwise restricted or prohibited activities, although an application must be made to the Minister for Foreign Affairs.

In relation to Iran, Australia has implemented the UNSC sanctions regime and also applies an autonomous sanctions regime. The autonomous sanctions regime has been imposed against Iran since October 18, 2008 and has been amended several times, most recently on December 19, 2013. In summary, the sanctions regimes prohibit or restrict:

(a) the export or supply of goods, such as: (i) direct or indirect supply of "export sanctioned goods." What constitutes export sanctioned goods is broad and wide-ranging; and (ii) supply, sale or transfer to the Government of Iran (related public bodies, corporations or agencies, or persons or entities acting on behalf of the Government) of gold, precious metals or diamonds.

(b) the export or provision of services, including: (i) technical advice, assistance or training; (ii) financial assistance; (iii) a financial service; or (iv) another service, if the provision of that service: (i) assists with the supply, sale or transfer of "export sanctioned goods"; (ii) is in respect of an oil tanker or cargo vessel flying the flag of the Islamic Republic of Iran, or is owned, chartered or operated by an Iranian person, entity or body; (iii) assists with or is provided in relation to the Government of Iran (related public bodies, corporations or agencies, or persons or entities acting on behalf of the Government); or (iv) assists with an activity involving an item of gold, precious metals or diamonds.

(c) the import, procurement, purchase or transport of goods including: (i) "import sanctioned goods" if the goods originate in, or are exported from Iran (i.e., crude oil, petroleum, etc.); and (ii) imports or purchase from the Government of Iran (related public bodies, corporations or agencies, or persons or entities acting on behalf of the Government).

(d) commercial activities: broadly, the sanctions regime restricts commercial activities relating to investment in the oil and gas industry in Iran, and Iranian investment in Australia's oil and gas industry.

(e) financial sanctions: the use or dealing with an asset (defined broadly to include intangible, tangible, movable or immovable property) owned or controlled by a "designated person or entity" for Iran, or making an asset available for the benefit of a "designated person or entity".

(f) travel bans: "declared person(s)" prohibited from traveling to, entering or remaining in Australia (unless the prohibition is waived).

In relation to Russia, the UNSC is constrained in issuing sanctions against Russia due to its veto power as a permanent member of the UNSC. Accordingly, sanctions against Russia must stem from the

Australian Government issuing autonomous sanctions. On March 31, 2015, the Autonomous Sanctions Regulation 2011 was amended so as to impose autonomous sanctions in relation to Russia. The following restrictions and prohibitions apply:

(a) the direct or indirect supply, sale or transfer to Russia, for use in Russia, or for the benefit of Russia, of the following goods: (i) "arms or related materiel"; and (ii) items suited to certain categories of exploration and production projects in Russia;

(b) the import, procurement, purchase or transport of "arms or related materiel" if the goods originate in, or are exported from Russia;

(c) the export or provision of services, such as: (i) the provision to Russia, or a person for use in Russia, of technical advice, assistance or training, or financial assistance, or financial service, or another service, if it assists with, or is provided in relation to (A) a military activity and (B) the manufacture, maintenance or use of "arms or related materiel"; (ii) the provision to Russia, or to a person, entity or body for use in Russia, specified services necessary for certain categories of exploration and production projects in Russia, including its Exclusive Economic Zone and Continental Shelf;

(d) restrictions on commercial activities, including: (i) the direct or indirect purchase or sale of, or any other dealing with, bonds, equity, transferable securities, money market instruments or other similar financial instruments, if the financial instrument (A) is issued by an entity specified in the Autonomous Sanctions (Russia, Crimea and Sevastopol) Specification 2015, and (B) has a maturity period specified in the Autonomous Sanctions (Russia, Crimea and Sevastopol) Specification 2015; and (ii) directly or indirectly making, or being part of any arrangement to make loans or credit if the loan or credit (A) is made by an entity specified in the Autonomous Sanctions (Russia, Crimea and Sevastopol) Specification 2015 and (B) has a maturity period specified in the Autonomous Sanctions (Russia, Crimea and Sevastopol) Specification 2015 for the financial instrument and the entity, without a sanctions permit. There are certain exceptions to the above prohibitions;

(e) restrictions on the use of or dealing with an asset that is owned or controlled by a "designated person or entity", or making an asset available directly or indirectly to, or for the benefit of, a "designated person or entity".

In addition to the sanctions outlined above, there are sanctions relating to the Crimea, Sevastopol and Ukraine.

In relation to Libya, Australia has implemented the UNSC sanctions regime and also applies an autonomous sanctions regime. The autonomous sanctions regime has been imposed against Libya since February 26, 2011. In summary, that regime prohibits the use of or dealing with an asset, property of any kind whether tangible or intangible, movable or immovable that is owned or controlled by a designated person or entity for Libya or making such an asset or property available to, directly or indirectly to, or for the benefit of, a designated person or entity. It also imposes a travel ban and prohibits a declared persons from traveling to, entering or remaining in Australia. The UNSC sanction regime for Libya extends to the export or supply, provision of services relating to or import of, relevantly, "arms or related materiel".

United Nations

U.N. sanctions are binding on U.N. member states, the domestic laws of which will determine whether further action, such as domestic legislation, is needed to impose their requirements on private parties. Accordingly, the means of implementation, the interpretation and enforcement of U.N. sanctions may differ among U.N. member states.

The UNSC has imposed a variety of sanctions against Iran. These are provided for in UNSC resolutions 1737 (2006), 1747 (2007), 1803 (2008), 1929 (2010), 1984 (2011), 2049 (2010), 2105 (2013), and 2159 (2014). The restrictive measures require U.N. member states to, *inter alia*: (i) take the necessary measures to prevent the supply, sale or transfer directly or indirectly from their territories, or by their nationals or using their flag vessels or aircraft to, or for the use in or benefit of, Iran, and whether or not originating in their territories, of all items, materials, equipment, goods and technology which could contribute to Iran's enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems; (ii) take the necessary measures to prevent the supply, sale or transfer directly or indirectly from their territories, or by their nationals or using their flag vessels or aircraft to, or for the use in or benefit of, Iran, and whether or not originating in their territories, of certain listed items, materials, equipment, goods and technology; (iii) prevent the direct or indirect supply, sale or transfer to Iran, from or through their territories or by their nationals or individuals subject to their jurisdiction, or using their flag vessels or aircraft, and whether or not originating in their territories, of any conventional arms; (iv) freeze the funds, other financial assets and economic resources which are on their territories that are owned or controlled by listed persons or entities; and (v) take the necessary measures to prevent the entry into or transit through their territories of designated individuals.

By UNSC resolution 1631 of October 2005 all States were obligated to freeze funds, financial assets and economic resources in their territories that are owned or controlled by people suspected of being involved in the assassination of Prime Minister Rafiq Hariri and to subject those individuals to a travel ban. UNSC 1701 of August 2006 imposed an arms embargo on all arms transfers not authorized by the Government of Lebanon or the UN peacekeeping force. The embargo also prohibits any technical training or assistance. This resolution has subsequently been extended, amended and modified.

UNSC resolutions 1971 (2011), 1973 (2011) and 2146 (2014) require all States to impose an arms embargo on Libya and a travel ban and assets freezing measures against listed individuals and organizations in Libya and measures in relation to attempts to illicitly export crude oil out of Libya.

OUR BUSINESS DEVELOPMENT

Our business history can be traced from the establishment of Hebei Province Gaocheng City Lianzhou Rolling Mill (河北省藁城市廉州軋鋼廠), a collectively owned enterprise in the PRC set up by Mr. Zhang Haijun together with Mr. Zhang Xiaosuo (張小鎖) and other individuals in March 1990. Through such entity, Mr. Zhang Haijun and our other founders started the business of manufacture of rolling steel products in the PRC. In May 1993, our founders expanded into the business of manufacturing of different metal products and trading of industrial goods through the establishment of Gaocheng City Yichen Industrial Trading Co., Ltd. (藁城市翼辰工貿公司), a collectively owned enterprise established in the PRC. For the biographical information of Mr. Zhang Haijun and Mr. Zhang Xiaosuo, please refer to the section headed "Directors, Supervisors, Senior Management and Staff" of this prospectus.

In April 2001, our Company was founded with the name of 河北翼辰實業集團有限公司 (Hebei Yichen Industrial Group Co., Ltd.) as a limited liability company in the PRC by Mr. Zhang Haijun and 21 other individuals including relatives of Mr. Zhang Haijun and their business partners and co-workers. Our founders funded the establishment of our Company with their investments in several business entities, including Hebei Province Gaochen City Lianzhou Rolling Mill (河北省藁城市廉州軋鋼廠) and Gaocheng City Yichen Industrial Trading Co., Ltd. (藁城市翼辰工貿公司), which were injected into our Company, with a view to creating synergy by pooling their expertise and resources into a single enterprise under our corporate banner. At the time of establishment, our Group was engaged in manufacture and sale of railway engineering tools and parts and other products. Mr. Zhang Haijun has been acting as the legal representative of our Company since then. To simplify the corporate management and administrative formalities and to facilitate our corporate development with a relatively stable and simplified list of registered shareholders, our founders opted to hold their beneficial interest in our Company by way of nominee shareholding arrangement, with Mr. Zhang Haijun and four other individuals acting as the registered shareholders of our Company. Such nominee shareholding arrangement continued until July 2015.

From 2006, we have been participating in the research, development and manufacture of rail fastening systems in relation to the development and construction of high speed railway network in the PRC through our collaboration with 中國鐵道科學研究院 (China Academy of Railway Sciences), the official research institution in respect of railway technology in the PRC. Since 2012, as a result of the tightening of the qualification requirements for high speed rail fastening system providers, only railway parts suppliers who have been approved by CRCC, a state-owned certification authority in the PRC for railway transportation system, can supply high speed rail fastening systems in the PRC. With our experience in manufacturing rail fastening systems and through our product development efforts, we have become one of the first few CRCC approved railway parts suppliers, and we were one of the only seven approved suppliers as of the Latest Practicable Date.

Following our success in establishing and expanding our market presence in the railway construction industry in the PRC, in March 2013, China Academy of Railway Sciences, through its controlled entity Tieke Shougang, became our joint venture partner by way of equity investment in Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司), our then wholly-owned subsidiary. As a result, Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司) was transformed into an associate of our Company named Tieke Yichen which was owned as to 49% by our Company and 51% by Tieke Shougang.

Over the past decade, we have participated in railway projects across the PRC as supplier of rail fastening products that are utilized in different railway series, geographical locations and operational conditions. Through our efforts, we believe that we have established ourselves as a preferred supplier of rail fastening products in the PRC railway transportation industry with capability of providing the entire suite of rail fastening products. With ongoing urbanization and keen interest in developing railway as a major mode of transportation in China, we believe that investment in railway construction and demand for rail fastening system in China will continue its growth trend and we are well-positioned to benefit from ongoing development in railway projects in the PRC.

In preparation for the Listing, our Company was converted into a joint stock limited liability company on November 26, 2015 with a registered capital of RMB336,690,000. Further details of the major corporate development of our Company are set out under "Material Change in Registered Capital and/or Equity Holders of Members of our Group — Our Company" below.

OUR MILESTONES

The following summarizes the key milestones in our business development:

2003	We entered into the PRC subway market by participating in the Nanjing subway project as supplier of rail fastening system
2006	We participated in the Guizhou-Guangxi Railway (黔桂鐵路) expansion project and supplied rail fastening system for use in tunnel in the form of a complete installation kit for the first time
	We participated in the Beijing Capital Airport Line (北京首都機場綫) project which was completed in 2008 and supplied pre-assembled rail fastening system for metro railways in the PRC for the first time
2009	We successfully tendered for the Taiyuan to Zhongwei (Yinchuan) Railway (太原至中衛(銀川)鐵路) project and acted as direct supplier for high speed railway project in the PRC for the first time
2010	We participated in the Xiamen-Shenzhen High Speed Railway (廈門－深圳高速鐵路), which is a major high speed railway of the Four Vertical and Four Horizontal High Speed Railway Corridors in the PRC
2012	We became one of the few approved railway parts suppliers recognized by CRCC to supply high speed rail fastening systems in the PRC
2013	We became a joint venture partner with Tieke Shougang, which was controlled by China Academy of Railway Sciences (中國鐵道科學研究院). Pursuant to the arrangement, Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司), a then wholly-owned subsidiary of our Company, was transformed into an associate of our Company named Tieke Yichen, which was owned as to 49% by our Company and 51% by Tieke Shougang

	We collaborated with Guangzhou Metro Design and Research Institute Co., Ltd. (廣州地鐵設計研究院有限公司) and successfully developed and delivered rail fastening systems for the wire-free tram rails in Guangzhou, which is the first wire-free tram rail in Guangdong province
2014	We participated in the Shanghai-Kunming High Speed Railway (上海－昆明高速鐵路), which is a major high speed railway of the Four Vertical and Four Horizontal High Speed Railway Corridors in the PRC and the first high speed railway in Yunnan Province
2015	We successfully tendered for the Chengdu-Guiyang high speed railway (成貴高鐵) project and entered into supply agreement for rail fastening system with a total contract sum of over RMB375 million

OUR GROUP

As of the Latest Practicable Date, our Group comprised our Company and three wholly-owned subsidiaries. We also had 49% equity interest in an associated company, Tieke Yichen. The following table contains certain information of these entities as of the Latest Practicable Date.

Entity	Date and place of establishment	Amount of registered and paid up capital	Principal activities
Group members			
Our Company	April 9, 2001 PRC	RMB336,690,000	Manufacturing and sale of rail work equipment (rail fastening) and flux cored wire
Yichen Corporate (100% owned by our Company)	May 6, 2011 PRC	RMB2,950,000	Provision of packaging and relevant services
Yichen Railway (100% owned by our Company)	March 31, 1994 PRC	RMB18,150,000	Recycling of production scrap metals
Yichen Trading (100% owned by our Company)	September 27, 2013 PRC	RMB3,000,000	Import and export trading

Entity	Date and place of establishment	Amount of registered and paid up capital	Principal activities
Associated company			
Tieke Yichen (49% owned by our Company) *(Note)*	April 20, 2012 PRC	RMB49,000,000	Research and development, manufacturing and sale of certain rubber products for rail fastening systems, bridge bearings and locomotive vehicles

Note:

The remaining 51% equity interest in Tieke Yichen was held by Tieke Shougang, an Independent Third Party, as of the Latest Practicable Date.

MATERIAL CHANGE IN REGISTERED CAPITAL AND/OR EQUITY HOLDERS OF MEMBERS OF OUR GROUP

1. Our Company

(1) Establishment of our Company

Our Company was established in the PRC on April 9, 2001 with an initial registered capital of RMB56,000,000. Upon establishment, our Company had five registered shareholders who held the equity interest in our registered capital as to (i) approximately 24.9% by Mr. Zhang Haijun, (ii) approximately 17.9% by Mr. Zhang Guanjun (張冠軍) (a brother of Mr. Zhang Haijun), (iii) approximately 21.4% by Mr. Zhang Suoqun (張鎖群) (a brother-in-law of Mr. Zhang Guanjun), (iv) approximately 17.9% by Mr. Zhang Xiaogeng (張小更) (a brother-in-law of Mr. Zhang Guanjun), and (v) approximately 17.9% by Mr. Zhang Xiaosuo (張小鎖) (a brother-in-law of Mr. Zhang Guanjun). Each of these initial shareholders of our Company held such equity interests for himself and as nominee for and on behalf of a total of 17 individuals including their respective relatives and the employees of our Group at the material time. The nominee shareholding arrangement was intended to simplify the corporate management and administrative formalities and to facilitate our corporate development with a relatively stable and simplified list of registered shareholders. As advised by our PRC Legal Advisers, the nominee shareholding arrangement since then up to its termination in July 2015 was legal and valid under the PRC laws. The table below sets out certain information about the nominee shareholding arrangement of our Company at the material time:

		Nominee shareholding arrangement	
Name of registered shareholder *(Note)*	**Amount of registered capital held and shareholding percentage**	**Name of beneficial owner** *(Note)*	**Amount of registered capital and shareholding percentage**
	(RMB)		*(RMB)*
Mr. Zhang Haijun	14,000,000 (24.9%)	Himself	11,098,600 (19.82%)
		Mr. Liu Yongfei (劉永廢)	1,898,400 (3.39%)
		Mr. Dong Jiancheng (董建成)	229,600 (0.41%)
		Mr. Ning Jianmin (寧建民)	229,600 (0.41%)
		Mr. Zhang Minghua (張明華)	145,600 (0.26%)
		Mr. Peng Mengdong (彭孟東)	247,000 (0.44%)
		Mr. Gao Mingjiang (高明江)	151,200 (0.27%)
Mr. Zhang Suoqun# (張鎖群)	12,000,000 (21.4%)	Himself	5,140,800 (9.18%)
		Mr. Liu Yongfei (劉永廢)	487,200 (0.87%)
		Mr. Zhang Ligang (張立剛)#	3,511,200 (6.27%)
		Mr. Wu Jinyu (吳金玉)#	1,211,200 (2.16%)
		Mr. Fan Tiejun (樊鐵軍)	308,000 (0.55%)
		Mr. Liu Xiwen (劉喜文)	119,200 (0.21%)
		Ms. Ma Li (馬利)#	240,800 (0.43%)
		Mr. Ma Hailu (馬海錄)#	252,000 (0.45%)
		Mr. Wu Yonggang (吳永崗)	113,600 (0.20%)
		Ms. Zhang Shuangge (張雙格)	151,200 (0.27%)
		Mr. Zhao Liqiang (趙利強)#	145,600 (0.26%)
		Mr. Zhang Ruiqiu (張瑞秋)#	151,200 (0.27%)
		Mr. Zhang Fengxuan (張風選)	168,000 (0.30%)
Mr. Zhang Xiaogeng# (張小更)	10,000,000 (17.9%)	Himself	9,867,200 (17.62%)
		Mr. Liu Xiwen (劉喜文)	132,800 (0.24%)
Mr. Zhang Guanjun# (張冠軍)	10,000,000 (17.9%)	Himself	8,120,000 (14.5%)
		Mr. Wu Jinyu (吳金玉)#	1,880,000 (3.36%)
Mr. Zhang Xiaosuo# (張小鎖)	10,000,000 (17.9%)	Himself	9,867,200 (17.62%)
		Mr. Wu Yonggang (吳永崗)	132,800 (0.24%)

Note: Persons marked with "#" are directly and indirectly related to Mr. Zhang Haijun. Please refer to "Relationship Amongst Shareholders" below for details of the relationship between these persons.

(2) Reduction of registered capital from RMB56,000,000 to RMB31,000,000 in April 2004

On April 18, 2004, a shareholders' resolution was passed by our Company for reduction of the then registered capital of our Company from RMB56,000,000 to RMB31,000,000 so that our registered capital amount became consistent with our then paid-up capital amount. Following the capital reduction, the amount of registered capital in our Company attributable to each of our then registered shareholders (who held such equity interest for themselves as beneficial owners and as nominee for other beneficial owners) was reduced in proportion to their respective percentage equity interest in our Company. The relevant registration procedures were completed on June 1, 2004 with the issuance of a new business license to our Company.

(3) Increase of registered capital from RMB31,000,000 to RMB63,000,000 in February 2006

On February 28, 2006, a shareholders' resolution was passed by our Company for increase of the then registered capital of our Company from RMB31,000,000 to RMB63,000,000. The increased portion was agreed to be paid up and satisfied by way of conversion of indebtedness owed to shareholders in the total amount of RMB28,000,000 and transfer of the surplus reserve in our Company in the total amount of RMB4,000,000 into registered capital. Immediately following the above registered capital increase and contribution, there was no change to the total number of registered shareholders of our Company (which remained to be five individuals) nor the percentage equity interest in our Company held by each of them, but the total number of beneficial owners of our Company increased to 32 individuals (including the five registered shareholders). Please refer to "Relationship Amongst Shareholders" below for further information about the relationship between the shareholders of our Company. The relevant registration procedures were completed on May 9, 2006 with the issuance of a new business license to our Company.

(4) Increase of registered capital from RMB63,000,000 to RMB84,570,000 in February 2010

On February 26, 2010, a shareholders' resolution was passed by our Company for increase of the then registered capital of our Company from RMB63,000,000 to RMB84,570,000, with the increased portion paid up and satisfied by capital injection in cash by each of the then existing and new shareholders of our Company. The relevant registration procedures were completed on April 13, 2010 with the issuance of a new business license to our Company.

(5) Equity transfers in June 2015

On June 26, 2015, the then shareholders of our Company (for each of themselves and/or at the direction of the relevant beneficial owners under the nominee shareholding arrangement) entered into a series of equity transfer agreements for effecting the transfer of equity interest in our Company held by the registered holders under the nominee shareholding arrangement back to the relevant beneficial owners. Following such equity transfers which were completed on July 24, 2015, the nominee shareholding arrangement was terminated. The table below sets out certain information about the above equity transfers and the shareholding information of our Company immediately following the above equity transfers.

Name of registered shareholder *(Note 1)*	**Amount of registered capital acquired (disposed)**	**Amount of registered capital**	**Shareholding percentage**
	(RMB)	*(RMB)*	*(%)*
Mr. Zhang Haijun	6,475,500	16,776,500	19.84
Mr. Zhang Suoqun# (張鎖群)	(2,182,000)	3,213,000	3.80
Mr. Zhang Xiaogeng# (張小更)	1,536,300	10,912,300	12.90
Ms. Zhang Junxia# (張軍霞) *(Note 2)*	1,587,900	10,963,900	12.96
Mr. Zhang Xiaosuo# (張小鎖)	1,556,100	10,932,100	12.93
Mr. Zhang Ligang# (張立剛)	(828,000)	3,467,000	4.10
Mr. Wu Jinyu# (吳金玉)	(316,300)	3,716,700	4.39
Mr. Zhang Jian (張建)	(3,300,000)	Nil	Nil
Ms. Liu Huizhen (劉惠珍) *(Note 3)*	(650,000)	846,500	1.00
Ms. Liu Jihong (劉繼紅) *(Note 3)*	(650,000)	846,500	1.00
Mr. Zhang Lifeng# (張力峰)	Nil	2,400,000	2.84
Mr. Zhang Libin# (張力斌)	Nil	2,200,000	2.60
Mr. Zhang Lijie# (張力杰)	Nil	2,400,000	2.84
Mr. Zhang Lihuan# (張力歡)	Nil	2,200,000	2.60
Mr. Zhang Weiwei# (張偉衛)	(2,400,000)	Nil	Nil
Ms. Zhang Yanfeng# (張艷峰)	Nil	2,400,000	2.84
Ms. Zhang Hong# (張宏)	2,400,000	2,200,000	2.60
Mr. Zhang Chao# (張超)	Nil	2,400,000	2.84
Mr. Zhang Ning# (張寧)	Nil	2,200,000	2.60
Mr. Zhang Fengxuan (張風選)	(430,300)	633,700	0.75
Mr. Liu Xiwen (劉喜文)	(287,900)	630,100	0.75
Mr. Ma Hailu# (馬海錄)	(307,900)	608,100	0.72
Mr. Wu Yonggang (吳永崗)	(277,300)	636,700	0.75
Mr. Zhao Liqiang# (趙利強)	(251,400)	399,600	0.47
Mr. Li Junguang (李軍廣)	(651,000)	Nil	Nil
Mr. Fan Tiejun (樊鐵軍) *(Note 4)*	(239,000)	352,000	0.42
Ms. Ma Li# (馬利)	(206,300)	303,700	0.36
Ms. Zhang Shuangge (張雙格)	(297,200)	157,800	0.19
Mr. Zhang Ruiqiu# (張瑞秋)	(157,200)	297,800	0.35
Mr. Zhang Qingjun (張慶軍)	(400,000)	Nil	Nil
Mr. Zhang Qinghua# (張慶華)	38,000	238,000	0.28
Ms. Fan Xiulan (樊秀蘭) *(Note 4)*	119,000	119,000	0.14
Mr. Gao Weifeng (高衛峰)	119,000	119,000	0.14
	Total:	84,570,000	100.00

Notes:

1. Persons marked with "#" are directly or indirectly related to Mr. Zhang Haijun. Please refer to "Relationship Amongst Shareholders" below for details of the relationship among these persons.

2. Ms. Zhang Junxia (張軍霞) is the spouse of Mr. Zhang Guanjun (張冠軍). Ms. Zhang Junxia (張軍霞) became the registered holder of the equity interest in the Company previously held by Mr. Zhang Guanjun (張冠軍) following his decease.

3. Ms. Liu Huizhen (劉惠珍) and Ms. Liu Jihong (劉繼紅) are the daughters of Mr. Liu Yongfei (劉永廢). Ms. Liu Huizhen (劉惠珍) and Ms. Liu Jihong (劉繼紅) became the registered holders of the equity interest in the Company previously held by Mr. Liu Yongfei (劉永廢) following his decease.

4. Ms. Fan Xiulan (樊秀蘭) is the sister of Mr. Fan Tiejun (樊鐵軍).

5. The aggregate of the percentage figures in the table above may not add up to the "Total" figure shown due to rounding of the percentage figures to two decimal places.

(6) Conversion into a joint stock limited liability company and share sub-division

On November 17, 2015, shareholders' resolutions were passed by the then shareholders of our Company for approving (among other matters) the conversion of our Company from a limited liability company into a joint stock limited liability company and the adoption of our Company's present name, Hebei Yichen Industrial Group Corporation Limited (河北翼辰實業集團股份有限公司). Pursuant to the founding members agreement dated November 18, 2015 entered into by all the then shareholders of our Company, the share capital of our Company immediately upon the conversion was RMB336,690,000 divided into 336,690,000 shares of RMB1 each, and all the then shareholders of our Company were allotted and issued such number of shares corresponding to the proportion of their respective equity interest in our Company prior to the conversion. The subscription price for these initial shares was based on the net asset value of our Company as of July 31, 2015. The conversion was completed on November 26, 2015 with the issuance of a new business license to our Company.

The table below sets out certain information on the shareholding arrangement of our Company upon our conversion into a joint stock limited liability company:

Name of shareholder *(Note)*	**Number of shares**	**Shareholding percentage**
		(%)
Mr. Zhang Haijun	66,799,296	19.84
Ms. Zhang Junxia# (張軍霞)	43,635,024	12.96
Mr. Zhang Xiaogeng# (張小更)	43,433,010	12.90
Mr. Zhang Xiaosuo# (張小鎖)	43,534,017	12.93
Mr. Zhang Suoqun# (張鎖群)	12,794,220	3.80
Mr. Zhang Ligang# (張立剛)	13,804,290	4.10
Mr. Wu Jinyu# (吳金玉)	14,780,691	4.39
Ms. Liu Huizhen (劉惠珍)	3,366,900	1.00
Ms. Liu Jihong (劉繼紅)	3,366,900	1.00
Mr. Zhang Chao# (張超)	9,561,996	2.84
Mr. Zhang Lijie# (張力杰)	9,561,996	2.84
Mr. Zhang Lifeng# (張力峰)	9,561,996	2.84
Ms. Zhang Yanfeng# (張艷峰)	9,561,996	2.84
Mr. Zhang Libin# (張力斌)	8,753,940	2.60
Mr. Zhang Lihuan# (張力歡)	8,753,940	2.60
Mr. Zhang Ning# (張寧)	8,753,940	2.60
Ms. Zhang Hong# (張宏)	8,753,940	2.60
Mr. Zhang Fengxuan (張風選)	2,525,175	0.75
Mr. Liu Xiwen (劉喜文)	2,525,175	0.75
Mr. Ma Hailu# (馬海錄)	2,424,168	0.72
Mr. Wu Yonggang (吳永崗)	2,525,175	0.75
Mr. Zhao Liqiang# (趙利強)	1,582,443	0.47
Mr. Fan Tiejun (樊鐵軍)	1,414,098	0.42
Ms. Ma Li# (馬利)	1,212,084	0.36
Ms. Zhang Shuangge (張雙格)	639,711	0.19
Mr. Zhang Ruiqiu# (張瑞秋)	1,178,415	0.35
Mr. Zhang Qinghua# (張慶華)	942,732	0.28
Ms. Fan Xiulan (樊秀蘭)	471,366	0.14
Mr. Gao Weifeng (高衛峰)	471,366	0.14
Total:	**336,690,000**	**100.00**

Note:

1. Persons marked with "#" are directly or indirectly related to Mr. Zhang Haijun. Please refer to "Relationship Amongst Shareholders" below for details of the relationship among our shareholders.

2. The aggregate of the percentage figures in the table above may not add up to the "Total" figure shown due to rounding of the percentage figures to two decimal places.

As of the Latest Practicable Date, the registered capital of our Company had been fully paid up.

Our PRC Legal Advisers have confirmed that with respect to the conversion of our Company into a joint stock limited liability company, we have completed all the necessary filing procedures in compliance with the relevant PRC laws and regulations.

On November 30, 2015, the then shareholders of our Company resolved that subject to CSRC approval, the nominal value of our Shares shall be sub-divided from RMB1 per Share to RMB0.5 per Share prior to the Listing. On January 18, 2016, we obtained the CSRC approval for the issue of not more than 258,129,000 H Shares with a nominal value of RMB0.5 each under the Global Offering. As a result, upon the Listing, a total of 673,380,000 Domestic Shares with nominal value of RMB0.5 each will be in issue, and all such 673,380,000 Domestic Shares will be held by our existing Shareholders pro rata to their respective percentage interest in the Domestic Shares of our Company immediately prior to such share sub-division.

Historical capital contribution of our Company

In preparation for the Listing, we have engaged a PRC audit firm, which is an Independent Third Party, to verify the capital contribution of our Company. Based on the report issued by such auditor (the "**Report**") which had been filed with Shijiazhuang City Administration for Industry and Commerce (石家莊市工商行政管理局) ("**Shijiazhuang AIC**"), it is noted that:

(i) the actual paid-up registered capital amount and the capital contribution method for establishment of our Company in 2001 were not fully consistent with the capital verification report in respect of our Company filed with the relevant government authorities at the material time. Instead of contribution to the registered capital for an aggregate amount of RMB56,000,000 by way of asset injection at the time of establishment, the actual paid-up registered capital amounted to RMB31,000,000 only as at 1 July 2003, which was contributed by the then shareholders of our Company by way of injection of the assets in three companies with aggregate net assets amounting to RMB7,006,000 at the time of establishment, and by way of cash and conversion of certain shareholders' loans, undistributed profits and other amounts due to the shareholders by our Company since the time of establishment up to 1 July 2003;

(ii) the capital reduction in June 2004 was effected so that our then registered capital amount became consistent with our then paid-up registered capital amount. The capital verification report reflecting such capital reduction had been filed with the relevant government authorities;

(iii) the capital contribution method of our capital increase in 2006 was not fully consistent with the capital verification report in respect of our Company filed with the relevant government authorities at the material time. Instead of contributing to the registered capital by way of conversion of undistributed profits and surplus reserve, the increase in capital was in fact contributed by the then shareholders of our Company by way of both the conversion of shareholders' loans and the transfer of surplus reserve;

(iv) prior to June 8, 2006, there were circumstances in relation to our Company where capital contribution was not made within prescribed time limit, the requisite appraisal procedures in relation to the conversion of debt into equity for capital contribution were not abided, and the requisite change in registration procedures at the local administration for industry and commerce were not complied with in a timely manner, all of which deviated from the relevant requirements under the PRC Company Law; and

(v) the above discrepancies in the capital contribution method and amount had been subsequently rectified by our then Shareholders and there was no material adverse effect on our Company.

According to the Report, by March 4, 2010, our Company had duly received all the capital contribution from our then Shareholders.

The defects in the historical capital contribution of our Company were before the Track Record Period. Such defects arose mainly because our then shareholders and administrative staff were not familiar with the relevant requirements under the PRC Company Law. We believe that we have undertaken appropriate rectification measures to address such defects and no more similar defects have occurred again. We will continue to review our corporate governance practices from time to time, and where necessary, consult with professional advisers, including PRC legal advisers, to ensure our compliance with the applicable requirements under the PRC Company Law going forward.

We obtained written confirmation from Shijiazhuang AIC dated February 29, 2016 and August 3, 2016, respectively, confirming, among other things, that (i) since establishment of our Company till the date of the confirmation, there had been no material violation of or non-compliance with any applicable laws and regulations and no administrative penalties had been imposed on us; (ii) as of the date of the confirmation, there was no outstanding violation of the applicable national and local laws and regulations in relation to administration for industry and commerce, and Shijiazhuang AIC was not aware of any other circumstance that might cause any penalty to us; and (iii) as of the date of the confirmation, our Company was in valid subsistence.

Based on the above, given that the Report has confirmed the official receipt of our Company of all capital contribution from the then shareholders in March 2010, and Shijiazhuang AIC has issued the above confirmation, our PRC Legal Advisers are of the view that the above defects would not affect the legal subsistence of our Company, would not have any material adverse effect on our Company and the risk of penalty is minimal. As advised by our PRC Legal Advisers, Shijiazhuang AIC is a competent authority to give the above confirmation.

2. Yichen Corporate

Yichen Corporate was established under the name of Gaocheng City Yichen Engineering Plastics Co., Ltd. (藁城市翼辰工程塑料有限公司) in the PRC with limited liability on May 6, 2011 with an initial registered capital of RMB2,950,000 entirely held by our Company. The name of Yichen Corporate was changed to Shijiazhuang City Gaocheng District Yichen Engineering Plastics Co., Ltd. (石家莊市藁城區翼辰工程塑料有限公司) on November 25, 2014, which was further changed to its present name of Shijiazhuang City Gaocheng District Yichen Corporate Management Services Co., Ltd. (石家莊市藁城區翼辰企業管理服務有限公司) on May 20, 2015.

As of the Latest Practicable Date, the registered capital of Yichen Corporate had been fully paid up.

3. Yichen Railway

Yichen Railway was established as a collectively owned enterprise under the name of Hebei Province Gaocheng City Railway Engineering Equipments Factory (河北省藁城市鐵路工務器材廠) in the PRC on March 31, 1994 with an initial registered capital of RMB200,000 entirely held by Nanshangzhuang Village Committee (南尚莊村委會).

On October 9, 2000, Yichen Railway was reformed into a limited liability company and changed its name to Gaocheng City Yichen Railway Engineering Equipment Co., Ltd. (藁城市翼辰鐵路工務器材有限公司) with a registered capital of RMB18,150,000, held as to 24.2% by Mr. Zhang Xiaosuo (張小鎖), 22.7% by Mr. Zhang Suoqun (張鎖群), 22.6% by Mr. Zhang Guanjun (張冠軍), 18.7% by Mr. Zhang Haijun and 11.8% by Mr. Zhang Ligang (張立剛).

In March 2007, our Company acquired approximately 24.2%, 22.7%, 22.6% and 18.7% equity interest in Yichen Railway from Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Suoqun (張鎖群), Mr. Zhang Guanjun (張冠軍) and Mr. Zhang Haijun for a consideration of RMB4,400,000, RMB4,111,000, RMB4,100,000 and RMB3,400,000, respectively. The consideration for such equity transfers was determined with reference to the then registered capital of Yichen Railway. Although Yichen Railway was reformed into a limited liability company on October 9, 2000, it did not commence business operation until 2007. During the period from October 9, 2000 until it commenced operation in 2007, Yichen Railway had not put in place, nor maintained, a proper accounting system which made it difficult to verify the status and value of the assets and capital comprising the registered capital contributed by the then shareholders during the acquisition. As a result, as part of the conditions for the acquisition, the then shareholders of Yichen Railway agreed to compensate Yichen Railway a sum equivalent to their respective registered capital in Yichen Railway by (i) the selling shareholders directing our Company to pay its consideration for such acquisition to Yichen Railway directly by installments, with the first payment made in April 2007; and (ii) Mr. Zhang Ligang (張立剛) paying to Yichen Railway an amount represented by his 11.78% equity interest in cash. Our Company settled such payment in full in December 2012. A new business license was issued to Yichen Railway on December 13, 2012 following the registration of such equity transfers with the relevant industry and commerce authority. Since March 2007 until June 2015, Yichen Railway was owned as to 88.2% by our Company and 11.8% by Mr. Zhang Ligang (張立剛). As advised by our PRC Legal Advisers, the delay in registration of such equity transfers with the relevant industry and commerce authority, and the fact that Yichen Railway had not commenced business operation nor maintained proper accounting system before 2007 would not affect the legal subsistence of Yichen Railway and would not have any material adverse effect on our Group.

The name of Yichen Railway was changed to its present name of Shijiazhuang City Gaocheng District Yichen Railway Engineering Equipment Co., Ltd. (石家莊市藁城區翼辰鐵路工務器材有限公司) on November 25, 2014.

To simplify our Group structure, on June 19, 2015, our Company acquired approximately 11.8% equity interest in Yichen Railway from Mr. Zhang Ligang (張立剛) for a consideration of RMB2,759,963.96. The consideration for such equity transfer was determined with reference to the then registered capital of Yichen Railway and the dividend payable but unpaid by Yichen Railway to Mr. Zhang Ligang (張立剛). Upon completion of such equity transfer, Yichen Railway became wholly-owned by our Company.

As of the Latest Practicable Date, the registered capital of Yichen Railway had been fully paid up.

4. Yichen Trading

Yichen Trading was established in the PRC with limited liability on September 27, 2013 with an initial registered capital of RMB3,000,000 entirely held by our Company. There had not been any change in the registered capital or the equity holder of Yichen Trading since its establishment and up to the Latest Practicable Date.

As of the Latest Practicable Date, the registered capital of Yichen Trading had been fully paid up.

CONFIRMATION FROM OUR PRC LEGAL ADVISERS

Our PRC Legal Advisers have confirmed that, save as disclosed under "Historical capital contribution of our Company" and "3. Yichen Railway" above, all equity transfers registered with industry and commerce authority, changes in registered capital and change of corporate name in respect of our Company and other members of our Group as described above have obtained all necessary approvals, completed all registrations and the procedures involved are in accordance with the PRC laws and regulations. In addition, as advised by our PRC Legal Advisers, the nominee shareholding arrangement in respect of our Company since our establishment up to the termination of such arrangement on July 24, 2015 by our then Shareholders was legal and valid and did not contravene the PRC Company Law and other applicable PRC laws and regulations.

ASSOCIATE

Tieke Yichen

Tieke Yichen was established in the PRC with limited liability on April 20, 2012 under the name Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司) with an initial registered capital of RMB9,500,000 entirely held by our Company. On March 4, 2013, the registered capital of Tieke Yichen was increased from the then registered capital of RMB9,500,000 to RMB49,000,000, with the increased portion paid up and satisfied by capital injection as to RMB24,990,000 by Tieke Shougang, an Independent Third Party, and as to RMB14,510,000 by our Company. At the same time, it was renamed as Hebei Tieke Yichen Rubber Product Co., Ltd. (河北鐵科翼辰橡膠製品有限公司). Upon completion of such increase in registered capital, Tieke Yichen was owned as to 51% by Tieke Shougang and 49% by our Company. Subsequently, in June 2015, the name of Tieke Yichen was changed to its current name Hebei Tieke Yichen New Material Technology Co., Ltd. (河北鐵科翼辰新材科技有限公司).

As of the Latest Practicable Date, the registered capital of Tieke Yichen had been fully paid up.

Our PRC Legal Advisers have confirmed that our Company's ownership in 49% equity interest in Tieke Yichen is legal and valid under the PRC laws and regulations.

MAJOR DISPOSALS

During the Track Record Period, our Group had undertaken the following major disposals:

1. Disposal of production equipment and testing equipment to Tieke Yichen

On December 18, 2013, our Company and Tieke Yichen entered into an asset acquisition agreement pursuant to which we sold certain production and testing equipment of rubber and nylon to Tieke Yichen for a consideration of RMB46,931,148.81. The consideration was determined after arm's length negotiation between our Group and Tieke Yichen having taken into account the appraised value of the above assets. Upon inspection by Tieke Yichen, some of the equipment was not accepted by Tieke Yichen as such equipment was found to be damaged. The attributable value (including tax amount) of such unaccepted equipment out of the total consideration was RMB3,189,127.89 and the corresponding amount was deducted from the total consideration payable by Tieke Yichen. The consideration in the adjusted total amount of RMB43,742,020.92 was fully settled on October 10, 2014. For our relationship with Tieke Yichen, please refer to the paragraph headed "Associate" in this section for further details.

2. Disposal of properties and production equipments to Longji

On July 29, 2015, our Company and Longji entered into an asset transfer agreement pursuant to which our Group had sold certain buildings, production facilities and equipment for metal processing for a consideration of RMB52,657,897.27. The consideration was determined after arm's length negotiation between our Group and Longji having taken into account the net asset value of these assets, and was settled on July 31, 2015. For our relationship with Longji, please refer to the paragraph headed "Relationship with our Controlling Shareholders — Our Controlling Shareholders — Information on Other Company Owned by our Controlling Shareholders" in this prospectus for further details.

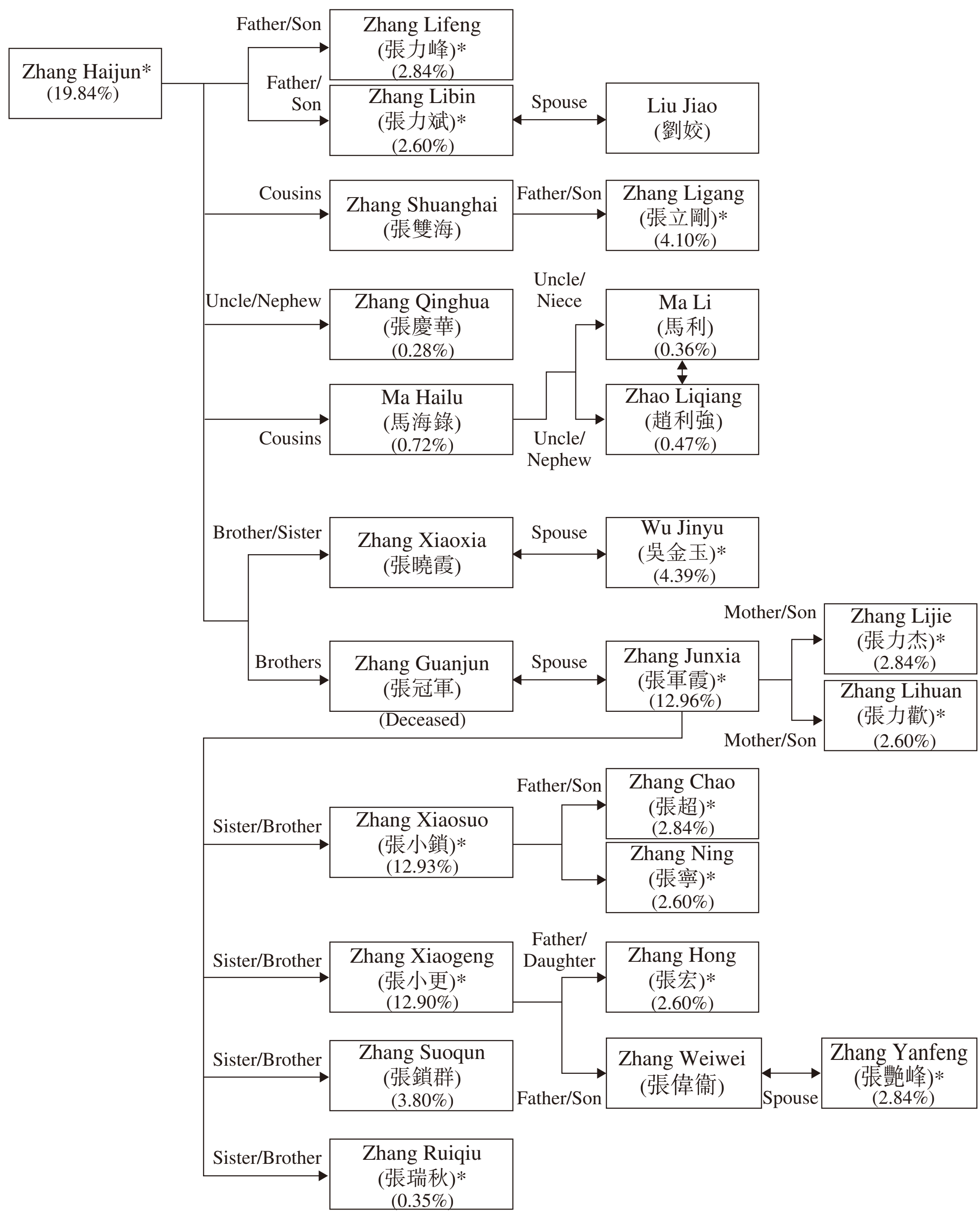
The above disposals were effected by us so that we can place our focus and resources on our principal business, that is, the production and development of spring bars, bolts and screws and cast iron products of our rail fastening system. As the assets involved in the above disposals, which included equipment for metal processing or production of nylon and rubber products, or ancillary buildings or facilities such as office facilities, staff cafeterias and amenities and warehouses, were not critical to our principal business, our Directors consider that the above disposals were not significant to our Group in any material respect.

Our Directors have confirmed that the above disposals had been properly and legally completed and settled, and all requisite approvals from the relevant authorities, if any, had been obtained. As advised by our PRC Legal Advisers, the above disposals were in compliance with the applicable PRC laws and were valid.

RELATIONSHIP AMONGST SHAREHOLDERS

Family relationship

Some of the persons who held equity interest in members of our Group as of the Latest Practicable Date were related to each other. The graph below provides certain information about the relationship amongst these persons as of the Latest Practicable Date.



Notes:

1. *The percentage figures shown in the graph above represent the approximate percentage equity interest held by the relevant person in our Company as of the Latest Practicable Date.*

2. *In addition to the chart above, the following persons are related to each other:*

Name	Approximate percentage equity interest in our Company as of the Latest Practicable Date	Relationship
(A) Mr. Fan Tiejun (樊鐵軍) (B) Ms. Fan Xiulan (樊秀蘭)	(A) 0.42% (B) 0.14%	Brother and sister
(A) Ms. Zhang Shuangge (張雙格) (B) Mr. Zhang Qinghua (張慶華)	(A) 0.19% (B) 0.28%	Aunt and nephew
(A) Ms. Liu Huizhen (劉惠珍) (B) Ms. Liu Jihong (劉繼紅)	(A) 1.00% (B) 1.00%	Sisters

3. Persons marked with "*" are parties to the concert party agreement dated December 2, 2015. Please refer to "Concert party agreement" below for details of the concert party arrangement.

4. To the best of our Directors' knowledge, other Shareholders shown in the graph above, who are not parties to the concert party agreement, had not entered into the concert party agreement as they want to control their own exercise of voting rights in the Shares in the future, given that they are neither close family members of Mr. Zhang Haijun, nor senior management of our Group and have insignificant influence over the overall development strategies and business plans of our Group.

Concert party agreement

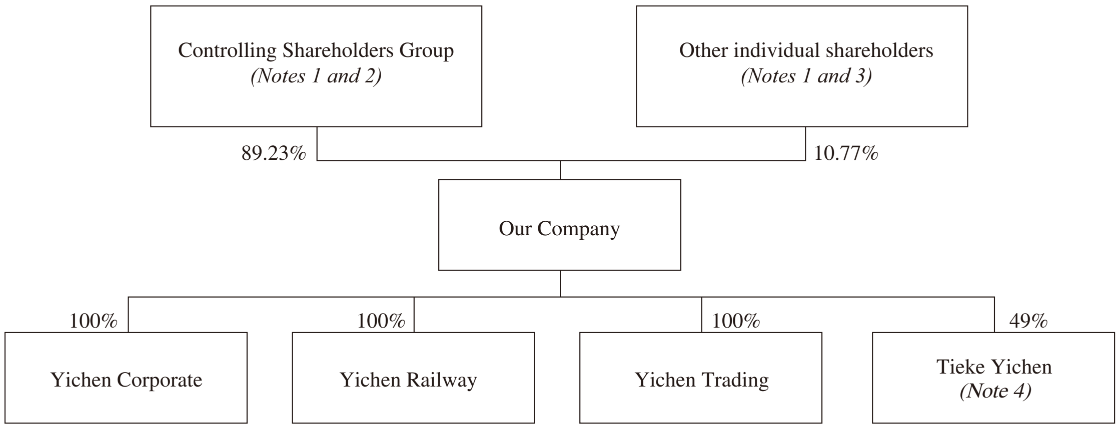
Mr. Zhang Haijun and other members of the Controlling Shareholders Group, namely Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋) are acting in concert in terms of their exercise of voting rights at general meetings of our Company, and the other members of the Controlling Shareholders Group have been actively following the lead of Mr. Zhang Haijun in terms of concerted voting decisions on matters and resolutions put to discussion at shareholders' meeting of our Company since they became interested in the equity interest in our Company. On December 2, 2015, all members of the Controlling Shareholders Group entered into a concert party agreement to confirm their acting-in-concert agreement. The Controlling Shareholders Group controls approximately 89.23% of the total share capital of our Company in aggregate after entering into the concert party agreement. All of them became shareholders of our Company before 2015, save for Ms. Zhang Junxia (張軍霞), who inherited the 12.96% equity interest in our Company from her spouse, Mr. Zhang Guanjun (張冠軍) who passed away in December 2014, and Ms. Zhang Yanfeng (張艷峰), who acquired the 2.84% equity interest in our Company from Mr. Zhang Weiwei (張偉衛), her spouse, in July 2015. Immediately following completion of the Global Offering (and assuming that the Over-allotment Option is not exercised at all), the Controlling Shareholders Group will in aggregate control approximately 66.92% of the total share capital of our Company.

As advised by our PRC Legal Advisers, the acting-in-concert arrangement between members of the Controlling Shareholders Group is legal, valid, enforceable and binding on the parties thereto.

Please refer to the paragraph headed "Family relationship" above for more information on the relationship amongst these persons.

CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately prior to the Global Offering:



Notes:

(1) Please refer to the paragraph headed "Relationship Amongst Shareholders" above for more information on the relationship amongst these individuals.

(2) The identity and shareholding of each member of the Controlling Shareholders Group prior to completion of the Global Offering are set out as follows:

Name	**Position in our Group (if any) as of the Latest Practicable Date**	**Shareholding percentage**
Mr. Zhang Haijun	Executive Director and chairman of the Board	19.84%
Ms. Zhang Junxia (張軍霞)	N/A	12.96%
Mr. Zhang Xiaosuo (張小鎖)	Supervisor and chairman of the board of supervisors	12.93%
Mr. Zhang Xiaogeng (張小更)	Employee	12.90%
Mr. Wu Jinyu (吳金玉)	Executive Director and chief financial officer of our Group	4.39%
Mr. Zhang Ligang (張立剛)	Executive Director and general manager of our Group	4.10%
Mr. Zhang Chao (張超)	Executive Director, secretary to the Board and joint company secretary of our Company	2.84%
Mr. Zhang Lijie (張力杰)	Deputy general manager of our Group	2.84%
Mr. Zhang Lifeng (張力峰)	Deputy general manager of our Group	2.84%
Ms. Zhang Yanfeng (張艷峰)	Deputy head of finance department of our Group	2.84%
Mr. Zhang Libin (張力斌)	N/A	2.60%
Mr. Zhang Lihuan (張力歡)	Executive Director and manager of welding business division of our Group	2.60%
Mr. Zhang Ning (張寧)	N/A	2.60%
Ms. Zhang Hong (張宏)	N/A	2.60%
Mr. Zhang Ruiqiu (張瑞秋)	N/A	0.35%
	Total:	89.23%

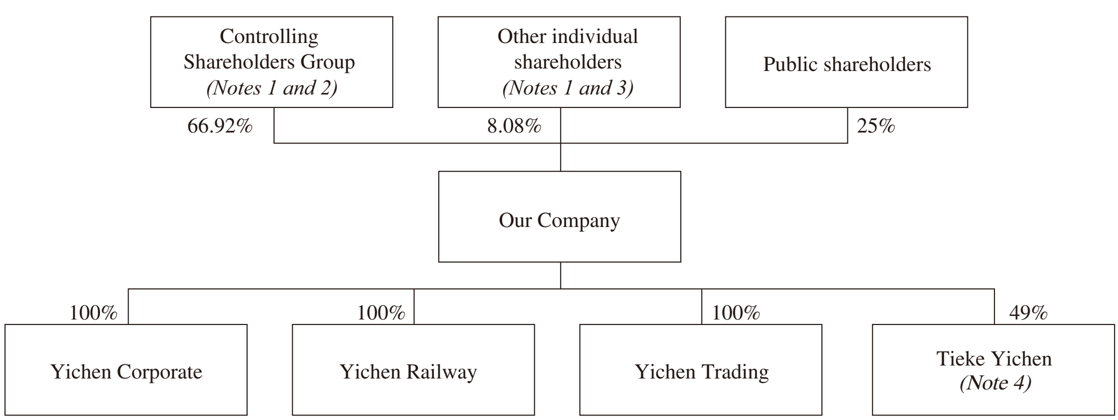
(3) The identity and shareholding of the other individual shareholders prior to completion of the Global Offering are set out as follows:

Name	Position in our Group (if any) as of the Latest Practicable Date	Shareholding percentage
Mr. Zhang Suoqun (張鎖群)	N/A	3.80%
Ms. Liu Huizhen (劉惠珍)	N/A	1.00%
Ms. Liu Jihong (劉繼紅)	N/A	1.00%
Mr. Zhang Fengxuan (張風選)	Deputy general manager of our Group	0.75%
Mr. Liu Xiwen (劉喜文)	Employee	0.75%
Mr. Wu Yonggang (吳永崗)	Employee	0.75%
Mr. Ma Hailu (馬海錄)	Employee	0.72%
Mr. Zhao Liqiang (趙利強)	Employee	0.47%
Mr. Fan Tiejun (樊鐵軍)	N/A	0.42%
Ms. Ma Li (馬利)	Employee	0.36%
Mr. Zhang Qinghua (張慶華)	Employee	0.28%
Ms. Zhang Shuangge (張雙格)	N/A	0.19%
Ms. Fan Xiulan (樊秀蘭)	Executive Director	0.14%
Mr. Gao Weifeng (高衛峰)	N/A	0.14%
	Total:	10.77%

(4) The remaining 51% equity interest in Tieke Yichen was held by Tieke Shougang, an Independent Third Party, as of the Latest Practicable Date.

(5) The aggregate of the percentage figures in the tables above may not add up to the "Total" figure shown due to rounding of the percentage figures to two decimal places.

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Notes:

(1) Please refer to the paragraph headed "Relationship Amongst Shareholders" above for more information on the relationship amongst these individuals.

(2) The identity and shareholding of each member of the Controlling Shareholders Group immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) are set out as follows:

Name	Position in our Group (if any) as of the Latest Practicable Date	Shareholding percentage
Mr. Zhang Haijun	Executive Director and chairman of the Board	14.88%
Ms. Zhang Junxia (張軍霞)	N/A	9.72%
Mr. Zhang Xiaosuo (張小鎖)	Super visor and chairman of the board of supervisors	9.70%
Mr. Zhang Xiaogeng (張小更)	Employee	9.68%
Mr. Wu Jinyu (吳金玉)	Executive Director and chief financial officer of our Group	3.29%
Mr. Zhang Ligang (張立剛)	Executive Director and general manager of our Group	3.08%
Mr. Zhang Chao (張超)	Executive Director, secretary to the Board and joint company secretary of our Company	2.13%
Mr. Zhang Lijie (張力杰)	Deputy general manager of our Group	2.13%
Mr. Zhang Lifeng (張力峰)	Deputy general manager of our Group	2.13%
Ms. Zhang Yanfeng (張艷峰)	Deputy head of finance department of our Group	2.13%
Mr. Zhang Libin (張力斌)	N/A	1.95%
Mr. Zhang Lihuan (張力歡)	Executive Director and manager of welding business division of our Group	1.95%
Mr. Zhang Ning (張寧)	N/A	1.95%
Ms. Zhang Hong (張宏)	N/A	1.95%
Mr. Zhang Ruiqiu (張瑞秋)	N/A	0.26%
	Total:	66.92%

(3) The identity and shareholding of the other existing individual shareholders immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) are set out as follows:

Name	Position in our Group (if any) as of the Latest Practicable Date	Shareholding percentage
Mr. Zhang Suoqun (張鎖群)	N/A	2.85%
Ms. Liu Huizhen (劉惠珍)	N/A	0.75%
Ms. Liu Jihong (劉繼紅)	N/A	0.75%
Mr. Zhang Fengxuan (張風選)	Deputy general manager of our Group	0.56%
Mr. Liu Xiwen (劉喜文)	Employee	0.56%
Mr. Wu Yonggang (吳永崗)	Employee	0.56%
Mr. Ma Hailu (馬海錄)	Employee	0.54%
Mr. Zhao Liqiang (趙利強)	Employee	0.35%
Mr. Fan Tiejun (樊鐵軍)	N/A	0.32%
Ms. Ma Li (馬利)	Employee	0.27%
Mr. Zhang Qinghua (張慶華)	Employee	0.21%
Ms. Zhang Shuangge (張雙格)	N/A	0.14%
Ms. Fan Xiulan (樊秀蘭)	Executive Director	0.11%
Mr. Gao Weifeng (高衛峰)	N/A	0.11%
	Total:	8.08%

(4) The remaining 51% equity interest in Tieke Yichen was held by Tieke Shougang, an Independent Third Party, as of the Latest Practicable Date.

(5) The aggregate of the percentage figures in the tables above may not add up to the "Total" figure shown due to rounding of the percentage figures to two decimal places.

OVERVIEW

We are a leading rail fastening system provider to the PRC railway industry. According to Frost & Sullivan, we have consistently been one of the largest rail fastening system providers in the PRC in terms of revenue since 2012, and we were the largest rail fastening system provider in the PRC in terms of revenue for the year ended December 31, 2015. In 2015, we accounted for approximately 17.1% of the rail fastening system market in the PRC in terms of revenue. We have over 10 years of experience in supplying rail fastening systems to the PRC railway industry, and during the Track Record Period, we entered into supply contracts for rail fastening system projects with a total initial contract value of RMB2,704.5 million, including high speed railway projects with a total initial contract value of RMB1,866.3 million, metro series projects with a total initial contract value of RMB392.7 million, traditional track projects with a total initial contract value of RMB349.6 million and heavy haul railway projects with a total initial contract value of RMB95.9 million. According to Frost & Sullivan, the PRC rail fastening system market has experienced consistent growth over the last few years, and we expect to continue to benefit from such growth.

Our rail fastening systems have been used in nationwide railway network that include all Four Vertical and Four Horizontal High Speed Railway Corridors. Leveraging on such extensive experience, we have grown into one of the few rail fastening system manufacturers in the PRC with the capability to produce the core components of the rail fastening system, and through collaboration with our affiliate, Tieke Yichen (which was our wholly-owned subsidiary from April 2012 to February 2013), we have the capability to consistently supply all components of rail fastening systems. Furthermore, through an integrated production process, we have developed a comprehensive portfolio of rail fastening systems to meet the demands of all segments of the railway industry, ranging from high speed railway and heavy haul railway series to traditional track series and metro series. We have a diverse production capability while maintaining our focus on delivering the right products to meet our customer's needs in accordance with the relevant quality and safety standards in the PRC.

According to Frost & Sullivan, we are one of the seven and the only private domestic enterprise approved by the CRCC to supply for high speed rail fastening systems in the PRC. The CRCC, as a state-owned certification authority for the PRC railway transportation system, has set stringent approval qualifications for the suppliers of high speed rail fastening systems. We believe the qualifications established by CRCC create effective entry barriers for new market participants. Thus, we are well positioned to benefit from the expansion of the high speed railway industry in the PRC.

Over the years, we have addressed the needs and requirements of our customers through innovative engineering, quality manufacturing and good after-sales services. We have supplied to various "first in China" landmark projects and participated in high speed railways, heavy haul railways and other railway projects under demanding situations. Our landmark projects include the following:

- Beijing Capital Airport Line completed in 2008 — We were the first rail fastening system provider in the PRC to provide pre-assembled rail fastening system for metro railways in the PRC;

- Xiamen – Shenzhen High Speed Railway in 2010, which is a major high speed railways of the Four Vertical and Four Horizontal High Speed Railway Corridors in the PRC;

- Shanghai – Kunming High Speed Railway in 2014, which is a major high speed railway of the Four Vertical and Four Horizontal High Speed Railway Corridors in the PRC and the first high speed railway in Yunnan province; and

- In 2013, we collaborated with Guangzhou Metro Design & Research Institute Co., Ltd. (廣州地鐵設計研究院有限公司) and successfully developed and delivered rail fastening systems for the wire-free tram rails in Guangzhou, which is the first wire-free tram rail in Guangdong province.

We derive a substantial portion of our revenue from sales conducted through competitive bidding process. The following table sets out the number of project bids, number of successful project bids and our success rate during the Track Record Period:

	For the years ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
Number of project bids	166	209	226	163
Number of successful project bids	41	38	46	35
Success rate	24.7%	18.2%	20.4%	21.5%

We have collaborated with construction and operating units of China Railway Corporation which are responsible for railway construction and operation. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from sales to the entities of China Railway Corporation which it directly or indirectly holds 50% or more equity interest (including Tieke Shougang) was RMB292.1 million, RMB446.0 million, RMB351.3 million and RMB143.7 million, respectively, accounting for 47.9%, 52.2%, 38.7% and 27.5% of our total revenue for the same period, respectively. To the best knowledge of our Directors, these entities make their purchase decision for our products independently from each other, as we enter into agreements, communicate, supply goods and settle outstanding amounts, with each of these entities separately. In addition, in the urban transit sector, we have supplied to major metro construction companies and/or operation companies in 26 of the 28 cities in the PRC which have metro systems in operation. Furthermore, our relationship with our customers extend to collaboration in the testing of materials. In February 2013, we established a "Polymer Product Production Site" (高分子產品生產基地) with Tieke Shougang, a subsidiary of China Academy of Railway Sciences (中國鐵道科學研究院) in relation to the production of nylon and rubber.

Benefiting from our competitive advantages and the favorable economic and industry trends in China, we have achieved rapid growth in recent years. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from our rail fastening system manufacturing business was RMB530.3 million, RMB771.2 million, RMB828.4 million and RMB486.2 million, respectively, which accounted for approximately 87.0%, 90.2%, 91.3% and 93.1% of our total revenue for the same periods, respectively. In addition to rail fastening system products, we also sell flux cored wire products, which are materials used for welding. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from our flux cored wire manufacturing business was RMB65.0 million, RMB73.9 million, RMB71.9 million and RMB33.2 million, respectively, which accounted for 10.7%, 8.6%, 7.9% and 6.4% of our total revenue for the same periods, respectively.

OUR STRENGTHS

Our principal competitive strengths include the following:

We are a leading rail fastening system provider to the PRC railway industry, and our products are critical components to ensure the safe and efficient operation of rail transportation in the PRC

We are a leading rail fastening system provider to the PRC railway industry. According to Frost & Sullivan, we have consistently been one of the largest rail fastening system providers in the PRC in terms of revenue since 2012, and for the year ended December 31, 2015, we were the largest rail fastening system provider in the PRC in terms of revenue accounted for approximately 17.1% of the rail fastening systems market in the PRC. We have over 10 years of experience in supplying rail fastening systems to the PRC railway industry. During the Track Record Period, we entered into supply contracts for rail fastening system projects with total initial contract value of RMB2,704.5 million, including high speed railway projects with total initial contract value of RMB1,866.3 million, metro series projects with total initial contract value of RMB392.7 million, traditional track projects with total initial contract value of RMB349.6 million and heavy haul railway projects with total initial contract value of RMB95.9 million. Our rail fastening systems have a nationwide coverage that include all Four Vertical and Four Horizontal High Speed Railway Corridors. Leveraging on this extensive experience, we have grown into one of the few rail fastening system manufacturers in the PRC with the capability to produce all core components of the rail fastening system, and through collaboration with our affiliate, Tieke Yichen, we have the capability to consistently supply all components of rail fastening systems.

We have been a major player in the PRC rail construction industry. Our products ensure that the rails are properly connected to the foundations of the rail track and are critical components to ensure the stable operation of the PRC railway system. We believe our emphasis on producing quality products has contributed to the safe and efficient operation of the PRC railway system. According to Frost & Sullivan, rail fastening systems play a critical role in determining the high speed limitation and loading capacity of each railway. Our high speed rail fastening system products, such as WJ-8 rail fastening system, helps ensure that railway cars are able to safely travel up to 350 km/h. While our heavy haul rail fastening system products, such as WJ-12 rail fastening system, contributed to the smooth operation of freight rail transports at 30 ton axle loads. We were also one of the six rail fastening system manufacturers selected to formulate the PRC high speed rail fastening system standard. We believe all of the aforementioned are testament to our leading position in the rail fastening system industry in the PRC.

We have completed various "first in China" landmark projects and participated in high speed railways, heavy haul railways and other railway projects under demanding operational conditions. For further details, please see the subsection headed "— Overview".

We are one of the seven CRCC approved high speed rail fastening system providers and a pioneer in providing pre-assembled rail fastening system in the PRC

We are one of the seven and the only private domestic enterprise approved by the CRCC to provide pre-assembled high speed rail fastening systems in the PRC. Rail fastening systems are essential to ensure the safe operation of high speed railway transportation systems, and the CRCC, as a state-owned certification authority for the PRC railway transportation system products approval and certification, has set stringent approval qualifications for the suppliers of high speed rail fastening system. Benefiting from our prior participation in the research and testing of relevant rail fastening system products and prior experience in supplying comparable projects, we are qualified as a provider of pre-assembled high speed rail fastening systems in the PRC. We believe the qualifications established by CRCC create effective entry barriers for new market participants. In addition, according to Frost & Sullivan, the high speed railway network in the PRC is the most extensive in terms of geographical coverage and has the most diverse operating conditions in the world. As one of the experienced suppliers of high speed rail fastening systems in the PRC, we believe we are well positioned to benefit from the expansion of the high speed railway construction in the PRC and abroad, as a result of opportunities brought by the "one belt one road" policy. In April 2016, we secured a traditional rail fastening system project, which we understand, will apply our products to constructions overseas.

We are a pioneer in providing an entire suite of rail fastening systems independently in the PRC and we are currently the only such provider, according to Frost & Sullivan. Building on our extensive industry experience, we have developed a business model that combines rail fastening system manufacturing and assembly. We believe the provision of pre-assembled rail fastening system supported our business growth because (i) it is convenient for on-site installation; (ii) it minimizes the cost relating to the assembly of different rail fastening system parts on site; (iii) it minimizes the risk of delay due to different arrival time of parts or components of the rail fastening systems, and (iv) it avoids losses caused by not having matching parts of the rail fastening systems. Through such integrated production process we produce a comprehensive portfolio of rail fastening systems that meets the demands of our customers. Moreover, our business model enhances our ability to customize our products to address customers' needs, to provide products that could be more easily installed by our customers, which in turn helps reduce the construction time and enhance project quality. We believe such capability has made us more competitive in bidding for new projects. As a result of our integrated production capability, we were qualified to supply rail fastening systems to the Beijing Airport Line, which was the first PRC railway project that required suppliers to provide for pre-assembled rail fastening systems. Accordingly, we were the first pre-assembled rail fastening systems provider in the PRC. Furthermore, we believe our ability to provide an entire suite of rail fastening systems has been instrumental to our growth, and will help us maintain a competitive edge in the PRC rail fastening systems market.

We have a sound track record of delivering quality products and have established solid relationships with key participants of the PRC railway industry

We place paramount emphasis on product safety and reliability. Our products are outstanding in safety, reliability, availability and maintainability, ensuring the efficiency of rail transportation in the PRC all year round. We have consistently made timely delivery of quality products to customers and our products have not caused any material delays in railway construction projects or interrupted the smooth operation of the respective railway lines. Moreover, we are committed to explore better quality and safety control mechanisms in order to strengthen our product quality. As a result of such effort, we have received several utility model patents for core components of rail fastening systems that enhance the security of rail fastening systems. Our commitment to upholding stringent product quality has helped us build a strong track record.

Leveraging on a strong track record, we believe we have earned the trust from our customers and established solid relationships with key participants of the PRC railway construction industry. We have collaborated with the construction and operating units under China Railway Corporation which are responsible for railway construction and operation, and in the urban transit sector, we have supplied to major metro construction companies and/or operation companies in 26 out of the 28 cities in the PRC which have metro systems in operation. Furthermore, our relationship with our customers extend to collaboration in testing of materials. In February 2013, we established a "Polymer Product Production Site" (高分子產品生產基地) with Tieke Shougang, a subsidiary of China Academy of Railway Sciences (中國鐵道科學研究院) in relation to the production of nylon and rubber. The rail fastening system industry generally enjoys a high level of customer loyalty. We believe our reputation as a quality supplier and our established relationships with key industry participants gives us competitive advantages in securing new projects.

We are well positioned to benefit from the abundant market opportunities driven by: (i) the expansion of the PRC railway industry in both domestic and overseas market; (ii) the high growth phase of the urban rail construction; and (iii) maintenance and upgrade of rail fastening systems

We are well positioned to benefit from the expansion of high speed rail construction activities in the PRC and abroad. According to Frost & Sullivan, the high speed rail fastening system and parts market in the PRC is expected to expand at a CAGR of 15.3% between 2016 to 2020, where the projected growth is estimated on the bases and assumptions that there will be (i) more fixed asset investment in railway as the total fixed asset investment in railway during the 13th Five Year Plan period is 15% higher than that of 12th five-year period with at least 70% of the fixed asset investment in railway projects during the 13th Five Year Plan period contributed by high speed railway projects; (ii) considerable incremental mileage of high speed railway in 13th Five Year Plan period; and (iii) high replacement demand of high speed rail fastening system as the replacement period of high speed rail fastening system is eight to ten years and the first high speed railway operated in 2008 which should generate the replacement demand from 2016. In addition, high speed railway construction is a major focus of the "one belt one road" policy. According to Frost & Sullivan, China has met with over 28 countries to discuss the introduction of China's high speed railway construction technique or cooperative development in 2015. As the market leader in the PRC rail fastening system industry and leveraging on our experience in supplying to construction and operating units under China Railway Corporation which we have business relationship of over five years, we are well positioned to obtain future opportunities created by the overseas expansion of the PRC railway industry.

While the high speed rail network in the PRC is expected to continue to grow, China's urban rail transit construction, according to Frost & Sullivan, is entering into a period of high growth. According to National Development and Reform Commission, as of the end of 2015, 25 cities in the PRC have metro systems in operation, over 30 cities in the PRC have received approval from the national government on their latest construction plans and more than 40 cities have completed or drafted their respective urban rail transit plan, ranging from metro network expansion in Beijing, Shanghai, Guangzhou, Shenzhen and other provincial capitals as well as new network construction in smaller cities. We believe we will benefit from the growth of city metro construction, as we have already supplied to major metro construction companies and/or operation companies in 26 out of 28 cities in the PRC which have metro systems in operation.

In addition to opportunities offered from the new construction projects, as the railway network of the PRC continues to expand and age, we expect the demand for rail fastening systems for maintenance and upgrade of existing railways to increase. Our comprehensive products offering and established relationships with customers across the whole spectrum of railway construction and operation industry, together with our leading position, strong track record and reputation allow us to benefit from the significant market opportunities arising from the maintenance and upgrade demand.

We have an experienced management team with an outstanding track record and prominent industry expertise, a strong technical team of professional experts and a corporate culture of striving for excellence

Our management team has extensive experience and outstanding performance in the rail fastening system industry. Our stable management team has an average of over 15 years of industry experience with demonstrated management skills. Their knowledge and expertise of the rail fastening systems industry has helped develop trust and working relationships with our customers. At the same time, their ability to work closely and comfortably with the key players in the PRC railway industry and keep up with the industry trends have been instrumental to our business growth. Under their leadership, we have grown into a leading rail fastening system provider in the PRC.

Our corporate culture emphasizes on dedication, excellence, trust, reliability, strive for product quality, open dialog and strong relationships amongst our employees and customers. We believe our corporate culture has instilled in our employees the unwavering importance of the quality and safety of our products and encouraged them to work as a team, execute projects efficiently and embrace and overcome the challenges in major complex railway projects. We believe that our corporate culture has helped us to differentiate ourselves from our competitors in the past, and will continue to serve as the foundation of our future development.

OUR STRATEGIES

As a leading rail fastening system provider in the PRC, we plan to strengthen our existing market leading position through the following principal strategies:

Continue to enhance our leading position in the rail fastening system industry and capture the growing opportunities in the railway construction industry

We are a leader in the rail fastening system industry in the PRC, and we held a leading position in the PRC's rail fastening system industry in terms of total revenue as of December 31, 2015. We plan to enhance this leading position through various measures, including, among others, further expanding our rail fastening system production capacity and raising product quality to take advantage of the expanding railroad infrastructure industry. We have received a preliminary approval from the Gaocheng District Bureau of National Development and Reform Agency (藁城區發展改革局) with regard to fixed asset investments and production expansion in relation to our high speed railway and heavy haul railway business segments. We intend to construct the facilities on the land we purchased in December 2015. Please see "Business — Properties — Owned properties" for further details. For details of our expansion plans, please refer to the section headed "Future Plans and Use of Proceeds".

We seek to take advantage of the growing opportunities in the railway construction industry to increase our revenue and profit. According to Frost & Sullivan, the rapid rural areas of urbanization, increase in disposable income and increase in demand for transportation will continue to drive the construction for high speed rail. Meanwhile, first tier cities like Beijing and Shanghai will likely further expand their urban rail transit networks to second and third tier cities. At the same time, according to Frost & Sullivan, driving factors such as upgrade of existing railway lines to heavy haul railway lines, expected increase in construction of high speed rail in over 10 new economic regions, increased construction of metro systems in over 30 cities which have construction plans approved by national government and over 40 cities which have completed or drafting metro construction plans and national policies, and the "one belt one road" policy, are all expected to spur the expansion of the PRC railway construction market. Accordingly, we intend to expand our production and assembling capacity to meet the increase in demand for rail fastening systems. We will also consider enhancing our production and assembling efficiency by further streamlining our capacities in such areas through the addition of new equipment.

Continue to enhance our expertise and technical know-how

Given the critical role of rail fastening systems in railway transportation, in order to meet the increasingly stringent market requirements for the technology advancement, the safety and reliability of rail fastening systems, we intend to continue to enhance our expertise and technical know-how. To support future expansion and the development of new rail fastening systems, we intend to establish a research and development center and invest additional resources to further strengthen our research, testing and development by recruiting more professionals, purchase more equipment to provide necessary research and testing capabilities and provide more training to improve the research and development capabilities of our technical staff. We intend to establish a project-based technology development system, which will enable us to research and develop, educate our employees on, and produce new technologies to eventually realize proprietary technologies. We believe our research and development center will allow us to better integrate our research and development resources.

Furthermore, we enjoy relatively high levels of technical expertise which allow us to be competitive in the market for the rapidly growing high speed rail fastening systems market, the anticipated heavy haul railway construction and expansion in urban rail transit construction. In light of the opportunities arising from the segments of railway construction, we intend to continue to concentrate our research and development activities with a primary focus on developing key technologies relating to rail fastening systems for high speed railway, heavy haul railways and metro series. Such technologies include rail fastening systems for non-ballasted tracks for high speed railways, heavy haul railways and rail bridges.

Seek to pursue selective business acquisition opportunities and expansion into overseas market to enhance our competitiveness in the industry

We intend to complement our organic growth by pursuing a disciplined and targeted acquisition strategy to strengthen our market position and enhance our competitiveness. Our decision to acquire a target company will be based on a number of factors, including costs of acquisition compared with new production facility investment, the technical know-how of such target, whether the products manufactured by such targets would complement our current product portfolio, historical performance, business value, customer base, quality of production facilities of the target company, availability of tax incentives (where applicable) and proximity to steel mills as spring steel is, and is expected to be, our major raw material. Our potential acquisition targets are expected to be primarily PRC companies and may also include overseas companies depending on the pace and degree of our overseas expansion.

During the Track Record Period, we have sold our rail fastening system products to domestic customers that in turn applied such products in projects overseas. Going forward, while we intend to continue to supply to such customers, we will also consider opportunities to directly sell our rail fastening system products to customers overseas. In addition, we intend to implement our overseas expansion plan by coupling our acquisition strategy (as aforementioned) with the direction of development policies, such as "one belt one road". Considering that (i) some of our rail fastening system products sold to domestic customers in the past have been applied to overseas project; (ii) in April 2016, we secured a traditional rail fastening system project, which we understand, will apply our products to constructions overseas; (iii) a potential participant to the "one belt one road" policy has visited our premise and discussed with us on cooperation opportunities; (iv) it is expected that most of "one belt one road" policy related railway construction projects will be built by Chinese constructors which will generally apply Chinese standards and we have collaborated with construction and operating units of China Railway Corporation which may participate in such projects; and (v) we are the manufacturer of Chinese standard high speed rail fastening system products with the highest market share in terms of revenue for the year ended December 31, 2015 accounting for approximately 15.7% of the high speed rail fastening system market in the PRC, we believe we are able to capture opportunities under the "one belt one road" policy. We will closely monitor and analyze relevant policy directions and join tenders, when applicable, for suitable overseas projects, especially for high speed railway projects.

As of the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any acquisition target.

Continue to enhance our automated production process and enhance our information system

We strive to continue to enhance our production process by implementing additional automated processes. We intend to add more automated production lines for our spring bar production and to further develop our automated product packaging capabilities through installing more advanced packaging equipment. Furthermore, we seek to streamline the production process for our screw and bolt products by consolidating the cooling and scrubbing process through utilizing automated equipment and advancing our cast iron product refining process by applying more technically advanced machines. We also seek to install automated product examination machines.

Moreover, we intend to upgrade and improve our management system in the following aspects: (i) upgrade our financial management system to improve the management of the various financial modules in respect of purchasing orders, sales orders and inventory; (ii) improve our human resources management system to better monitor employee administrative and training matters; and (iii) enhance the application of our office automation system. We intend to use a portion of our proceeds from this offering to improve the above systems as well as: supplier management system, customer relationship management system, production process management and technical intelligence management system to achieve synergies between our human resources, financial and knowledge resources and business operations. When adopting and upgrading our information system, we seek to further integrate our internal resource allocation system to strengthen our management control and enhance our resource utilization.

PRINCIPAL BUSINESSES

Overview

We are one of the leading rail fastening system and parts suppliers in the PRC. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from our rail fastening system manufacturing business was RMB530.3 million, RMB771.2 million, RMB828.4 million and RMB486.2 million, respectively, which accounted for approximately 87.0%, 90.2%, 91.3% and 93.1% of our total revenue for the same periods, respectively. In addition to rail fastening system products, we also sell welding materials, which includes the sales of flux cored wire products. The table below sets forth our revenue breakdown by type of business for the years indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	Revenue	Revenue	Revenue	Revenue	Revenue
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Rail fastening system products	530,292	771,175	828,382	394,784	486,182
Welding materials (also known as "flux cored wire")	64,961	73,867	71,866	39,353	33,209
Others	14,065	9,735	6,801	3,562	2,558
Total	609,318	854,777	907,049	437,699	521,949

Rail fastening system products

Overview

Rail fastening systems are connectors between the rails and railroad sleepers. They are essential to the fixing of the rails to railroad sleepers to provide strong and flexible connection between rail and its supporting structure. It is a fundamental component in ensuring the safe and efficient operation of each railway track. In addition, rail fastening systems play a critical role in reducing the vertical, lateral and longitudinal sliding of rail from the forces generated from a moving railway car. Rail fastening systems minimize such movements in order to ensure the smooth operation of rail tracks. Based on the relevant regulations on railway transportation, a rail fastening systems should possess the following characteristics:

- *Strength and durability*. Railways operate for long hours with difficult maintenance circumstances. As such, rail fastening systems should be of great strength and durability in order to ensure railway safety.

- *Adjustable gage*. The gage is the spacing of the rails on a railway and is measured between the inner faces of the load-bearing rails. It is critical that the gage is adjustable to cope with the different weights for passenger and freight trains, the wear of rail, design of the railways and so on.

- *Electrical insulation*. Electrical insulation capability is critical to ensure the safe operation of railway track circuits and ensure reliable operation of the railway signal systems.

- *Elasticity*. Elasticity of rail fastening systems has a direct effect on the level of noise and vibration produced as trains come through. As such, elasticity is critical for railways operating within residential vicinity with stringent requirements as to noise and vibration emission.

- *Interchangeable parts*. Rail fastening systems should be simple with as much interchangeable parts as possible in order to lower cost and make construction and maintenance easier.

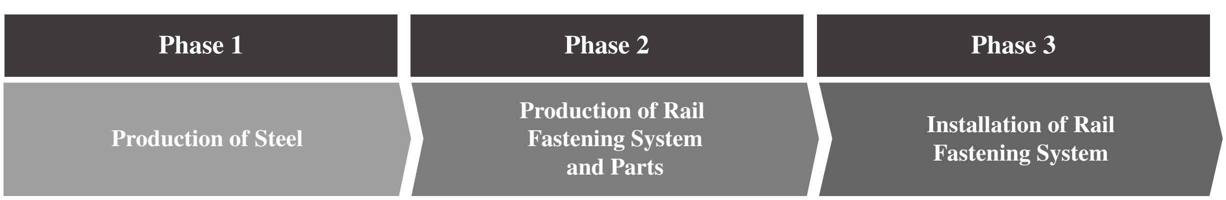
As such, our products are key parts that determine the traveling speed and loading capacity of a railway track.

We have developed a business model that combines the manufacturing and assembly of rail fastening systems. Through such integrated production process we produce a comprehensive portfolio of rail fastening systems that could meet the demands of our customers. We believe the provision of pre-assembled rail fastening system supported our business growth because (i) it is convenient for on-site installation; (ii) it minimizes the cost relating to the assembly of different rail fastening system parts on site; (iii) it minimizes the risk of delay due to different arrival time of parts or components of the rail fastening systems; and (iv) it avoids losses caused by not having matching parts of the rail fastening systems.

We supply our products to all segments of the railway transportation industry, ranging from high speed railway and heavy haul railway series to traditional track series and metro series. Moreover, our rail fastening system products have been widely applied in the PRC railway network, including heavy haul railways and other railway projects with demanding operational conditions. During the Track Record Period, we entered into supply contracts for rail fastening system projects with total initial contract value of RMB2,704.5 million, including high speed railway projects with total initial contract value of RMB1,866.3 million, metro series projects with total initial contract value of RMB392.7 million, traditional track projects with total initial contract value of RMB349.6 million and heavy haul railway projects with total initial contract value of RMB95.9 million.

Major Production Phases for Rail Fastening System

The rail fastening system industry value chain consists of three major phases:



Source: Frost & Sullivan

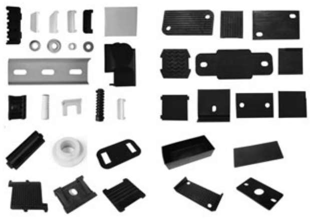
The production of the rail fastening systems is the most important phase of the value chain, as the work performed in this stage determines the quality of the rail fastening systems, which include but not limited to, the safety, durability and the correct formation of the key features of a rail fastening system. Moreover, rail fastening systems play an important role in adjusting track elasticity and track height, particularly for the ballastless tracks. The smooth and efficient operation of ballastless tracks (and high speed railways) is contingent on the effectiveness of rail fastening systems, which in turn, makes the production of such products even more important.

Components to rail fastening system products

A rail fastening system product comprises of four main components: (i) spring bar; (ii) bolts and screws; (iii) cast iron products; and (iv) nylon and rubber. Each of the components is designed to perform a specific function within the rail fastening system. In addition, each rail fastening system will have components of different specification to meet the needs of different types of rails.

The table below sets out the functionality of each component of a rail fastening system:

Product name	Product description
Spring bars . . . . 	According to Frost & Sullivan, a spring bar refers to a metal spring fastener whose one side is fastened on the bottom edge of the steel rail, and the other side is buckled on the fastening system and the sleeper. It appears in pairs at the both sides of the steel rail in order to fasten the rail tightly over the sleeper. Spring bar is designed to apply an appropriate clamping force to the railroad sleepers. The clamping force is one of the key factors that determine the elasticity of the fastening system. The bending form of spring bar functions like a buckle onto the railroad sleeper. It ensures a firm and long lasting connection to the railroad sleeper and reduces the vertical and lateral movements of railroad sleeper. The bending form of spring bar also helps absorb and reduce the vibration caused by the contact between train wheels and rails. According to Frost & Sullivan, rail fastening system manufacturers in the PRC are required by the supervisory department to produce completely self-manufactured spring bar because it requires highest level of technology in the production of rail fastening system.
Bolts and screws . . . . 	Bolts and screws are designed to affix and stabilize the spring bar to the cast iron product.
Cast iron products . . . . 	Cast iron products are designed to properly disperse the weight exerted by the rail by connecting the rail fastening system to the railroad sleepers. According to Frost & Sullivan, there are several kinds of plates in a rail fastening system performing different functions, including iron plate and spring plate. They comprise a platform that supports the rail, the spring bar and the bolts and screws. The layer of plates is used to sustain forces from the rail and to reduce vibration.

Product name	Product description
Nylon and rubber . . . . 	Nylon and rubber are designed to serve as insulators to properly insulate the rail fastening system from the rail to prevent electricity leakage through the rail fastening system causing corrosion of railway infrastructure and ensure reliable operation of the railway signal systems.

We produce the spring bars, bolts and screws and cast iron products at our production facilities in Hebei, and we purchase the nylon and rubber products from our affiliate, Tieke Yichen which was formerly our wholly-owned subsidiary. Please see "— Joint Venture with Tieke Shougang" and "History and Development — Associate — Tieke Yichen" for further details.

The different rail fastening systems are supplied to different segments of the railway transportation industry based on various factors, including the required durability, elasticity, ease of installation, maintenance requirements, amount of maintenance required, clamping force, contact area with the rail, cost and so on.

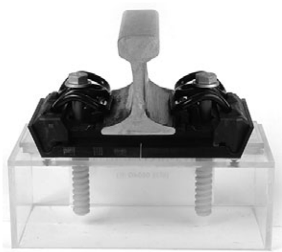
The following is a list of our core rail fastening system products:

High speed rail fastening system products

High speed rail tracks generally rely on the rail fastening systems to adjust the precisions of the ballastless tracks. Our high speed rail fastening system products coordinate the safe and efficient operation of the high speed railway train. We received high speed rail fastening system qualifications which are issued by the CRCC. We manufacture our high speed rail fastening system products based on technological specifications issued by China Railway Corporation and design as set out in our technology licensing agreements with Railway Construction Institute of China Academy of Railway Sciences (鐵道科學研究院鐵道建築研究所). Our key high speed rail fastening system products include Spring bar IV fastening system, Spring bar V fastening system, WJ-7 fastening system and WJ-8 fastening system. These products help to maintain the stability and reliability, adjust the height, reduce the vibration of the railway and increase passenger comfort.

The table below sets out our major high speed rail fastening system products:

Product name	Main characteristics	Product function
Spring bar IV fastening system 	• Avoids deformation • Contains relatively less components • Compact structure with high clamping force to the railroad sleepers • Low maintenance • Adopts a ballast structure	• Used on 350km/h passenger only tracks • Used on 250km/h cargo and passenger track • Maintains the stability and reliability of the railway
Spring bar V fastening system 	• Contains relatively less components • Low resistance capability • Ability to ensure the required gage • High insulation capability • Adjustable height • Adopts a ballast structure	• Used on 350km/h passenger only tracks • Used on 250km/h cargo and passenger tracks • Adjusts the height, maintains the stability and reliability of the railway
WJ-7 fastening system 	• High elasticity • High insulation capability • Allows for continuous variable adjustment (軌距可以無級調整) • High fatigue strength • Adjustable height and lateral movements • Adopts a ballastless structure	• Used on 350km/h passenger only tracks • Used on 250km/h cargo and passenger tracks • Sustains forces and reduces the vibration of the railway

Product name	Main characteristics	Product function
WJ-8 fastening system 	• High elasticity • High insulation capability • Use of interchangeable components • Multiple spring bars allow different levels of resistance, resulting in high fatigue strength • Adopts a ballastless structure	• Used on 350km/h passenger only tracks • Used on 250km/h cargo and passenger tracks • Adjusts the height, maintains the stability and reduces the vibration of the railway

Metro series products

Metro systems require rail fastening system products of high elasticity in order to satisfy the needs of underground rails and elevated rails. Our metro series products include DT-VI2 fastening system, DT-III fastening system, WJ-2 fastening system and double layer non-linear shock absorber fastening system. Our metro series products have been installed on to the metro systems of 26 out of the 28 cities in the PRC which have metro system in operation. Our metro series products are market tested with sufficient clamping forces which can well support the necessary frequent braking and starting of metro rails. It also meets the industry vibration reduction requirements which ensure comfort of passengers on train.

The table below sets out our major metro series rail fastening system products:

Product name	Main characteristics	Product function
DT-VI2 fastening system 	• Ensures sufficient clamping force • Contains relatively less components • Contains two layers of elastic pads	• Used on 60 kg/m steel tracks in tunnels • Maintains gage • Reduces vibration of the railway

Product name	Main characteristics	Product function
DT-III fastening system 	• Ensures sufficient clamping force • Allows for continuous variable adjustment • Contains two layers of elastic pads	• Used on 60 kg/m steel tracks in tunnels • Maintains gage • Reduces vibration of the railway
WJ-2 fastening system 	• Allows for continuous variable adjustment • Low resistance • Contains two layers of elastic pads	• Used on 60 kg/m steel tracks in tunnels • Used on sections of metro series with less resistance • Maintains gage
Double layer non-linear shock absorber fastening system 	• Use of interchangeable components	• Used on underground metro series and overhead tracks near residential area • Reduces vibration of the railway • Maintains gage

Traditional track series products

Our traditional track series products include Spring bar I fastening system, Spring bar II fastening system and Spring bar III fastening system. Our traditional track series products are widely used in low speed passenger or freight transportation. Our traditional track series products received qualifications issued by the CRCC. Traditional track series products are the most economical rail fastening systems in the industry in the sense that they are generally easy to install and has little requirements as to the railway construction base.

The table below sets out our major traditional track series rail fastening system products:

Product name	Main characteristics	Product function
Spring bar I fastening system 	• Compacts structure with high clamping force to the railroad sleepers • Adjustable gage • Contains relatively less components • Low maintenance	• Used on straight or curved tracks (radius no less than 300 meters) with standard gage
Spring bar II fastening system 	• Compacts structure with high clamping force to the railroad sleepers • Contains relatively less components • Low maintenance	• Used on straight or curved tracks (radius no less than 300 meters) with standard gage
Spring bar III fastening system 	• Contains relatively less components • Compacts structure reduce lateral movements • Low maintenance	• Used on straight or curved tracks (radius no less than 350 meters) with standard gage

Heavy haul railway series products

Our heavy haul railway series products mainly include Spring bar VI fastening system, Spring bar VII fastening system and WJ-12 fastening system. Heavy haul railway series products are currently at a testing stage and our products are supplied for use in the Shanxi South Railway Corridor project (山西中南部鐵路通道項目) and the Zhangjiakou to Tangshan Railway project (張家口至唐山鐵路項目). Our heavy haul railway series products are designed to be used in tracks that support trains with heavier loads and that travel at lower speeds.

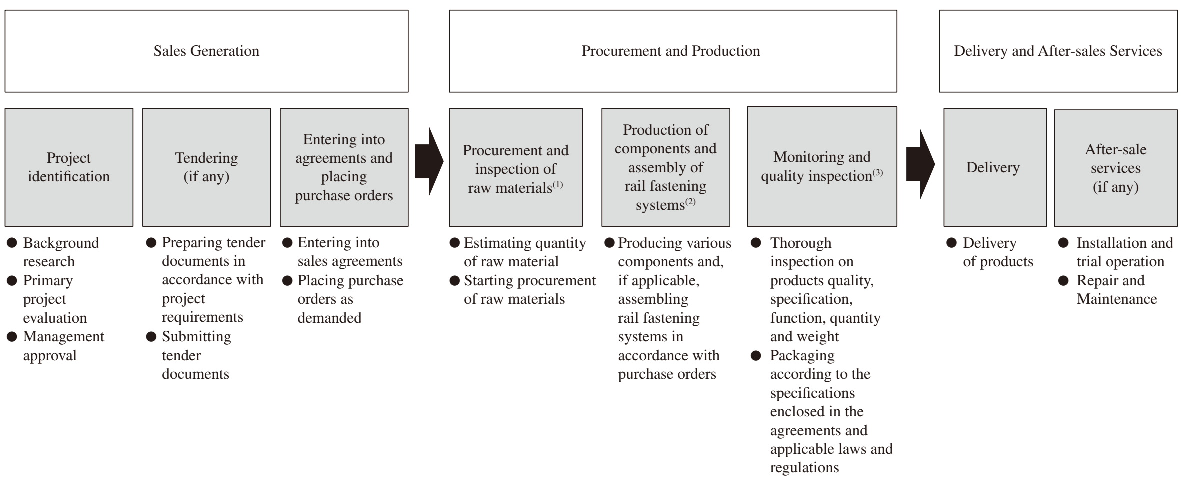
The table below sets out our major heavy haul rail fastening system products:

Product name	Main characteristics	Product function
Spring bar VI fastening system 	• Compacts structure with high clamping force to the railroad sleepers • Contains relatively less components • Compact structure to reduce lateral movements • Low maintenance	• Used on ballast tracks with steel shoulder • Maintains the stability of the railway
Spring bar VII fastening system 	• Compacts structure with high clamping force to the railroad sleepers • Compacts structure to reduce lateral movements • Adjustable height • Low maintenance	• Used on ballast and ballastless tracks with no steel shoulder • Adjusts the height and maintains the stability of the railway
WJ-12 fastening system 	• Compacts structure with high clamping force to the railroad sleepers • Compacts structure to reduce lateral movements • Adjustable height	• Used on ballastless tracks • Fastens the bottom edge of the rail and adjust the height and maintains the stability of the railway

OUR BUSINESS MODEL

We conduct sales of our rail fastening system products primarily through participating in competitive bidding process and contract negotiations. We derive a substantial portion of our revenue from sales conducted through competitive bidding process, as sales to such projects generally involve larger sales amounts while sales made through contract negotiations often involve smaller sales amounts. Depending on the requirements of our customers, we may sell individual components or pre-assembled rail fastening system to our customers.

The following diagram illustrates the general operational procedures of our business model to supply rail fastening system products and materials to our customers attained through competitive bidding:



Notes:

(1) This process generally takes seven to 10 days.

(2) This process generally takes around 14 days.

(3) This process generally takes within seven days.

Competitive bidding for provision of rail fastening systems

Project identification

Our tendering team generally consists of a deputy general manager, project managers and tender review staff members. They conduct preliminary review and assessment of a potential project. We pay close attention to the publication of relevant tender notices and conduct careful screening for potentially suitable transactions. We would consider various factors when identifying suitable projects, such as the requirements set forth by the customers in the tender notices and the resources available. We would also conduct background research on the potential project through public sources and industry information available to us for our assessment. Once we locate commercially viable tenders that we are qualified to bid for, we start to prepare the tender documents upon approval by our senior management.

Tendering

When preparing the tender documents, we determine our price schedules mainly on (i) a cost-plus basis approach whereby our costs primarily include cost of raw materials, including steel and iron, spring plate, rubber and nylon materials and (ii) specific factors applicable to the particular project, such as the technical and quality requirements for the products to be supplied. We will take into account factors such as feasibility and profitability of the project and sufficiency of our resources for the projects we have on hand. We prepare and submit our tender documents in accordance with the specified tender requirements set forth in the relevant documents. We are generally required to provide a specified amount or a certain percentage with reference to the tender amount as tender deposit, which will be returned to us upon the publication of the results of the tender, whether or not we win the tender.

Our various teams collaborate in the tendering process, which involves works such as contract negotiation, studying of technical specifications required in the potential project, reviewing of production schedule and capacity and communication with suppliers on the required raw materials. We encourage cross-departmental collaboration in the tender offer process so that we benefit from each department's areas of expertise and to enhance our competitiveness and responsiveness.

The following table sets out the number of project bids, number of successful project bids and our success rate during the Track Record Period:

	For the years ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
Number of project bids	166	209	226	163
Number of successful project bids	41	38	46	35
Success rate (%)	24.7%	18.2%	20.4%	21.5%

Entering into agreements and placing of purchase orders

After winning a tender, we sign relevant sales contracts or engagement with our customers, which are usually the construction and operating units under the China Railway Corporation or in the urban transit sector, the major urban railway construction companies and/or operation companies. Following the signing of the relevant sales contracts, our customers generally place purchase orders according to their monthly demand for such products. Once we receive a purchase order, we then arrange for production, delivery and supply to our customers. We report our progress to the customers in the course of production pursuant to contractual provisions, communicating to them verbally of our planned schedule and actual performance.

Procurement and inspection of raw materials

After we sign relevant sales contracts or engagement with our customers, we begin procurement of raw materials, which principally include various kinds of steel and iron. We generally estimate the amount of raw materials as required in a particular project and procure the relevant amount of raw materials. If there are any raw materials left after completion of a project, we store such extra raw materials in our warehouse or use them in other projects.

Production of components and assembly of rail fastening system

Of the four main components of a rail fastening system product, namely spring bars, bolts and screws, cast iron products, and nylon and rubber, we focus on the production and development of first three components and purchase nylon and rubber products from an affiliate, Tieke Yichen. For details of our collaboration with Tieke Yichen, see the subsection headed "— Raw materials and suppliers".

Upon receipt of raw materials and parts from our suppliers, we begin production of the number of pieces of each component required under the purchase orders we received from our customers. If there are any components left after completion of a project, we store such extra components in our warehouse or use them in other projects.

Our business model includes the assembling of our rail fastening system products in house and delivery of pre-assembled products to our customers if requested. We believe the assembling of our products in house enhanced our product quality and reliability as we are better able to ensure that the products are properly constructed. At the same time, we believe delivering ready to install pre-assembled rail fastening system products to our customers has also helped our business growth.

Monitoring, quality inspection and delivery

Prior to the delivery of our products, we conduct a thorough inspection of the products that include quality, specification, function, quantity and weight inspection, as required by the contract. An inspection certificate is issued for qualified products. The inspection or test is generally carried out by our quality control team. In cases where the contract provides that the customer can participate in the quality inspection or test, we will facilitate working conditions, including but not limited to requisite technical information, testing tools and instruments.

All products are packaged according to their specifications enclosed in the sales contract and in compliance with applicable rules and regulation. Following the packaging stage, we deliver the products to the place(s) designated by the contract and make sure the products remain in good condition upon arrival. We and the buyer, together with construction teams or supervision institutions, will inspect the products to ensure that the products match all relevant specifications.

After-sale service

Our after-sale service typically includes: (i) the implementation or supervision of the on-site installation and the trial operation of our products; (ii) the supply of required tools for product installation and maintenance; (iii) the provision of detailed operation and maintenance manuals for product-related equipment; (iv) the operation, supervision, maintenance or repair of our products within a period agreed by the parties; and (v) the provision of training sessions for our customers' employees regarding the installation, trial operation, operation, maintenance or repair of our products, either on-site or at our factories.

Most of our after-sale service is carried out during the warranty period, which is generally one to two years. We typically factor in the cost of such after-sale service in the total contract value of the project and do not request for additional payment for such after-sale service.

Within the warranty period, we are required to correct the quality defects of our products to ensure our products are in strict compliance with industry standards and are free from quality defects.

Material Contract Terms

We enter into legally binding contracts to supply rail fastening systems and materials to our customers. Below is a summary of the key contract terms for our typical contract with our rail fastening system product customers. In general, the contracts for our rail fastening system products contain terms relating to initial contract value, scope of work, completion date, payment terms, retention money, warranty period and termination. The key terms of such contracts are summarized as below:

Initial contract value. An initial contract value is determined by applying the unit price of each components and materials to estimated volume of raw materials and production cost in accordance with the specifications in the tender documents.

Payment terms. We deliver our products by batches, and upon the completion of the deliver of all products in a particular batch and following the completion of customer's acceptance procedure (and associating written notice) of such batch of products at the relevant delivery locations, we issue the invoice documenting such delivery. Except for the retention monies to be withheld by our customers according to the relevant contracts, our customers are then required to make the payments according to the amount invoiced within 10 to 60 days upon receipt of invoice.

Retention money. In accordance with industry practice, our customers typically withhold a portion of the invoiced amount as retention money. The retention money is generally between 5% to 20% of each invoiced amount and released to us after deducting warranty claims, if any, upon expiring of the warranty period.

Deposit guarantee. Our customers typically request a deposit guarantee to ensure our performance according to the terms of the contract. The deposit guarantee is generally between 1% to 10% of the total contract value of the project (generally in the form of letter of guarantee issued by banks) and payable or released to us following the final inspection and acceptance of the relevant railway construction projects.

Adjustment of contract value. The contract price is generally not subject to adjustment. However, in some contracts, we are allowed to re-negotiate the contract price and required a number of products to be delivered with our customer by not more than 10% in the event that our customer changes its construction plan.

Supervision by customers. Our contracts generally empower customers to send third party personnel of their choice to reside in our factories to supervise the manufacturing of the products. We are obliged to provide the adequate support for such personnel during the entire manufacturing process, from raw materials to final products, as well as the testing procedures.

Warranty period. Our customers normally require a warranty period during which we are responsible to rectify any defect in our rail fastening system products. The warranty period may take various forms: (i) six months to two years beginning from the date of completion of the customer's rail construction project; or (ii) up until the completion of their rail construction project. Once our customers identify any defects, we must send our staff to remedy such defects within a specified time. During the Track Record Period, there were no material claims of defects by our customers in relation to any product recalls or any material defective products returns or exchanges or sales returns.

Spare parts. We also offer spare parts to our existing customers. To ensure the functionality of our products, before we terminate the production of the respective spare parts, we are obliged to inform our customers of the termination plan, at a reasonable time prior to termination in order to allow our customers to make orders for spare parts. After the termination of spare parts production, we shall provide the blueprints and specifications of the relevant products, free of charge upon the request of our customers.

Quality requirement. Our customers normally require our products to be in compliance with the industry production standards. In addition, we are generally required to produce a factory certificate with each delivery and produce quality inspection information as required by the customers.

Indemnity. Our customers are entitled to indemnity if we are unable to fulfill our obligations specified in the terms of the contract. Our customers may return the products or require us to replace or repair the defected products, and all of the related costs shall be borne by us. During the Track Record Period, we incurred no such costs.

Termination. The contracts can generally be partly or wholly terminated by our customers in circumstances such as (i) our failure to supply the products pursuant to the requirements under the contract; (ii) change in the design of our customer's railway construction project such that the customer no longer require part or all of the products ordered; and (iii) in the event that we engage in corrupt or fraudulent behaviors. Where part of or the entire contract is unilaterally terminated by the customers due to our breach of the terms of the contract, the customers may purchase products or services that are similar in nature to those specified in the breached contract, and we shall be responsible for any additional costs incurred in such purchases. If only part of the contract is terminated, we are still required to fulfill our obligations of the remaining part of the contract. During the Track Record Period, none of our contracts were partly or wholly terminated by our customers.

Contract negotiations for provision of components

We also engage in the provision of components, namely spring bars, bolts and screws and cast iron products to certain rail fastening system providers where they are not able to or do not have the capacity to produce the components in-house. We enter into annual agreements with rail fastening system providers where we agree on the price of each component we will provide to them in the upcoming year. The rail fastening system providers will generally place monthly orders for components.

SUPPLY TO RAIL FASTENING SYSTEM PROJECTS

During the Track Record Period, we entered into supply contracts for rail fastening system projects with total initial contract value of RMB2,704.5 million, including high speed railway projects with total initial contract value of RMB1,866.3 million, metro series projects with total initial contract value of RMB392.7 million, traditional track projects with total initial contract value of RMB349.6 million and heavy haul railway projects with total initial contract value of RMB95.9 million.

Contracted rail fastening system projects

The following table sets out the total initial contract value of the contracts we entered into for supplying to rail fastening system projects during the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
High speed railways	407,170	656,502	546,196	256,375
Metro series	36,585	112,480	175,078	68,593
Traditional tracks	110,601	80,709	66,634	91,748
Heavy haul railways	—	95,825	37	—
Total	554,356	945,516	787,946	416,716

The table below sets forth our contact size range and average contract size by project type for the years indicated:

	For the year ended December 31,						For the six months ended June 30,	
	2013		2014		2015		2016	
	Contract size range	Average contract size	Contract size range	Average contract size	Contract size range	Average contract size	Contract size range	Average contract size
	(RMB'000)		*(RMB'000)*		*(RMB'000)*		*(RMB'000)*	
High Speed Rail	27,546.5 to 172,818.2	78,860.1	20,353.6 to 219,555.0	105,987.5	10,324.0 to 375,460.8	103,205.4	11,250 to 129,000	49,162
Traditional Rail	1,125.0 to 36,877.2	5,301.7	1,392.3 to 25,700.2	7,157.3	1,164.0 to 19,171.1	5,706.5	1,179 to 32,739.7	7,742.4
Metro Series	1,020.0 to 11,997.8	3,441.5	1,260.0 to 38,945.0	7,016.5	1,000.1 to 28,283.2	5,433.0	1,086.9 to 12,850.9	3,180.3
Heavy Haul Rail	—(1)	—(1)	5,445.0 to 81,550.0	31,914.6	37.5(2)	37.5(2)	—(3)	—(3)

Notes:

(1) We sold parts and components for railway fastening systems applied to heavy haul rail projects at a per unit price ranging from RMB8.5 to RMB29.8 under the contract entered into in 2013.

(2) We entered into one heavy haul rail project contract in 2015.

(3) We sold heavy haul parts and components at a per unit price ranging from RMB5.1 to RMB68.9 under the contracts where we supplied products in 2016.

Our contracted rail fastening system projects backlog

Backlog refers to the total estimated value of contracts signed or secured with customers as of the indicated date, less revenue recognized in connection with such contracts up to and including the same date. It is our estimate of the contract value of work that remains to be completed as of a certain date, assuming performance in accordance with the terms of the contract. Backlog is not a standard financial measure that has been defined by generally accepted accounting principles. Our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog. Backlog may not be indicative of future operating results. The termination or modification of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on backlog.

As of June 30, 2016, our backlog amounted to RMB743.8 million (Value-added Tax included). Our customers generally provide production requests for relevant orders up to three months in advance to the delivery, while the timing and the quantity of each batch of delivery is subject to the progress of the relevant project. We, as the product supplier to such construction projects, have no control or direct involvement in determining the progress of such construction. Based on our past experience and a review of the current progress of the projects that correspond to our backlogs, we currently expect that RMB403.1 million of our backlog as of June 30, 2016 will be fulfilled between July 1, 2016 and December 31, 2016 and RMB340.7 million of such backlog will be fulfilled in 2017. However, our current estimate is subject to the actual progress of the relevant projects, and there is no guarantee that the expected revenue from our backlog will not decrease, or that the expected revenue will be realized as actual revenue or be recorded as profit. See "Risk Factor — Risks Relating to Our Business Operations — Our backlog may not be indicative of our future results of operations."

PRODUCTION FACILITIES AND UTILIZATION RATE

We manufacture our products primarily in our production facility in Gaocheng, Hebei province. Of the four main components of a rail fastening system product, namely spring bars, bolts and screws, cast iron products, and nylon and rubber, we focus on the production and development of the first three components and purchase most of the nylon and rubber products from an affiliate, Tieke Yichen.

Production machinery

We own manufacturing, testing and experimentation machineries and adopt advanced production process to promote efficient production. Our key production machineries generally has useful lives of approximately 10 years, which, based on our experience, may be extended with appropriate repair and maintenance. During the Track Record Period, we had not experienced any unexpected material stoppage of operations as a result of a failure of our machineries.

Majority of our production facilities include production equipment and machineries manufactured in the PRC. Our major machineries are used for heating, molding, cooling, thread-making, blasting, smelting, casting and anti-corrosive treatments. Details of our manufacturing process are set out in the sub-paragraph headed "Production process of major components of our rail fastening systems" in this section of the prospectus.

The table below sets forth the types of key machineries used to product our major products:

Product segments			Key machineries	Average Residual Life
I.	Spring bars	•	GTR middle frequency inductive oven (middle frequency induction heating equipment)* (GTR型中頻透熱爐(中頻感應加熱設備))	six years
		•	Open-back fixed bench press (spring bar molding equipment)* (開式固定台壓力機(彈條成型設備))	four years
		•	Roller mesh-belt tempering furnace (automatically controlled heat treatment equipment)* (托輥傳動型網帶式回火爐(自動控制熱處理設備))	five years
II.	Bolts and screws	•	Automatic cold header* (螺栓自動冷鐓機)	four years
		•	Three roller rolling machine (screw rolling machine)* (三滚輾絲機(螺紋加工設備))	six years
		•	Dacro production line (anticorrosive coating equipment)* (達克羅生產線(防腐處理設備))	six years
III.	Cast iron products . .	•	Medium frequency steel shell coreless induction furnace* (中頻鋼殼無芯感應爐)	five years
		•	Loramendi S. Coop. molding line* (洛拉門迪造型線)	six years
		•	Automatic sand cleaning and processing line* (自動落砂及砂處理線)	seven years

* *For identification purpose only*

Details of some of our principal machines used as of the Latest Practicable Date are set out below. As for the manufacturing of spring bars, we have the following equipment and machineries:

Machine	Place of origin	Principal specifications/ Functions and features	Average Residual Life
• GTR middle frequency inductive oven (middle frequency induction heating equipment)* (GTR型中頻透熱爐(中頻感應加熱設備))	PRC	Automatic conveyance, temperature gauge and selection / For heating of the spring steel	five years

Machine	Place of origin	Principal specifications/ Functions and features	Average Residual Life
• Open-back fixed bench press (spring bar molding equipment)* (開式固定台壓力機(彈條成型設備))	PRC	800 Kilonewton / For pressurizing and molding the processed spring steel into a pre-determined shape	four years
• Roller mesh-belt tempering furnace (automatically controlled heat treatment equipment)* (托輥傳動型網帶式回火爐(自動控制熱處理設備)).	PRC	Continuous heating and automatic temperature control / For tempering process	five years

* *For identification purpose only*

As for the manufacturing of bolts and screws, we have the following equipment and machineries:

Machine	Place of origin	Principal specifications/ Functions and features	Average Residual Life
Automatic cold header* (螺栓自動冷鐓機)	PRC	Maximum capacity 620 tons / To dissect and mold the screws and bolts head	four years
Three roller rolling machine (screw rolling machine)* (三滾輾絲機(螺紋加工設備))	PRC	10 to 14 pieces per minute / Thread-processing	six years
Dacro production line (anti-corrosive coating equipment)* (達克羅生產線(防腐處理設備))	PRC	Approximately 300 litres capacity / Automatic anti-corrosive treatment	six years

* *For identification purpose only*

As for the manufacturing of cast iron products, we have the following equipment and machineries:

Machine	Place of origin	Principal specifications/ Functions and features	Average Residual Life
Medium frequency steel shell coreless induction furnace* (中頻鋼殼無芯感應爐) . . .	PRC	Maximum 3,000 Kilowatt / Smelting of pig iron and scrap iron	five years
Loramendi S. Coop. molding line* (洛拉門迪造型線) . . .	Spain	Approximately 20,000 tons per year / Molding	six years
Automatic sand cleaning and processing line* (自動落砂及砂處理線) . . .	PRC	60 tons per hour / Sand cleaning before anti-corrosive treatment	seven years

* *For identification purpose only*

We emphasize on the use of technologically advanced machineries to enhance our production efficiency, product quality and production techniques, and had made considerable investments in building up our production lines. During the Track Record Period, the amount of our capital expenditures consisting of the addition of property, plant and equipment for the new production facilities and the enhancement of equipment and machineries for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 was approximately RMB28.1 million, RMB14.3 million, RMB16.1 million and RMB4.0 million, respectively. All our major machineries and equipment are owned by us.

Utilization rate of our machineries

We monitor and assess the capacity and utilization of our production equipment on an ongoing basis and may decide to develop additional capacity to prevent constraints in any particular production procedure. There were no material production constraints due to the capacity of particular equipment during the Track Record Period.

The following table sets forth the annual production capacity, annual production volume and utilization rates of our production facilities for the major components to our rail fastening system during the Track Record Period:

	Year ended December 31,									Six months ended June 30,		
	2013			2014			2015			2016		
	Maximum annual production capacity	Actual production volume	Utilization rate	Maximum annual production capacity	Actual production volume	Utilization rate	Maximum annual production capacity	Actual production volume	Utilization rate	Maximum six-month production capacity	Actual production volume	Utilization rate
	(thousands)	*(thousands)*	*(%)*	*(thousands)*	*(thousands)*	*(%)*	*(thousands)*	*(thousands)*	*(%)*	*(thousands)*	*(thousands)*	*(%)*
I. Spring bars (pieces)	24,750	19,855	80.1	22,000	18,527	84.1	16,500	14,349	87.0	7,920	7,076	89.2
II. Bolts and screws (pieces)	30,000	23,936	79.7	30,000	24,189	80.6	30,000	24,768	82.5	14,400	12,314	85.5
III. Cast iron products (tons)	27	21	76.1	31	26	82.8	28	24	84.5	14	12	86.1

Notes:

(1) Utilization rate is calculated by dividing the actual production volume for the relevant period with the maximum production capacity for the same period.

(2) The maximum annual production capacity is based on a production schedule of 300 days per year for cast iron products and 250 days per year for spring bars and bolts and screws are derived with equipment and facilities operating 22 hours a day, and by excluding public holidays and time in which equipment and facilities undergo maintenance according to annual maintenance plans for production facilities.

(3) The maximum six-month production capacity is based on a production schedule of 145 days per six month for cast iron products and 120 days per six month for spring bars and bolts and screws are derived with equipment and facilities operating 22 hours a day, and by excluding public holidays, especially the Chinese new year period, and time in which equipment and facilities undergo maintenance according to annual maintenance plans for production facilities.

(4) Where an equipment is installed during the year, calculation of its production capacity and utilization rate will begin when it begins production.

The utilization rates of our production facilities have generally increased over the Track Record Period. Our production utilization rates increased in 2014 and 2015 alongside the railway construction recovery and rapid growth of demand for high speed railways and metro series.

Our maximum annual production capacity for spring bars decreased in 2015 because we terminated certain production lines as part of our production technology renewal process. Our maximum annual production capacity for cast iron products also decreased in 2015, which was a result of our enhancement of production process to improve the quality of our cast iron products. In turn, the change in our production process to elevate our product quality lead to lowered maximum annual production capacity for cast iron products.

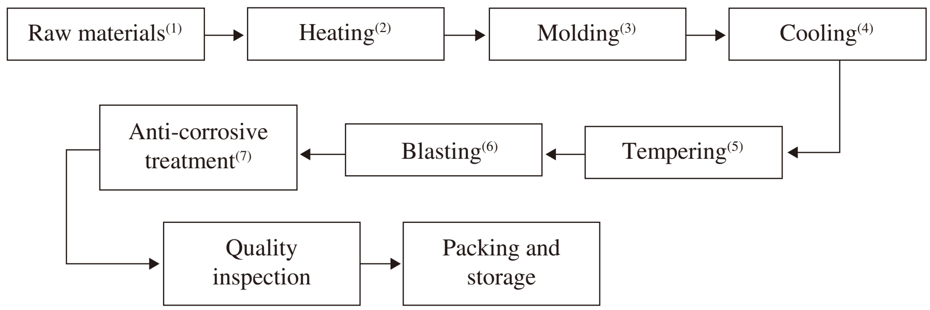
Repair and maintenance of our production line

We generally develop annual maintenance plans for our production facilities and engage in the maintenance of our production equipment according to the annual maintenance plans. In addition, during periods of intense production, additional maintenance work will be conducted to ensure the proper operation of our production equipment.

Production process of major components of our rail fastening systems

The following diagrams illustrate the production process for our three major components of our rail fastening system products: (i) spring bars; (ii) bolts and screws; and (iii) cast iron products.

I. Spring bars



Notes:

(1) Raw materials. The raw materials for spring bars are spring steel. Prior to the commencement of production, we inspect the chemical composition and specification of the spring steel. We would cut the spring steel into pieces of appropriate size for heating and molding purposes.

(2) Heating. Each piece of spring steel will be heated to approximately 900˚C to 1,050˚C into a red hot state in order to prepare for molding.

(3) Molding. Molding is done and the desired shape of the spring bars will be formed.

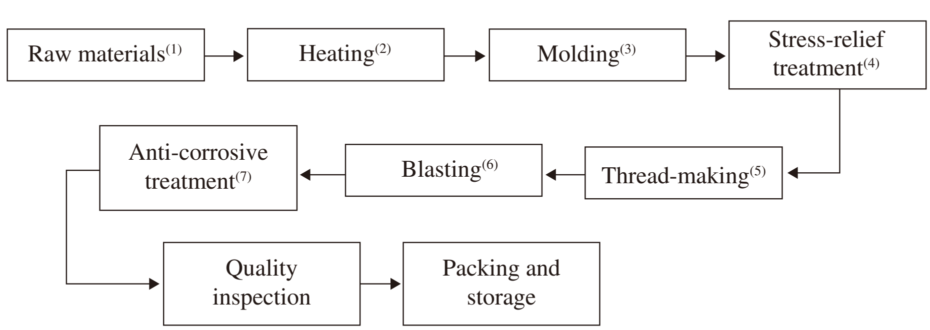
(4) Cooling. After the desired shape has been formed, the spring bars will be cooled in oil of approximately 20˚C to 60˚C. The cooling process also allows the spring bar to increase its level of elasticity.

(5) Tempering. The spring bar will be tempered at approximately 500˚C. The process helps to strengthen the inner composition and elasticity of the spring bar and optimizes its performance.

(6) Blasting. After tempering, the oxygenized materials and oily substances are removed from the spring bar through a blasting machine.

(7) Anti-corrosive treatment. In order to prevent corrosion of the spring bar, each spring bar is covered with a layer of paint or spray paint. Generally, our customers would specify the anti-corrosive treatment they require for their orders.

II. Bolts and screws



Notes:

(1) Raw materials. The raw materials for bolts and screws are round steel. Prior to the commencement of production, we inspect the chemical composition and specifications of the round steel. Bolts and screws can be produced in two ways – cold-forming or hot-forming.

(2) Heating. For bolts and screws produced through the hot-forming process, each piece of round steel will be heated to approximately 1,200°C into a red hot state in order to prepare for molding.

(3) Molding. For bolts and screws produced through the hot-forming process, the hexagon-shaped cap of bolts and screws will be formed. For bolts and screws produced through the cold-forming process, round steel will be placed in an automated machine for molding.

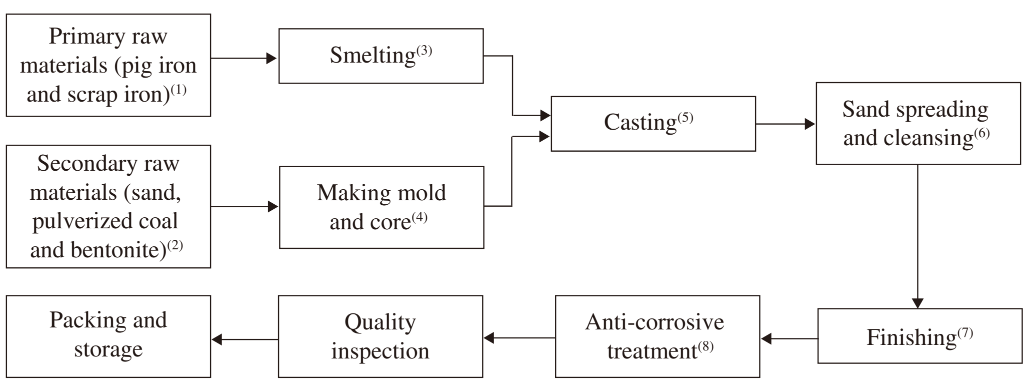
(4) Stress-relief treatment. The stress-relief treatment process is for reducing the stress formed in the previous step of molding.

(5) Thread-making. The thread is made by rolling the bolts or screws between two rolling dies in order to form the spiral of bolts and screws.

(6) Blasting. After thread-making, the oxygenized materials and oily substances are removed from the bolts and screws.

(7) Anti-corrosive treatment. In order to prevent corrosion of the bolts and screws, each bolt or screw is covered with a layer of paint or anti-corrosive layer. Generally, our customers would specify the anti-corrosive treatment they would like for their orders.

III. Cast iron products



Notes:

(1) Primary raw materials. The primary raw material for cast iron products is pig iron and scrap iron. Prior to the commencement of production, we inspect the chemical component of pig iron and scrap iron.

(2) Secondary raw materials. The secondary raw material for cast iron products is sand, pulverized coal and bentonite. It is used for making mold and core for the subsequent casting process. Prior to the commencement of production, we inspect the quality of sand.

(3) Smelting, pig iron and scrap iron are added to electric furnace and melted through mid-frequency induction heating. Impurities floating on surface are removed, and casting agents are added upon completion of smelting to achieve casting.

(4) Making mold and core. Sand, pulverized coal and bentonite are mixed together via a mixing machine, before sending to a molding machine for molding. The process of molding regularly tests the benchmarks of molded sand. When molding tools cannot be used directly, a core will be needed. A core is made from resin sand using a core-making machine and molding tools.

(5) Casting. In the casting process, the melted iron is poured into the sand-shaping mold to form the desired outer appearance.

(6) Sand spreading and cleansing. The cast iron parts are cooled down along a transmission belt. Sand spreading and cleansing then follows.

(7) Finishing. This process contains (1) removing the extraneous iron formed at casting opening, (2) blasting and sand cleaning, and (3) grinding and polishing.

(8) Anti-corrosive treatment. In order to prevent corrosion of the cast iron products, each cast iron product (except pre-made parts) is usually covered with a layer of paint or spray paint.

Expansion Plan

We expect the demand for our rail fastening system products will continue to increase. Please see "— Our Strengths — We are well positioned to benefit from the abundant market opportunities driven by: (i) the expansion of the PRC railway industry in both domestic and overseas market; (ii) the high growth phase of the urban rail construction; and (iii) maintenance and upgrade of rail fastening systems" and "— Our Strategies — Continue to enhance our leading position in the rail fastening system industry and capture the growing opportunities in the railway construction industry". Moreover, we consider that the current utilization rate of our existing production facilities has reached a high level. For the six months ended June 30, 2016, the utilization rates of our existing production facilities for (i) spring bars, (ii) screws and bolts and (iii) cast iron products were approximately 89.2%, 85.5% and 86.1%, respectively. As such, we plan to increase our production capacity to meet the anticipated increasing market demand.

To achieve this objective, we plan to design and construct a new production plant with an expected daily maximum production of approximately 11,000 pieces of spring bars, approximately 30,000 pieces of bolts and screws and approximately 55 tons of cast iron products, as well as ancillary offices and warehouses in Gaocheng, Hebei province. In December 2015, we obtained the land use rights of three parcels of land with an aggregate area of 188,835.6 square meters in Gaocheng, Hebei province. In August 2016, we entered into two land use rights grant contracts for the acquisition of the land use rights of another land in Gaocheng, Hebei Province. A new land use right certificate for the land so acquired together with the three parcels of land we acquired in 2015 as aforesaid was obtained by us in November 2016. The aggregate area represented by the new land use right certificate is 278,857.99 square meters. We plan to commence construction of the new production plant on part of such parcel of land in the first quarter of 2017 and expect to complete the construction in November 2017 for the commencement of production in January 2018. We also plan to commence construction of offices and warehouses in September 2017 and expect to complete the construction in October 2018.

We considered that having new production facilities in Gaocheng, Hebei province is in the interest of our Group after taking into account the following factors:

1. the continuous growth of the revenue contribution from the sales of our rail fastening system products during the Track Record Period from approximately RMB530.3 million for the year ended December 31, 2013, to RMB771.2 million for the year ended December 31, 2014, and further to RMB828.4 million for the year ended December 31, 2015, representing a CAGR of 25.0% over the same period;

2. the outlook of the rail fastening system product market in the PRC. According to Frost & Sullivan, the forecast sales amount of rail fastening system products in the PRC is expected to increase from approximately RMB6,004.8 million for the year ending December 31, 2016, to approximately RMB9,066.4 million for the year ending December 31, 2020, representing a CAGR of approximately 10.8% over the same period; and

3. our existing production facilities are already operating at high utilization rate.

We intend to finance the expansion plan in Gaocheng, Hebei province, by using (i) our internal financial resources, (ii) bank borrowings and (iii) the net proceeds from the Global Offering. Please see to "Future Plans and Use of Proceeds — Use of Proceeds" for further details.

As of the Latest Practicable Date, we had incurred approximately RMB86.9 million for obtaining the land use rights for part of one parcel of land in respect of our expansion plan. The breakdown of the estimated investment costs in relation to the expansion plan is set out below:

Expense category	Estimated investment amount
	(RMB'000)
Land acquisition cost[(1)]	86,900
Construction cost	62,500
Acquisition of equipment and installation fees[(2)]	104,000
Total	253,400

Notes:

(1) We have made the land acquisition cost in full as of December 31, 2015.

(2) Including equipments that enhance our automated production process.

The foregoing represents our expansion plan formulated on the basis of current market and operating conditions, estimated production capacity and forecasted customer demand according to the Frost & Sullivan report, and may be subject to changes and adjustments as our Directors believe necessary and appropriate. For more information, please see the section headed "Risk Factors — Risks Relating to Our Business Operations — We are exposed to various risks in expanding our manufacturing facilities" of this prospectus. We also intend to seek suitable lands for acquisition for further expansion in the future, and as of the Latest Practicable Date, we have not identified target for further land acquisition.

TECHNICAL STANDARDS

We are a major manufacturer and one of the authorized reviewers of rail fastening system modes and product standards in the PRC. We have collaborated with China Academy of Railway Sciences (中國鐵道科學研究院), Guangzhou Metro Design and Research Institute Co., Ltd. (廣州地鐵設計研究院有限公司) and Shenzhen Municipal Design and Research Institute Co., Ltd. (深圳市市政設計研究院有限公司) to research and develop rail fastening system industry standards and new products. As of December 31, 2015, we have participated in the development of rail fastening systems including Spring bar IV fastening systems, Spring bar V fastening systems, WJ-7 fastening systems and WJ-8 fastening systems. In addition, we are or have been participating in the formulation and revision of 14 technology standards for rail fastening system, three of which have been enacted and implemented as of the Latest Practicable Date. We have played a key role in formulating and revising the rail fastening system in the PRC. Also, between the period of January 2005 to January 2007, our Group sent a number of engineers to participate in the research and development of high speed rail fastening system conducted by the China Academy of Railway Sciences (中國鐵道科學研究院). The research focused mainly on four products: Spring bar IV fastening system, Spring bar V fastening system, WJ-7 fastening system and WJ-8 fastening system.

LICENSE AGREEMENTS WITH KEY COOPERATION PARTNER

We have entered into four long-term technology license agreements ("**License Agreements**") with our key cooperation partner, Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所), under which our key cooperation partner has licensed us to non-exclusively use of its intellectual property rights and technologies for Spring bar IV rail fastening system, Spring bar V rail fastening system, WJ-7 rail fastening system and WJ-8 rail fastening system. According to the terms of the relevant License Agreements, as long as such agreements are not terminated, we may, at our sole discretion, continue to manufacture the licensed products in accordance with the terms of the agreements. Furthermore, our PRC Legal Advisers are of the view that, so long as we continue to meet/perform our obligations under the agreements and do not violate the relevant terms of the agreements (particularly the confidentiality clauses and royalty payment clauses), the key cooperation partner does not have the right to terminate the License Agreements unilaterally unless the specific circumstances set out in Article 94 of the Contract Law of the People's Republic of China, such as force majeure and non-performance of contract obligations by us, occur. During the Track Record Period and up to the Latest Practicable Date, we had not violated any obligations under the License Agreements and we did not have any material disputes with our key cooperation partner in relation to our License Agreements. Such technology licenses are essential to the manufacturing of the corresponding high speed rail fastening system, and high speed rail fastening system is one of our core products. As confirmed by the industry expert, Frost & Sullivan, all manufacturers of the licensed products have entered into license agreements with our key cooperation partner. To the best knowledge of our Directors, for rail fastening systems for high speed railway, our key cooperation partner is mainly responsible for setting the national standards, and research and design of such products. Our key cooperation partner does not engage in the commercial production of such products, and it cooperates with qualified manufacturers, including our Group, who possess the necessary commercial production capacity, know-how and experience to manufacture the licensed products. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from sales of licensed products amounted to RMB96.3 million, RMB338.6 million, RMB359.1 million and RMB181.4 million, respectively, which accounted for approximately 15.8%, 39.6%, 39.6% and 34.8% of our total revenue for the same periods, respectively. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our gross profit generated from sales of licensed products was RMB48.3 million, RMB183.9 million, RMB192.4 million and RMB95.5 million, respectively. As of the Latest Practicable Date, the monetary value of the outstanding contracts in connection with such licensed products was RMB716.2 million, representing 67.7% of our total backlog. If our key cooperation partner ceases to license us the relevant technologies, or if our relationship with our key cooperation partner is terminated or our key cooperation partner terminates our license to use its intellectual property rights and technologies, we may need to adjust our production plans to manufacture alternative products by adopting other technologies that cater to different market demand for rail fastening system products as the licensed products are the only available products which were approved and manufactured according to the relevant Chinese national standards within their respective product category. To the best knowledge of our Directors, there is no functionally replaceable products of other categories which do not require the technologies licensed by our key cooperation partner. Over the Track Record Period, we have derived substantial revenue and gross profit from sales of non-licensed products, in particular our metro series rail fastening system products. According to Frost & Sullivan, certain segments of the non-licensed rail fastening systems products is expected to continue to expand, and we believe that, as a market leader in such segments, we will continue to benefit from such market growth. While different types of rail fastening system products are not interchangeable, we believe that the market size of our non-licensed rail fastening system products is large enough, the growth prospects are strong and we should be able to continue to diversify more of our operation to other types of rail fastening system products if necessary. Such adjustment of our production plans may have a material adverse effect on our business, financial condition and results of operations. Please refer to the section headed "Risk Factors — Any significant changes to our long-term relationship with our key cooperation partner may have a material adverse effect on our operations" of this prospectus. The technology license agreements include the following principal terms:

Term. For a period of 20 years from March 2006 to March 2026 for Spring bar IV rail fastening system, Spring bar V rail fastening system and WJ-7 rail fastening system, and for a period of 19 years from December 2008 to December 2027 for WJ-8 rail fastening system.

Use of technologies. We are required to manufacture the relevant products in accordance with the design stipulated in the technology license agreements, otherwise our rights to use such technologies will be revoked. Without the consent of our key cooperation partner, we may not revise, add or delete any technology data, or apply such data to any other products.

Royalty fee. We are required to pay 2.5% of our total sales for the relevant products in each year to our key cooperation partner as royalty fee.

Confidentiality. We are required to keep confidential the details of the intellectual properties and technologies licensed to us during the license term.

Termination. We will be fined RMB1 million in the event of default. If our key cooperation partner ceases to license us the relevant technologies, or if our cooperation relationship with our key cooperation partner is terminated or our key cooperation partner terminates our license to use its intellectual property rights and technologies, we may need to adjust our production plans to manufacture alternative products adopting other technologies.

To the best knowledge of our Directors, similar licensing arrangement has been adopted by other rail fastening system suppliers which also supply the relevant products in the PRC.

We have various measures in place to ensure compliance with the License Agreements, such as (i) setting of internal policies in relation to raw materials selection and ensuring product quality through incorporating product quality satisfaction rate as part of relevant employee's evaluation; (ii) prioritizing settling payment of relevant royalty fee within relevant dates in relation to the invoice to ensure timely payment of royalty fee; and (iii) entering into confidentiality agreements with relevant management and employees to protect technology in relation to the License Agreements. We also implemented measures to maintain the liquidity and availability of our working capital, which in turn, helps ensure that we can meet our obligations under the License Agreements. For further details, please see the section headed "Financial Information — Working Capital" in this prospectus.

SALES AND MARKETING

We have a sales and marketing team to promote our services and source business opportunities from our potential customers. Our sales and marketing team is responsible for information collection, marketing and sales, and customer services. The team is also responsible for conducting research on our industry and its competitive landscape, analyzing market data and procuring new customers. The team also plays an important role in providing support and after-sales services to our existing customers.

Before a project is awarded to us, our sales and marketing team will coordinate the work of other teams to assess feasibility of potential projects. As of December 31, 2015, we had 48 sales and marketing staff. Each of our sales representatives has his geographical focus covering different locations in the PRC.

CUSTOMERS

Our major customers primarily comprise state-owned enterprises operating in railway construction, railway related products development and production and railway related products trading industries. In the metro series sector, we have supplied to major metro construction companies and/or operation companies in 26 of the 28 cities in the PRC which have metro systems in operation. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our five largest customers accounted for 43.9%, 55.8%, 52.9% and 60.1% of our revenue, respectively, and our largest customer accounted for 21.7%, 21.0%, 26.3% and 36.2%, of our revenue, respectively.

The table below sets out certain information about our top five customers during the Track Record Period:

Name	Type	Year of starting cooperation
For the year ended December 31, 2013:		
Tieke Shougang	state-owned railway related products development and production company	2008
Customer A	stated-owned railway related products trading company	2008
Customer B	non-state owned railway construction company, and a subsidiary of a company listed on Shanghai Stock Exchange	2013
Customer C	state-owned railway construction company, a construction unit of the China Railway Corporation	2009
Customer D	state-owned railway construction company, a construction unit of the China Railway Corporation	2010
For the year ended December 31, 2014:		
Customer A	state-owned railway related products trading company	2008
Tieke Shougang	state-owned railway related products development and production company	2008
Customer E	state-owned railway construction company, a construction unit of the China Railway Corporation	2013

Name	Type	Year of starting cooperation
Customer F	state-owned railway construction company, a construction unit of the China Railway Corporation	2013
Customer G	state-owned railway construction company, a construction unit of the China Railway Corporation	2010

For the year ended December 31, 2015:

Customer A	state-owned railway related products trading company	2008
Tieke Shougang	state-owned railway related products development and production company	2008
Customer H	state-owned railway construction company, a construction unit of the China Railway Corporation	2014
Customer I	state-owned railway construction company, a construction unit of the China Railway Corporation	2014
Customer J	state-owned procurement company of railway construction projects	2010

For the six months ended June 30, 2016:

Customer A	state-owned railway related products trading company	2008
Customer H	state-owned railway construction company, a construction unit of the China Railway Corporation	2014
Customer K	state-owned railway related products trading company	2015
Customer L	state-owned railway construction company, a construction unit of the China Railway Corporation	2011
Customer M	state-owned railway construction company	2012

As of the Latest Practicable Date, to the knowledge of our Directors, none of our Directors, their close associates or any of our Shareholders who held more than 5% of our issued share capital had any interest in our five largest customers during the Track Record Period.

We purchase nylon and rubber from an associated company, Tieke Yichen, which is also a subsidiary of one of our major customers, Tieke Shougang. On December 18, 2013, our Company and Tieke Yichen entered into an asset acquisition agreement pursuant to which we sold certain production and testing equipment of rubber and nylon to Tieke Yichen because we intend to place our focus and resources on our development and production of spring bars, bolts and screws and cast iron products for our rail fastening systems. Since then we purchased most of nylon and rubber products from Tieke Yichen as the manufacturing facilities of Tieke Yichen is located adjacent to our production facilities, which in turn, saves transportation costs, facilitates communication and our monitoring of the manufacturing process and product quality of the nylon and rubber products supplied to us. We typically maintain a year long purchase agreement with Tieke Yichen. Our nylon and rubber purchase agreements with Tieke Yichen are entered into on normal commercial terms and the purchase price is determined by arm's length negotiation between the parties and can be adjusted upon mutual consent. Going forward, we intend to obtain price quotations from other Independent Third Party nylon and rubber product suppliers before we purchase these nylon and rubber products. We will compare the price and other terms offered by Independent Third Party suppliers and Tieke Yichen to ensure that the terms offered by Tieke Yichen are of comparable commercial terms, and will also consider their respective production capacity and capability, product quality, production lead time and past supply records with us (if applicable), and may enter into nylon and rubber product purchase agreement with other suppliers if the terms they offered are more favorable than that offered by Tieke Yichen. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our purchases from Tieke Yichen amounted to RMB21.1 million, RMB72.6 million, RMB86.3 million and RMB43.3 million, respectively, which accounted for approximately 5.1%, 14.5%, 16.7% and 15.3% of our total cost of sales for the same periods, respectively.

We also leased a production area and offices to Tieke Yichen between July 2013 and July 2015. Tieke Yichen had engaged an Independent Third Party valuer to conduct property valuation on the leased properties and the leasing price was determined by reference to the proposed price in the property valuation report. Our lease agreement had a term of three years and was terminated on July 31, 2015 after we disposed of the relevant production area and offices to Longji. Since then, Tieke Yichen has been leasing the relevant production area and offices from Longji at the same price as leased from us. For our relationship with Longji, please refer to the section headed "Relationship with our Controlling Shareholders — Our Controlling Shareholders — Information on Other Company Owned by our Controlling Shareholders" in this prospectus. During the period which we leased the relevant premise to Tieke Yichen, Tieke Yichen paid us electricity expenses, which, in turn, we charged with reference to (i) Tieke Yichen's usage of electricity and (ii) the electricity unit price set by the relevant local authority. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from (i) rent and other payments received in association with leasing property to and (ii) payment of electricity expenses from Tieke Yichen was RMB11.3 million, RMB7.8 million, RMB7.3 million and RMB2.5 million, respectively, which accounted for approximately 1.9%, 0.9%, 0.8% and 0.5% of our total revenue for the same periods, respectively.

We also sell rail fastening system parts and components to Tieke Shougang. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from sales to Tieke Shougang amounted to RMB132.2 million, RMB168.6 million, RMB76.0 million and RMB15.1 million, respectively, representing 21.7%, 19.8%, 8.4% and 2.9% of our total revenue for the same period, respectively.

Aside from the aforementioned, none of our top five customers is our top five supplier, and vice versa.

The duration of our material contracts with customers is typically tied to the progress of relevant railway construction projects and is not separately delineated. In practice, most of such material contracts have terms of approximately two years, which we have estimated by referencing to (i) our experience from past projects; and (ii) our general understating of industry practice, including construction progress/schedules.

LICENSES, PERMITS AND QUALIFICATIONS

Major qualifications and licenses

We currently hold the follow major licenses and qualifications in the PRC:

Issuing authority	Holder	Validity of the license	Accredited activities
CRCC	the Company	until March 2021[(1)]	Types A and B of the Spring bar I fastening system
CRCC	the Company	until March 2021[(2)]	Fastening system with bolts and screws including types T1, S1, S2, S3 and B1 of bolts and screws
CRCC	the Company	until March 2021[(2)]	Fastening system with molding plates including WJ-7 flat plates, WJ-7 iron plates, WJ-8 iron plates and TZ-4 embedded iron seats.
CRCC	the Company	until March 2021[(2)]	Rail fastening system with spring bars including types C4, JA, JB, W1, W2, X2 and X3 of spring bars

Issuing authority	Holder	Validity of the license	Accredited activities
CRCC	the Company	until March 2021[(1)]	Spring bar II fastening system
CRCC	the Company	until March 2021[(3)]	Spring bar III fastening system with resistance over or equal to 11 kilonewtons use of force
CRCC	the Company	until March 2021[(3)]	Spring bar III fastening system – embedded iron seat
CRCC	the Company	until March 2021[(4)]	Spring bar IV fastening system

Issuing authority	Holder	Validity of the license	Accredited activities
CRCC	the Company	until March 2021[4]	Spring bar V fastening system
CRCC	the Company	until March 2021[2]	WJ-7 fastening system
CRCC	the Company	until March 2021[2]	WJ-8 fastening system
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[5] to March 2017	Normal gage rod
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[6] to March 2017	Injection-type insulated gage rod
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[5] to March 2017	Flexible lock washer
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015 to March 2017	Rail joint splint
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[5] to March 2017	Spring bar I gage apron
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[5] to March 2017	Ordinary screw
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[5] to March 2017	Anti-corrosive screw, screw spike

Issuing authority	Holder	Validity of the license	Accredited activities
Beijing Railway Bureau* (北京鐵路局) ...	the Company	March 2015[5] to March 2017	High-strength bolts and bolt cap

Notes:

(1) The license was initially granted to the Company in March 2009.

(2) The license was initially granted to the Company in December 2012 for a period till March 1, 2016. The Company was granted with an updated license in December 2015 to reflect its change of name from Hebei Yichen Industrial Group Co., Ltd.* (河北翼辰實業集團有限公司) to its present name.

(3) The license was initially granted to the Company in June 2013.

(4) The license was initially granted to the Company in March 2013 for a period till March 1, 2016. The Company was granted with an updated license in December 2015 to reflect its change of name from Hebei Yichen Industrial Group Co., Ltd.* (河北翼辰實業集團有限公司) to its present name.

(5) The license was initially granted to the Company in May 2004.

(6) The license was initially granted to the Company in October 2008.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from sales of products that require CRCC licenses amounted to RMB257.3 million, RMB492.5 million, RMB511.6 million and RMB371.4 million, respectively, which accounted for approximately 42.2%, 57.6%, 56.4% and 71.2% of our total revenue for the same periods, respectively.

License Renewal

We have fulfilled the requirements for obtaining the relevant CRCC licenses since we were granted such licenses in 2012 and have passed each annual review since then. We generally commence to renew our relevant licenses six months prior to their expiration and expect to obtain renewed licenses prior to the expiration of our current licenses. Our application for CRCC license renewal involves two main stages: written application review and the on site inspection. During the first stage of the license renewal process, the written application materials that we submit mainly include (i) a description of our products for inspection; and (ii) the current status of our operation, including our production process. Following the acceptance of such written application, CRCC would then arrange for an on site inspection of our production process and would collect samples of products for inspection.

Approvals of renewals of licenses are granted following completion of all of the processes aforementioned. We applied for the renewal of CRCC licenses for all of our high speed rail fastening system products in July 2015 which expired on March 1, 2016. On March 2, 2016, we received a letter from CRCC, the governing body over the renewal of such licenses that it had completed the written application review and on site inspection process for the renewal of such CRCC licenses, and subsequently we have received all of the renewed licenses on March 28, 2016. Further to our communication with the relevant personnel at CRCC, we received confirmation that the renewed licenses are valid for a period of five years commencing on March 2, 2016 and ending on March 1, 2021. Our PRC Legal Advisers are of the view that the relevant personnel is the competent person at CRCC to give such confirmation. In addition, our PRC Legal Advisers further advised that the agreement entered into by us in relation to the bid won after the expiry of the seven licenses for our high speed rail fastening system products (i.e. on 18 March 2016) is valid and enforceable, because (i) we have included the CRCC letter confirming it had completed the written application review and on site inspection process for the renewal of the relevant CRCC licenses obtained on March 2, 2016 together with other bidding documents in the bids, and accordingly, recipients of such documents were informed of the status of our renewal and none of such recipients objected or raised concerns with our licenses; (ii) the Company has received all renewed licenses on March 28, 2016 and that the renewed licenses are valid for a period of five years commencing on March 2, 2016 and ending on March 1, 2021; and (iii) our PRC Legal Advisers are not aware of any circumstances under which, according to the relevant provision of the Contract Law of the People's Republic of China, the agreement entered into between us and relevant customers in relation to the bid won after the expiry of the relevant CRCC licenses will be deemed invalid.

18 Items of Railway Industry Technical Standards《高速鐵路扣件》系列等18項鐵道行業技術標準 (the "18 Item Standard")

The National Railway Administration of the PRC issued the 18 Item Standard in July 2015 and implemented the relevant industry standards on February 1, 2016. The revised industry standards provided technical basis for manufacturing and inspecting key railway parts, including high speed rail fastening system products. We participated in the revision of high speed rail fastening systems related provisions of the 18 Item Standard. As of the Latest Practicable Date, the 18 Item Standard was a certification standard. We have been producing the relevant products according to this new standard since the implementation of the 18 Item Standard in February 2016. As of the Latest Practicable Date, all relevant inventories of the Group met the new 18 Item Standard.

Certificates of Recognition

As of the Latest Practicable Date, we have been granted a number of certificates for our rail fastening system, including:

Month and Year	Award/Recognition	Issuing Authority
February 2006	One of the top ten companies in the national conformity assessment of customer satisfaction (全國質量合格評定用戶滿意十佳品牌)	China Market Brand Strategy Discussion Forum Committee (中國市場品牌戰略討論壇組委會)
December 2013	Hebei Renowned and Reputable Enterprise (河北省著名商標企業) Award	Hebei Province Administration Bureau (河北省工商行政管理局)
April 2014	Hebei Outstanding Private Enterprise (河北省優秀私營企業) Award	Hebei Private Enterprise Association (河北省私營企業協會)

Month and Year	Award/Recognition	Issuing Authority
April 2015	Manufacture of railway fastener system and elastic strip, bolt spikes, nodular iron casting, hot rolling shape steels and gage tie bar used for railway fastener system	ISO 9001:2008 recognition certificate issued by China Quality Mark Certification Group (方圓標志認證集團有限公司), the international certification network
September 2015...............	Certificate for High Technology Enterprises (高新技術企業證書)	Hebei Science and Technology Agency (河北省科學技術廳), Hebei Department of Finance (河北省財政廳), Hebei State Tax Department (河北省國家稅務局) and Hebei Local Tax Department (河北省地方稅務局)
December 2015..............	Certificate of Hebei Famous-brand product (河北省名牌產品證書)	Hebei Quality Award Evaluation Committee (河北省質量獎評審委員會), Hebei Bureau of Quality and Technical Supervision (河北省質量技術監督局)

RAW MATERIALS AND SUPPLIERS

Based on our business demands, we purchase a variety of components and raw materials, which primarily consist of various types of steel including spring steel, round steel and scrap steel, nylon and rubber and iron. The principal raw materials we use are generally widely available and sourced from qualified domestic suppliers.

We have received stable supplies of spring steel, and in 2015 we entered into a strategic agreement with a domestic spring steel supplier. We source round steel from various suppliers to reduce possible interruptions to our business operations and reliance on a single supplier. This helps us to maintain stability of components and raw materials procurement. As such, quality or delivery problems, with respect to any single supplier, generally will not lead to a material adverse effect on our business operations. In addition, we exercise stringent control over the quality of raw materials that we use for our products that may affect passenger safety. We monitor the product quality of the supplier from time to time to ensure that their components and raw materials are timely supplied and conform to our quality standards. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any shortage or delay with respect to the supply of raw materials.

We evaluate and select suppliers based on various standards, such as their size of operation, qualifications, technical capability, price, product quality and service quality. Based on our evaluation of suppliers according to the above factors, we compiled a list of qualified suppliers to ensure the high quality and timely completion of our projects. In addition, we continuously monitor and evaluate existing suppliers as to whether they can meet our requirements and standards. Our goal is to maintain our cost competitiveness while ensuring raw material quality.

We have in place procedures to control the quality of raw materials we purchase from our suppliers. Every batch of raw materials entering into our premises is subject to stringent quality check in our quality control department.

Spring steel

During the Track Record Period, we purchased spring steel from two suppliers. We had maintained stable relationship with our major spring steel supplier. In order to strengthen the relationship with our major spring steel supplier, we entered into a strategic cooperation agreement with our major spring steel supplier in 2015 which can be renewed annually. According to the strategic cooperation agreement, we will issue monthly purchase orders based on our production needs specifying the volume for actual purchases under the agreement. The supplier shall provide us with a favorable purchase price, time of delivery and quality of products. In addition, the supplier undertakes to prioritize our product development and production. The supplier will also invite our engineers and research and development personnel to its production facility from time to time to provide training on aspects such as product inspection, accurate usage of products and so on.

We did not experience any shortage of spring steel during the Track Record Period. As spring steel is a generic raw material and there are numerous suppliers available in the market for the spring steel, our Directors believe spring steel can be purchased from alternative suppliers, if required, at prices comparable to those charged by our current suppliers.

Round Steel

During the Track Record Period, we purchased round steel from a number of domestic suppliers by entering into purchase agreements with our suppliers of round steel. Under the purchase agreements, our suppliers are required to deliver raw materials or products in accordance with applicable national standards or our technological requirements. Our suppliers are also generally required to deliver the raw materials or products to our designated warehouse. The purchase agreements typically stipulate a specific date for delivery, ranging from three to 15 days from the date of the agreement. The cost of delivery is usually borne by our suppliers. Payment terms vary from contract to contract depending on the purchase agreement. We may be required to pay prior to or upon delivery, or upon satisfactory completion of quality inspection, as the case may be. With respect to quality inspection and acceptance, we are required to raise dispute regarding quantity or quality of certain raw materials within a specified period of time, generally within 10 days, from the receipt of the raw materials or products or upon discovery of defects. In addition, we require some of our suppliers to bear our losses resulting from quality defects, late delivery or other incidents that give rise to liabilities of breach as a result of the supplier. On the other hand, in selective instances, we are required to pay a monthly penalty ranging from 10% to 15% of the purchase price for failure to meet the payment schedule.

Scrap Steel

During the Track Record Period, we purchased scrap steel via our wholly-owned subsidiary, Yichen Railway, which in turn procured scrap steel from independent third parties. Yichen Railway generally requires the suppliers to supply scrap steel of superior quality. The per ton unit price of scrap steel is generally specified in the purchase agreement. In addition, depending on the purchase agreement, either (i) suppliers will deliver the scrap steel in batches directly to the designated warehouse, or (ii) Yichen Railway will arrange for pick-up at the supplier's warehouse. Subject to the variation in the purchase agreements, Yichen Railway may be required to pay (i) within 30 days upon receipt of invoice, or (ii) prior to pick-up of scrap steel. With respect to quality inspection and acceptance, Yichen Railway is generally required to raise dispute regarding the quantity of scrap steel received on the day of receipt, and regarding the quality of scrap steel received either (i) within a specified period of time, generally within five days, upon discovery of defects, or (ii) prior to pick-up of scrap steel.

Nylon and Rubber

We purchase most of our nylon and rubber products from an affiliate, Tieke Yichen. We typically maintain a year-long agreement with Tieke Yichen, which is renewable on an annual basis. Pursuant to the agreements we enter into with Tieke Yichen, Tieke Yichen is required to provide nylon and rubber products in accordance with product specifications stipulated in the agreement. We shall provide Tieke Yichen with a production plan for nylon and rubber products according to our production needs and Tieke Yichen shall arrange for production of nylon and rubber products according to such production plan and the product quantity is subject to our final inspection and acceptance. In addition, Tieke Yichen is required to make available nylon and rubber products for us to pick up according to our notice. Once the products are ready, we shall arrange for pick-up and delivery of the nylon and rubber products from Tieke Yichen at our expense. The purchase price of nylon and rubber products are set according to the agreements. The agreement price is adjustable upon mutual consent if there is significant increase in costs on Tieke Yichen. Furthermore, we shall make monthly payments to Tieke Yichen with respect to nylon and rubber products procured during the month. For each production plan we placed, we shall make 80% payment in advance to better manage the working capital of Tieke Yichen.

Other raw materials

We typically enter into raw material supply contracts on a project by project basis. Our raw material supply contracts are typically fixed price and we typically allow our suppliers to issue invoice after the raw materials have passed our quality tests. We pay them after the issuance of invoice. We adopt various measures to reduce the impact of fluctuations in the price of the raw materials. When procuring raw materials, we seek to reduce our procurement costs through centralizing procurement and engaging in competitive negotiation and bargaining. Furthermore, we monitor fluctuation in prices in raw materials in the market on a regular basis and conduct assessments of our suppliers based on quality, service, delivery time and price to ensure that our suppliers meet our stringent standards. We have maintained business relationships with most of our major suppliers for over three years.

Electricity is the major energy source used in our business operation. We generally obtain electricity locally. During the Track Record Period and as of the Latest Practicable Date, we had not had any material disruptions in our supply of electricity sources.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, purchases from our five largest suppliers, in aggregate, accounted for approximately 45.2%, 46.1%, 51.9% and 61.5% of our total purchases, respectively. Purchases from our single largest supplier accounted for approximately 17.9%, 19.7%, 23.2% and 26.6% of our total purchases for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

As of the Latest Practicable Date, to the best knowledge of our Directors, none of our Directors, their respective associates or any of our Shareholders who held more than 5% of our issued share capital had any interest in our top five suppliers during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material interruptions in the supply of raw materials, parts or components required for our operations.

Credit Terms and Payment Method

For the procurement of most of our raw materials, our suppliers generally offer us a credit term of up to 30 days from the time they send us the relevant invoices, which in practice is adjusted on a case-by-case basis and we generally settle our procurement cost by bank transfer or bank acceptance bills.

QUALITY AND SAFETY

We have strict requirements on the safety and reliability of our rail fastening system products. We carry out stringent quality control measures that are in line with relevant national, international and industry standards. We have established quality management systems according to ISO9001:2008. For our rail fastening system products, we are typically required to adhere to the agreed product production specifications and standards promulgated by National Railway Administration of the People's Republic of China (國家鐵路局) and China Railway (中國鐵路總公司), and all our rail fastening system products satisfy PRC railway industry standards for rail fastening system products and are in compliance with generally accepted quality requirements in terms of safety, reliability, availability and maintainability. We have strengthened product safety control during each of the design, manufacture and system installation processes in accordance with railway industry standards.

Personnel

As of June 30, 2016, we had 41 quality control personnel for our railway fastening system production, most of whom have training and experience in engineering, quality control or other relevant fields. We have established an independent quality management department led by Mr. He Jinxiang (和金祥), our chief engineer, who has over 30 years of experience in quality control and the department consists of experienced quality management personnel with the relevant professional experience.

Raw materials

We have established a system for maintaining the quality of raw materials. To ensure that the incoming raw materials, such as spring steel and iron, meet our quality standards and applicable PRC national standards, we obtain inspection certificates from our suppliers on such materials, which set out their chemical elements. Our quality control personnel will also conduct chemical and physical examination, and only raw materials that comply with the standards stipulated in the purchase agreements will be accepted. In addition, we compile and review our list of qualified suppliers as and when required. Our goal is to maintain our cost competitiveness while ensuring raw material quality.

Finished products

Our core rail fastening system products shall be experimented by the quality management department before they are sold or placed into the next production process. Any modification and adjustment of existing safety technology and products shall not be implemented unless they are reviewed and approved by Mr. He Jinxiang (和金祥), our chief engineer.

Towards the end of the assembling process, inspection will be conducted on the quality of rail fastening system products by means of, among others, size testing, physical properties testing and magnetic particle inspection, and an inspection report and a quality certificate will be prepared. The inspection report and quality certificate are delivered to our customers along with our products.

The following table sets forth the major quality standards for which our Group has been accredited as of June 30, 2016.

Major standard	Recognition	Date or duration of validity of the certificate
ISO9001:2008	Quality management	April 2015 to April 2018
ISO14001:2004	Environmental management	July 2015 to July 2018
OHSAS18001:2007	Occupational health safety	July 2015 to July 2018

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our quality and safety related expenses are approximately RMB1.4 million, RMB0.6 million, RMB0.6 million and RMB0.1 million, respectively. During the Track Record Period, we were not subject to any significant administrative penalties as a result of violation of applicable product quality and technical supervision laws and regulations. The Directors confirm that the Group has not experienced any material quality problems during the Track Record Period.

COMPETITION

The rail fastening system market in the PRC is the primary market in which we operate. According to Frost & Sullivan, the rail fastening system market in the PRC is relatively concentrated. Revenue of the top 10 rail fastening systems providers accounted for approximately 81.2% of the total PRC rail fastening system market in 2015, the top seven high speed rail fastening systems providers constituted approximately 94.4% of the relevant market in 2015, the top five metro series rail fastening systems providers constitute approximately 79.8% of the total market in 2015, the top five traditional rail fastening systems providers constitute approximately 39.1% of the relevant market in 2015 and the top five heavy haul rail fastening systems providers constitute approximately 65.1% of the relevant market. Rail fastening system providers compete with each other in respect of production capacity, products variety and project management. Our Directors believe that our ability to better control the cost and quality of our rail fastening system products and to provide customized products to our customers through our integrated business model will enable us to remain competitive. Please refer to the section headed "Industry Overview — Rail Fastening System Market in China — Industry Concentration, Competitive Landscape and Market Share" in this prospectus for details.

FLUX CORED WIRE

Overview

We have been engaged in the production of flux cored wire products since 2002. Our flux cored wire production facilities are strategically located in Gaocheng, Hebei province, in close proximity to the production base of some of our major suppliers, which has led to shorter delivery and response times, reduced transportation and storage costs and fostered closer working relationships with those suppliers.

We have been awarded the ISO 9001:2008 certification and are also certified to supply to major markets, such as USA, UK, Italy, Japan and South Korea. We believe such certification is a testament to our superior quality standards and quality management systems. Our flux cored wire division has received numerous awards and accreditations from the PRC government and well-known organizations internationally, such as the ABS Tianjin, Nippon Kaiji Kyokai and RINA Services S.p.A., evidencing our superior quality standards and quality management systems. Details of the awards and accreditations of our flux cored wire products as of the Latest Practicable Date are set out in the subsection headed "— Certificates of Recognition" below.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our overseas sales of flux cored wire amounted to RMB12.4 million, RMB10.2 million, RMB7.9 million and RMB4.5 million, respectively, which accounted for all of our overseas sales. Furthermore, such sales amounts to approximately 2.0%, 1.2%, 0.9% and 0.9% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

Our Flux Cored Wire Products

Welding wire can be classified into two types: solid wire and flux cored wire. We primarily produce flux cored wire products that are used for welding steel plates together. Our major customers for flux cored wire products primarily comprise of private shipbuilding companies and trading companies operating in the shipbuilding industry. There are two types of flux cored wire electrodes: gas-shielded and self-shielded. As the flux coating on gas shielded wire solidifies faster than the molten weld material, a shelf is created which holds the molten pool when welding-overhead or vertically up. The self-shielded wire do not require an external shielding gas, the weld pool is protected as gas is generated when the flux from the wire is burned, producing its own protective shield. Solid wire can be used in metal inert gas welding. Such electrodes require shielding gas from a pressurized gas bottle.

Flux cored wire products have several advantages:

(i) They allow for a high deposition rate.

(ii) They work well outdoors and in windy conditions.

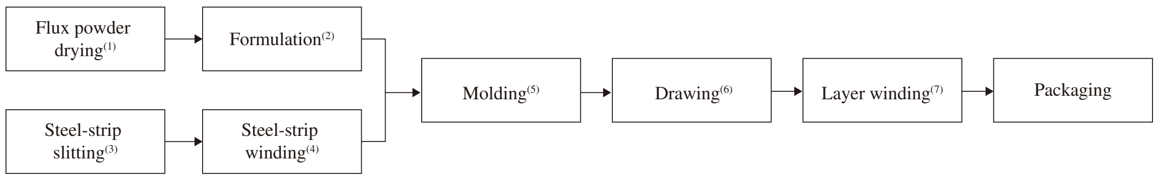
(iii) They are able to create a desired and appropriate appearance.

(iv) Typically, they create strong and clean weld.

The solid wire is not as portable as flux cored wire and the outdoor jobs can be affected by wind. Thus, our main welding wire is flux cored wire product.

Production Process for Our Flux Cored Wire

The following diagram sets forth the production process for our flux cored wire:



Notes:

(1)&(2) Flux powder drying and formulation: Prior to production, flux powder undergoes chemical examination to ensure that its chemical constituents and granulation satisfy quality requirements. Flux powder is then dried at the relevant temperatures according to the required programs for each type of powder. When drying is completed, flux powder is formulated to the required products.

(3) Steel-strip slitting. Cut steel strips into a width that suits the wire being produced.

(4) Steel-strip winding. Wind the cut-out steel strips around the closer reel for the convenience of the production process downstream.

(5) Molding. With the molding machine, twist the flux powder into the steel strips and process the mix into tubular wires.

(6) Drawing. Process the molded wires with the drawing machine into the diameter required by the contract.

(7) Layer winding. Wind the qualified finished wires around the wire spool with the layer winder according to the weight stated in the contract.

Production facilities

During the Track Record Period, our Directors confirm that there was no loss or claim regarding the production facilities and relating projects which may materially and adversely affect our operations and financial conditions.

We carry out regular maintenance on our facilities according to our facilities maintenance schedule to ensure production efficiency. We have not experienced any significant delays in the delivery or installation of new production machinery or equipment or major breakdowns of production machinery or equipment. Furthermore, our Company has not experienced any major disruptions in the supply of utilities such as water or electricity.

Raw materials and suppliers

We primarily use steel strip to manufacture our flux cored wire. We source raw materials primarily from domestic independent suppliers. We adopt a policy of procuring raw materials from several suppliers. We select our suppliers according to criteria such as pricing, quality, after-sale services and lead time. Those who satisfy our requirements for suppliers will be on a list of qualified suppliers. To maintain our certifications from our major customers, we procure raw materials from suppliers who are stable and reliable in terms of quality and delivery lead time. We have developed long-term relationships with our key suppliers.

Furthermore, we have specific standards for raw materials provided by our suppliers. Our specific testing department is responsible for checking and testing the qualities of raw materials. The raw materials which are not consistent with our standards will not be procured by us and their suppliers will not be on our qualified suppliers list.

Sales and marketing

We primarily sell our flux cored wire products through direct sales, and to a lesser extent through e-commerce platforms. For our direct sales, we primarily sell to private shipbuilding companies and trading companies operating in the shipbuilding industry. We have two departments responsible for the sales and marketing: sales department and international trade department.

The sales department is responsible for the regular sales of flux cored wire products, coordinates the relationships between marketing, prepares for the industrial exhibitions, international trade shows and technical seminars to create and enhance market awareness of our products. Experienced engineers and technicians provide technical support to our customers at their offices and facilities as and when they encounter problems.

The international trade department makes marketing and sales plans for international trade of the flux cored wire products. In addition to the traditional sales channel, this department is responsible for utilizing online e-commence platform to sell the products.

Our major customers for flux cored wire products primarily comprise of private shipbuilding companies and trading companies operating in the shipbuilding industry. We expect to continue to collaborate with our existing major customers, and we expect such customers to continue to contribute to a significant portion of our flux cored wire products revenue in the future.

Our flux cored wire business provides our Group a stable source of revenue. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from our flux cored wire manufacturing business was RMB65.0 million, RMB73.9 million, RMB71.9 million and RMB33.2 million, respectively, which accounted for 10.7%, 8.6%, 7.9% and 6.4% of our total revenue for the same periods, respectively.

Since there is currently an excess in production capacity in the flux cored wire market in the PRC according to Frost & Sullivan, we have no current plans to expand our manufacturing scale unless demand generated from the shipbuilding industry increases in the future. For details of the expected trends of the shipbuilding industry, please refer to the section headed "Industry Overview — Flux Cored Wire Market in China — Drivers of China's Flux Cored Wire Market" in this prospectus. In relation to sales development strategies of our flux cored wire products, we plan to continue to collaborate with our existing customers while our sales department seeks to develop new business opportunities through our existing sales channels.

Certificates of Recognition

As of the Latest Practicable Date, we have been granted a number of certificates for our flux cored wire, including:

Issuing Authority	Year	Project/product/achievement
ABS Tianjin	January 2016(1) to February 2017	Specification of flux cored wire accepted in the approved welding consumables list
Det Norske Veritas and Germanischer Lloyd	April 2016 to April 2021	Certificate of compliance with Det Norske Veritas' Rules for classification Ships
Korean Register of Shipping	August 2015(2) to July 2020	Certificate of compliance and entry into the "List of Approved Manufacturers and Type Approved Equipment"
Nippon Kaiji Kyokai	January 2016(3) to April 2017	Certificate of compliance with the rules of Nippon Kaiji Kyokai
RINA Services S.p.A.	January 2015 to April 2017	Approval of welding consumables certificate
Russian Maritime Register of Shipping	August 2012 to August 2017	Certificate of compliance with the Russian Maritime Register of Shipping rules
China Classification Society (中國船級社)	March 2016(4) to February 2020	Certificate of compliance with the China Classification Society Rules for Materials and Welding 2015 and its Amendments
Bureau Veritas International Register	January 2016 to January 2020	Certificate of compliance with the Bureau Veritas Rules on Materials and Welding for the Classification of marine Units
Lloyd's Register Group Limited	January 2016 to January 2017	Certificate of approval for welding consumables: YC-YJ502(Q)/$C0_2$
Lloyd's Register Group Limited	October 2016 to October 2017	Certificate of approval for Welding Consumable For Ship Construction: YC-YA309L(Q)/ CO_2
Lloyd's Register Group Limited	October 2016 to October 2017	Certificate of approval for Welding Consumable For Ship Construction: YC-YJ502(Q)/YC-401/CO_2

Notes:

(1) The certificate was initially granted to the Company on January 2015.

(2) The certificate was initially granted to the Company on July 2010.

(3) The certificate was initially granted to the Company on April 2010.

(4) The certificate was initially granted to the Company on April 2013.

According to Frost & Sullivan, the flux cored wire market in the PRC is relatively fragmented with over 700 players. Revenue of the top five players constitute approximately 29.2% of the total market in 2015 and the top 10 players constitute approximately 37.8% of the total market in 2015. Please refer to the section headed "Industry Overview — Flux Cored Wire Market in China — Competitive Landscape and Market Share" in this prospectus for details.

SALES TO SANCTIONED COUNTRIES

The U.S., the E.U., Australia and the U.N. impose international sanctions targeting certain Sanctioned In Countries and Sanctioned Persons. We had sales of welding materials to customers in certain of the Sanctioned Countries, namely Russia, Ukraine, Belarus, Egypt, Iran and the Balkans, during the Track Record Period. During the Track Record Period, our revenue derived from sales attributable to customers in these Sanctioned Countries, in aggregate, accounted for less than 1% of our revenue for each of the year ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Given (i) the Group's business activities in the Sanctioned Countries are not prohibited activities under E.U., Australian, U.N. or primary U.S. sanction laws; and (ii) none of our contract counterparties in the Sanctioned Countries was a Sanctioned Person, our International Sanctions Legal Advisers advised that our historical sales to customers in the Sanctioned Countries during the Track Record Period do not provide any basis on which a competent authority could take any enforcement action against our Group, our Directors, the Stock Exchange and related group companies, HKSCC, HKSCC Nominees, our Shareholders or potential investors under International Sanction laws imposed by the E.U., Australia, the U.N. and primary sanction laws imposed by the U.S.. As of the Latest Practicable Date, we have not been notified that any U.S., E.U., Australian or U.N. sanction would be imposed on us. Also, as our sales of flux cored wire products to a customer in Iran for the year ended December 31, 2014, amounted to approximately RMB8,000, comprising less than 0.001% of our total sales during the year, our International Sanctions Legal Advisers are of the view that such sales present a very remote risk of being sanctioned under the relevant secondary U.S. sanction laws because the volume of sales is not likely to be determined by relevant U.S. authorities to be a sale of "significant" goods to a person in the shipbuilding industry within the meaning of the sanction laws. Please see "Regulations — Descriptions of Sanctions Laws — United States — Secondary U.S. Sanctions" for more details.

Sanction Risks

As advised by our International Sanctions Legal Advisers, our Company's product sales and other business dealings in Russia, Ukraine, Egypt, Iran and Balkans (including Bulgaria, Croatia and Slovenia) during the Track Record Period are activities that do not breach any International Sanctions measures that apply to our Company. Further, given the Global Offering scope and the expected use of proceeds as stated in the section headed "Future Plans and Use of Proceeds" of this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate the applicability of International Sanctions on such parties, including our Company's investors, shareholders and the Stock Exchange and related group companies. As advised by our International Sanctions Legal Advisers, their above assessment was mainly based on the following procedures conducted by them:

(a) reviewed documents provided by us that evidence our sales transactions to customers in the Sanctioned Countries during the Track Record Period;

(b) received written confirmation from us that neither our Group nor our affiliates has conducted business dealings in or with any other countries or persons that are the subject of International Sanctions during the Track Record Period; and

(c) reviewed the list of customers to whom such sales or products have been made during the Track Record Period against the list of Sanctioned Persons, and confirmed that none of our customers in the Sanctioned Countries are on such lists.

Taking into account of our International Sanctions Legal Advisers' views, our Directors believe there is low and remote risk that our business with Sanctioned Countries during the Track Record Period would contravene applicable International Sanctions law for the following reasons: (i) based on our International Sanctions Legal Advisers' assessment, our Company's business dealings with respect to the Sanctioned Countries have not implicated any primary sanctions administered and enforced by the U.S. Government, including domestic sanctions laws, extraterritorial sanctions or U.S. export control laws, and there is a potential but remote risk that our Iranian sales (amounted to approximately RMB8,000 during the Track Record Period) could be found to be sanctionable if such Iranian customer(s) of our Company were found to be acting for or on behalf of a U.S. SDN or an associated entity (it being noted that the transaction volume of such Iranian sales was not likely to be determined as significant and that such Iranian customer was not itself a U.S. SDN); (ii) based on our International Sanctions Legal Advisers' assessment, our Company's business dealings with respect to the Sanctioned Countries do not implicate any restrictive measures adopted or imposed by the U.N., the E.U. or Australia; (iii) to our knowledge, none of our Company or any of our Shareholders or Directors disclosed in this prospectus are specifically identified on the list of SDN maintained by OFAC or other restricted parties lists maintained by the E.U., Australia or the UNSC; and (iv) to our knowledge, the goods supplied by us to the customers in the Sanctioned Countries were not purchased for military purposes.

Based on the above and taking into account the assessments made by our International Sanctions Legal Advisers, our Directors believe that there was low and remote risk that we could have violated any International Sanctions law or regulation as a result of our business activities in the Sanctioned Countries. Accordingly, our Directors believe that Shareholders and potential investors of our Company, the Stock Exchange and the related group companies, HKSCC, HKSCC Nominees, and other entities who may be involved in the listing process of our Company would not be subject to sanctions risk.

Taking into account our Group's business activities in the Sanctioned Countries are not sanctioned activities under the International Sanctions laws and do not implicate the applicability of International Sanctions laws on our Group, or any, person or entity, including our Group's investors, the Stock Exchange and the related group companies, the HKSCC and the HKSCC Nominees, and in order to maintain revenue and to maximise the Shareholders' interests, with the exception of Iran, we will continue to carry out the above business activities. Our Directors however do not expect any significant increase or decrease in our Group's sales to the Sanctioned Countries upon Listing.

Our undertakings and internal control procedures

We have undertaken to the Stock Exchange:

(i) that we will not use the proceeds from the Global Offering, or any other funds raised through the Stock Exchange and related group companies, to finance or facilitate, directly or indirectly, activities or business with any Sanctioned Country which is prohibited under international sanction laws and regulations or with any Sanctioned Person;

(ii) that we have no intention to undertake any future business that would cause us, the Stock Exchange and related group companies, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the U.S., the E.U., Australia or the U.N.;

(iii) to disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions our Group entered into in relation to a Sanctioned Country would put us or our Shareholders and investors at risk of being sanctioned; and

(iv) to disclose in our annual reports or interim reports our efforts in monitoring our business exposure to sanctions risk, the status of future business, if any, in the Sanctioned Countries and our business intention relating to the Sanctioned Countries. If we were in breach of such undertakings to the Stock Exchange, we risk the possible delisting of our Shares on the Stock Exchange. To monitor our exposure to sanction risks and to ensure compliance with the undertakings to the Stock Exchange, we have adopted the internal control measures as described below:

- We have established an internal control committee whose responsibility include monitoring our exposure to sanction law risks and our implementation of the related internal control procedures and reporting to our Board. Our internal control committee will hold at least two meetings each year to monitor our exposure to sanctions law risks and will report to our Board as soon as practicable after each such meeting.

- We will evaluate the relevant sanction risks prior to determining whether we should embark on any new business opportunity in relation to Sanctioned Countries. According to our internal control procedures, the internal control committee needs to review and approve all relevant business transaction documentation connected with Sanctioned Countries and/or Sanctioned Persons. In particular, the internal control committee will review the information (such as identity, nature of business, etc.) relating to the counterparty to the contract along with the draft business transaction documentation. The internal control committee will check the counterparty against the various lists of restricted parties and countries maintained by the E.U., the U.S., Australia or the U.N. and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a Sanctioned Person. If any potential sanction risk is identified and where appropriate, we will seek advice from a reputable external international legal counsel with the necessary expertise and experience in international sanction law matters.

- In order to ensure our compliance with these undertakings to the Stock Exchange, the internal control committee will continuously monitor the use of proceeds from the Global

Offering, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country which are prohibited under international sanction laws and regulations or any Sanctioned Person.

- Our internal control committee will periodically review our internal control policies and procedures with respect to sanction law matters and report to our Board thereon. As and when the internal control committee considers necessary, we will retain an external international legal counsel with the necessary expertise and experience in sanctions law matters for recommendations and advice.

- If necessary, an external international legal counsel will provide training programs relating to the sanction laws to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations.

Taking into consideration the internal control measures set out above, our Directors and the Sole Sponsor are of the view that these measures will provide a reasonably adequate and effective internal control framework to assist us in identifying, monitoring and mitigating any material risk relating to sanction laws so as to protect the interests of the Stock Exchange and related group companies, HKSCC, HKSCC Nominees, our Shareholders, potential investors and us.

ENVIRONMENTAL PROTECTION

We endeavor to protect the environment and strive to conduct our business in full compliance with applicable environmental laws and regulations. We are subject to a broad range of environmental laws and regulations in the PRC, including those governing the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution and the construction project environmental protection. For details, please see the section headed "Regulations — Laws and Regulations Relating to Environmental Protection".

We have implemented comprehensive environmental protection measures to minimize the impact of our production processes on the environment. During the Track Record Period, the major pollutant from our production process was dust. We have implemented various prevention and reduction measures, including purchase of equipment which can better reduce the emission of dust particulars during production and implementation of relevant standard of operation, regular inspection on dust concentration, provision of apparatus including ear-muffs and anti-dust mask to our relevant employees when necessary and the application of water sprinkling to reduce dust in relevant areas. We have also received ISO14001:2004 certification for our environmental management system. In order to be accredited with such certification, we have established and have continued to implement a procedure to identify and monitor the impact of our activities and products on the environment, policies regarding prevention of environmental pollution and continual improvements, accountability structure, competent personnel and training, emergency response plans, appropriate recording system and management review. In particular, we regularly monitor the environmental factors in our production process and conduct regular inspection and maintenance of our environmental protection equipment. We review the effectiveness of our overall environment management system annually. During the Track Record Period and up to the Latest Practicable Date, we have been in compliance with relevant environmental laws, regulations and standards on dust emission during the relevant periods.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our annual cost incurred in relation to environmental protection was approximately RMB44,000, RMB1.1

million, RMB0.7 million and RMB0.5 million, respectively. Our cost of compliance with applicable environmental rules and regulations for the year ended December 31, 2015 decreased when compared to 2014 because of the higher level of investment in equipment for environmental protection in 2014.

During the Track Record Period and up to the Latest Practicable Date, our Directors, as advised by our PRC Legal Advisers, have confirmed that save as disclosed in the subsection headed "— Regulatory Compliance" in this prospectus, we had complied with all applicable PRC environmental laws and regulations in all material respects. In addition, we have not been subject to any material claims or penalties in relation to environmental protection and have not been involved in any environmental accidents or fatalities during the Track Record Period.

JOINT VENTURE WITH TIEKE SHOUGANG

We incorporated Tieke Yichen, which was formerly known as Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司), in April 2012 in Gaocheng District, Shijiazhuang. In February 2013, Tieke Shougang and us made additional capital injection into Tieke Yichen, after which Tieke Shougang held 51% and we held 49% equity interest of Tieke Yichen, respectively. Accordingly, Tieke Yichen became an associate of the Company. We purchase nylon and rubber products from Tieke Yichen. For details on the history of Tieke Yichen and our business relationship with Tieke Yichen, please refer to the sections headed "History and Development — Associate — Tieke Yichen" and the subsection headed "— Raw Materials and Suppliers — Other raw materials".

EMPLOYEES

As of June 30, 2016, we had a total of 1,121 full time employees. The following table sets forth a breakdown of the number of our employees by function as of June 30, 2016:

Function	Number of employees
Production and logistics	817
Marketing and sales	47
General administration	191
Quality control	41
Finance	13
Procurement	7
Legal and compliance	5
Total	1,121

We believe that cultivating and maintaining a team of capable and motivated managerial, technical and other employees is critical to our success. Our recruitment and retaining policies for employees take into account a number of factors, including market conditions and our business demands and expansion plans. We conduct employee appraisals on a regular basis, and we generally determine employees' compensation based on their performance, qualifications, position and seniority. We adjust employees' salary every year and also provide other compensation and benefits to our employees (including performance-based bonuses).

We provide general training to all our employees and customized training programs to employees in various functions, for example, marketing, quality control knowledge update, new certification requirements promulgated by CRCC and safety procedures.

We maintain good working relationships with our employees. We believe that our management policies, work environment, staff development opportunities and benefits have contributed to stable employee relations. We have established an employee labor union in which all our PRC employees are eligible to participate. Our labor union represents the interests of our employees and works closely with our management on labor-related issues. The union also organizes various activities for our employees. As of the Latest Practicable Date, our employees have not negotiated their terms of employment through any labor union or by way of collective bargaining agreements, and we have not experienced any strikes or any labor disputes with our employees that have had or are likely to have a material effect on our business.

Social Insurance Contribution and Housing Provident Fund Contribution

Under relevant PRC laws and regulations, we are required to provide our employees in the PRC with welfare schemes covering a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, maternity leave insurance, occupational injury insurance and housing provident funds. As of the Latest Practicable Date, our Directors confirm that we are in full compliance with all the national and local laws and regulations in relation to the relevant social insurances and housing provident funds in all material respects.

OCCUPATIONAL HEALTH AND PRODUCTION SAFETY

We consider occupational health and production safety as an important social responsibility. Our major operations involve molding, casting, heat treating and surface treating, quality assessment and packing. Therefore, our employees may face certain risks of work-related injuries and accidents. We place significant emphasis on safety control to minimize incidents during our manufacturing processes that could result in injuries or casualties. We have implemented various occupational health and production safety management system standards in line with domestic certification, and we have adopted a health and safety supervision and management system, consisting of government supervision, internal controls and external certifications.

In 2015, the China Quality Mark Certification Group (方圓標誌認證集團有限公司) conducted reviews on our occupational health and production safety management system. We passed the reviews and was granted the ISO14001:2004 and OHSAS 18001:2007 certifications. We believe that we have an excellent occupational health and safely management system that continued to operate effectively.

We have established a safe production committee in charge of general production safety supervision and management. The safe production committee, headed by the general manager, is composed of the vice general manager, Mr. He Jinxiang (和金祥), our chief engineer, and chief executives of various departments. As of December 31, 2015, we had 35 employees responsible for production safety. We provide occupational safety and various production safety training sessions for our employees on a regular basis in compliance with the applicable laws and regulations. During the Track Record Period, our employees suffered from minor injuries. We received no written complaint and no compensation request from our employees in relation to those accidents. During the Track Record Period and up to the Latest Practicable Date, there had been no incident of serious injury or casualty during our manufacturing processes.

We have formulated and implemented a manual with regard to safety control processes and standards, including safety accident reporting procedures, safety accident investigation and remedial procedures and standardized management of safe production.

We impose safety measures and conduct regular internal safety inspections at all stages of our operations, such as the purchase, installation and operation of new equipment, the construction of new facilities and the manufacturing of products, in order to minimize work-related accidents and injuries. We provide various healthcare benefits and insurances as well as safety education to our employees in compliance with applicable laws and regulations. During the Track Record Period, we monitored the working environment and proactively dealt with potential occupational hazards in the working areas, provided our employees with comprehensive labor protection products and equipment, established occupational health records and arranged regular health examination for our employees to protect our employees from occupational hazards effectively.

We believe that our business operations are in compliance with applicable PRC laws, regulations and rules in respect of occupational health and production safety in all material aspects. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties associated with any material violation of applicable PRC laws and regulations on occupational health and production safety. According to our PRC Legal Advisers, our operations are in compliance with applicable safety regulations in all material aspects.

INVENTORY CONTROL

We review the carrying value of our inventories from time to time. Based on conditions of goods and estimated net realizable value of our inventories, we make provisions for impairment of inventories when the inventories become obsolete or damaged and the carrying value declines below the net realizable value. Please see the paragraph headed "Financial Information — Description of Certain Components of Statements of Financial Position — Inventories" in this prospectus for further discussion on inventory control measures.

INTERNAL CONTROL

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal controls to safeguard our shareholders' investment and our assets at all times. We engaged internal control consultants in 2015 to review our internal control system. The scope of the engagement mainly entailed: (i) conducting a review of our internal control system; (ii) assessing and reporting major risks and operational inefficiencies; (iii) recommending improvements; (iv) communicating with our Directors and senior management regarding the implementation of recommendations; and (v) conducting follow-up reviews and reporting on the findings.

In order to achieve effective and efficient operations and reliable financial reporting and compliance with applicable laws and regulations, we have adopted, or expect to adopt before the Listing, various internal control rules and procedures, including the following:

- Our Articles of Association incorporates the corporate governance requirements set out in Appendix 14 of the Listing Rules to ensure the overall corporate governance compliance with applicable laws and regulations upon Listing. We will also adopt Rules of Procedures for Shareholders' Meetings (股東大會議事規則), Rules of Procedures for Board Meetings (董事

會議事規則), and Rules of Procedures for Supervisory Committee Meetings (監事會議事規則) upon Listing, where, among others, the duties and responsibilities and rules of procedures for the Shareholders' meetings, our Board meetings and supervisory committee have been stipulated to ensure the effectiveness and reasonableness of our major decision making process.

- We will establish an Audit Committee upon Listing, the primary duties of which are to (i) assist our Board by managing internal control and risk systems of our Group, (ii) oversee the audit process, (iii) provide an independent view of the effectiveness of the financial reporting process, and (iv) perform other duties and responsibilities as assigned by our Board. The Audit Committee consists of three independent non-executive Directors and is chaired by Mr. Jip Ki Chi, who has over 18 years of experience in accounting. For details of qualifications and experience of our Audit Committee members, please see the section headed "Directors, Supervisors, Senior Management and Staff — Board Committees — Audit Committee" in this prospectus.

- We will adopt upon Listing, the Internal Control Management Measures (內部控制管理辦法), which sets out the procedures for effective implementation of internal control measures.

- We provided training to the Directors, senior management and key risk management personnel with respect to our internal control policies and expect to provide continuous training when necessary.

- Our human resources team is responsible for developing and monitoring our human resources management system which covers recruitment procedures, employment agreements, employee compensation and employee annual evaluation to ensure that we comply with relevant regulatory requirements and applicable laws so as to reduce our legal risks.

- Our sales activities are regulated in accordance with the nature of different business segments. For the bidding process primarily in respect of our rail fastening system, we established the Internal Policy on Sales* (銷售業務內部控制規則) which regulates the initiation, approval and management procedures of bidding projects. For sales of our flux cored wire products, we established the Regulation and Sales Procedures of Welding Materials* (焊材公司銷售流程及規章制度) which stipulates the process of customer identification verification, credit assessment, agreement approval and accounts receivable management.

- We intend to engage external professional advisers as necessary and work with our internal audit and legal teams to conduct review to ensure that all registrations, licenses, permits, filings and approvals are valid and that the renewals of such documents are made in a timely manner.

- We plan to engage a qualified PRC legal adviser, to review and advise on our regulatory compliance with the relevant PRC laws and regulations that are material to our business operations in China.

- We intend to appoint BOCOM International (Asia) Limited as our compliance adviser upon Listing to advise us on on-going compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

We believe that the effectiveness and efficiency of our corporate management and internal control systems are critical to our success of our growing business. Our Directors are of the view that the internal control measures at both the working and management levels are adequate and effective for our Group's business operations. We will continuously assess and streamline our internal control mechanisms to ensure that relevant procedures are adequate and effective.

PROPERTIES

Our head office is located in Hebei, China. As of the Latest Practicable Date, we owned certain properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01 (2) of the Listing Rules. They mainly include three parcels of land with an aggregate site area of 352,463.99 square meters and four properties with an aggregate floor area of 80,028 square meters in Hebei, China. In addition, we leased three properties with an aggregate floor area of 3,473.37 square meters in the PRC.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 342(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all of our interests in land or buildings. Pursuant to Chapter 5 of the Listing Rules, this prospectus is not required to include valuations of our properties. This is because as of June 30, 2016, none of our properties had a carrying value of 15% or more of our consolidated total assets.

Owned properties

Land

As of the Latest Practicable Date, we owned land use rights of three parcels of land with an aggregate site area of 352,463.99 square meters in Gaocheng, Hebei Province, and with valid land use right certificates. We have obtained the land use right certificates for two parcels of land in 2008 and for one parcel of land in 2016.

Our PRC Legal Advisers confirmed that we have the rights to occupy, utilize, generate income from and dispose of such lands (including but not limited to transfer, lease and mortgage) within the period specified in the land use right certificates.

Buildings

As of the Latest Practicable Date, we owned four buildings with an aggregate floor area of 80,028 square meters, which are used as our production facilities, ancillary production facilities and offices in Gaocheng, Hebei Province. We obtained building ownership certificates for two of our owned buildings with a total floor area of 70,537.6 square meters, representing approximately 88.1% of the aggregate floor area of our owned buildings. Our PRC Legal Advisers confirmed that we are the legal owner of such properties and we have the rights to occupy, utilize, generate income from and dispose of such properties (including but not limited to transfer, lease and mortgage) with the period specified in the building ownership certificates. We are in the process of obtaining the building ownership certificates for two of our owned buildings, which are used as our storage space and also for assembling and packaging our products. Such buildings have a total floor area of 9,490.4 square meters, representing approximately 11.9% of the aggregate floor area of our owned buildings. We have identified suitable replacement spaces in our current welding material production plant in Gaocheng, Hebei province and may relocate to such spaces in the event we are unable to obtain the relevant building ownership certificates. In the event that it is necessary to cease use of such buildings, we may relocate to the suitable replacement areas within one week, and our Directors confirm that such movement is not expected to materially adversely affect our business or operations.

On November 27, 2015, we obtained a written confirmation from Gaocheng Planning Bureau* (藁城規劃局), confirming that (i) the application for the construction work planning permits* (建設規劃許可證) is being processed; (ii) there is no legal impediment for us to obtain such construction work planning permits; and (iii) no administrative penalties will be imposed and no compulsory administrative measures (including ordering to demolish within a prescribed time period or fines) will be taken for our failure in applying for the construction work planning permits in a timely manner.

On November 27, 2015, we obtained a written confirmation from Gaocheng Housing and Construction Bureau* (藁城住建局), confirming that (i) the application for construction work commencement permits, inspection and acceptance on completion of construction and building ownership certificates of such properties are being processed; (ii) there is no legal impediment for us to obtain of the building ownership certificates of such properties; (iii) we are allowed to use such properties in current way considering the purpose of supporting the production and operation of enterprises; and (iv) no administrative penalties will be imposed and no compulsory administrative measures (including ordering to demolish within a prescribed time period or fines) will be taken for our failure in applying for the above mentioned permits and certificates in a timely manner.

Based on the confirmations aforementioned, our PRC Legal Advisers are of the view that the likelihood that we will be fined by relevant authorities in relation to the building ownership certificates is low.

Our PRC legal Advisers have further advised us that both Gaocheng Planning Bureau and Gaocheng Housing and Construction Bureau are competent authorities to give the above confirmations.

Base on the foregoing, our Directors are of the view that such event with respect to the building ownership certificates will not have any material adverse impact on our business or operations.

Leased properties

Buildings

As of the Latest Practicable Date, we leased three properties with an aggregate floor area of 3,473.37 square meters, where one property with a total floor area of 3,151.62 square meters in Gaocheng was leased from Longji and is for general corporate use, and the other two properties with a total floor area of 321.75 square meters were leased from Mr. Zhang Haijun, our founder, executive Director and chairman, and were used as staff dormitory and carpark in Beijing. All of the current leases will expire on July 31, 2018, and we have the option and the right of first refusal to renew these leases.

Two properties leased from Mr. Zhang Haijun

We have not obtained the registration certificates for the lease agreements, which were entered into on November 30, 2015, regarding the two leased properties from Mr. Zhang Haijun used as employee dormitory in Beijing with a total floor area of 321.75 square meters, representing approximately 9.3% of our total leased floor area. Building ownership certificates have been duly obtained by the landlord for these leased properties.

According to the Administrative Measures for Commodity House Leasing* (《商品房屋租賃管理辦法》), we may be required by the relevant authorities to register the relevant lease agreements within a prescribed time period. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease.

Considering that non-registration will not affect the validity of the lease agreements according to the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes Over Lease Contracts on Urban Buildings* (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》), our PRC Legal Advisers are of the view that the non-registration of these lease agreements will not affect the validity of the lease agreements.

One property leased from Longji

We have entered into a leased property agreement with Longji on November 30, 2015, regarding one leased property from Longji used as office in Gaocheng, Hebei Province with a total floor area of 3,151.62 square meters, representing approximately 90.7% of our total leased floor area.

According to the Land Administration Law of the PRC* (《中華人民共和國土地管理法》), collectively-owned land can only be used for the construction of township enterprises, houses for villagers, public facilities of townships (towns) or public welfare. On June 5, 2015, we obtained written confirmation from Gaocheng Industry and Information Technology Bureau* (藁城工信局), confirming that both Longji and us could be classified as township enterprise. On November 27, 2015, we obtained the written confirmation from Gaocheng Land Bureau* (藁城國土局) confirming that both Longji and our Company have been township enterprises since their respective establishment and could therefore use the collectively-owned land. On November 27, 2015, we obtained the written confirmation from Gaocheng Housing and Construction Bureau* (藁城住建局), confirming that our Company is entitled to lease such leased property situated on collectively-owned land under the existing condition. Based on the confirmations aforementioned, our PRC Legal Advisers are of the view that the lease agreement with Longji has been duly signed, our lease of such property is legal, valid and enforceable.

Our PRC legal Advisers have further advised us that all of Gaocheng Industry and Information Technology Bureau, Gaocheng Land Bureau and Gaocheng Housing and Construction Bureau are competent authorities to give the above confirmations.

Based on the aforementioned, our Directors are of the view that such events with respect to the leased properties will not have any material adverse impact on our business or operations.

Director confirmations

We have not been advised by any government department or other person to cease our use of the owned or leased properties with defective titles for our business activities, or to pay fines or make compensation. Our Directors are of the view that the defective titles of our owned and leased properties will not individually or collectively have a material and adverse effect on our business assets, operations and the Listing because (i) the size of these properties are small as compared with the total size of all our owned and leased properties; (ii) we do not consider these defective properties crucial to our core business operations; (iii) the relevant building ownership certificates for the majority of our owned and leased properties were obtained by us or by our landlords; and (iv) if, for any reason, we are evicted from, or can no longer use, any of these properties, we believe we are able to be relocated in a timely manner at minimal expense and would not materially affect our business or financial position.

In addition, our Directors are also of the view that (i) such properties with defective titles are generally in good condition and are safe for us to use; and (ii) the rental costs for such leased properties with defective title would not be materially different should the landlords obtain relevant building ownership certificates.

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we had been granted 22 patents and four trademarks in China and one trademark in Hong Kong. As of the Latest Practicable Date, we also have applied for registration of six patents that are still pending on approval by the relevant governmental department in China. The trademarks required for our operation have all been obtained. Our operation is not dependent on the trademarks that are still pending on registration and approval. For further details on our intellectual properties, see the paragraph headed "Statutory and General Information — Further Information about the Business of Our Company — 9. Intellectual property rights of our Group" in Appendix VI to this prospectus. During the Track Record Period, we have not experienced any material disputes or infringements regarding our intellectual properties.

INSURANCE

Pursuant to the general practice in the industry, we have obtained fire, liability or other property insurance for the properties, equipment or inventories in relation to our operations. As our business expands, we will continue to regularly review and assess our risk portfolio and adjust our insurance practice based on our needs and industry practice.

Our Directors confirm that our insurance coverage is in line with industry practice and is adequate to our businesses and operations. During the Track Record Period, our Directors also confirm that there had been no loss or claim resulting from our insurance coverage which may materially and adversely affect our operations and financial conditions.

RESEARCH AND DEVELOPMENT

Although we generally produce rail fastening systems based on technology specifications set out by the Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所), we have engaged in research and development projects that enhance the safety and elevate the quality of rail fastening systems. During the Track Record Period, our research and development activities resulted in, among others, increasing the longevity and safety standard of various rail fastening systems through enhancing the design, production and assembly of such products. Such research and development activities included better designed spring bars that improved the safety features, such as preventing the disintegration of parts of the spring bar due to railway vibration, of relevant rail fastening systems and the enhanced production technology for cast iron products which improved the qualified rate of such products. During the Track Record Period, we also participated in the testing of rail fastening systems for heavy haul railways of up to 30 tons and engaged in the design, production and assembly of rail fastening systems for particular projects with specific needs. We believe our commitment to research and development activities that enhance the quality and safety features of our products has contributed to our outstanding track record, which in turn, supported our business growth. In addition, as a result of our research and development effort, we received 22 registered patents and six pending patent applications in the PRC as of the Latest Practicable Date.

We believe that our research and development capabilities are indispensable to our future growth. We focus our research and development efforts on the safety, quality and relevant aspects of rail fastening systems for (i) high speed railways, (ii) heavy haul railways and (iii) metro series.

During the Track Record Period, we collaborated with various universities and research centers, including Guangzhou Metro Design and Research Institute Co., Ltd. (廣州地鐵設計研究院有限公司) and Shenzhen Municipal Design and Research Institute Co., Ltd. (深圳市市政設計研究院有限公司) where we have established long-term cooperation. The table below sets out the major research and development projects we participated in during the Track Record Period:

Project	Scope of research	Commencement date	Completion date
Molding process development of iron plate of WJ-8 fastening system	Mold structure improvement	June 2015	September 2015

Project	Scope of research	Commencement date	Completion date
Electric heating and casting package development	Production	June 2015	September 2015
Upgrade of auto packaging equipment	Packaging	August 2015	November 2015
Overall improvement of track bed on iron plate	Manufacturing	June 2015	September 2015

As of June 30, 2016, we had 14 personnel focused on the research and development of railway fastening system products, of whom 10 have higher degrees. As of the Latest Practicable Date, all of our employees on our research and development team are based in PRC focusing on the technical research and development. Our research and development staff is headed by Mr. He Jinxiang (和金祥), our chief engineer, who has over 10 years of experience in railway industry. Our research and development expenses from continuing operations for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 were approximately RMB27.5 million, RMB10.4 million, RMB31.0 million and RMB15.1 million, respectively.

LEGAL PROCEEDINGS

We may be involved in contractual disputes, litigation or other legal proceedings in the ordinary course of our businesses. During the Track Record Period, our employees suffered from minor injuries. We received no written complaint and no compensation request from our employees in relation to those accidents.

As of the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations. In addition, during the Track Record Period, neither our Company nor any of our subsidiaries was subject to any material claims, damages, losses or product returns. As of the Latest Practicable Date, to the best of our knowledge, no such material litigation, arbitration, claim or administrative proceeding was pending or threatened against our Company, any of our subsidiaries or any of our Directors.

REGULATORY COMPLIANCE

Licenses, Approvals and Permits

As advised by our PRC Legal Advisers, as of the Latest Practicable Date, save as disclosed below and under "— Licenses, Permits and Qualifications — License Renewal", we had duly obtained all material approvals, permits, consents, licenses and registration necessary for our business operations and all of them are presently in force.

Non-compliance

The table below sets out summaries of certain incidents of our historical non-compliance with applicable laws and regulations during the Track Record Period.

Historical non-compliance incident	Reasons for non-compliance	Legal consequences, potential maximum penalties and other financial liability	Rectification actions taken, potential future impact on our operations and financial conditions, and status as of the Latest Practicable Date	Enhanced internal control measures to prevent non-compliance
1. **Late payment of salary** During the Track Record Period, we did not pay the monthly salary in full in a timely manner to our employees, although we generally ensure all outstanding salary be paid before Chinese New Year. The default period for payment of monthly salary ranged from one to three months. The amount of our salary expense for each month is generally not more than RMB6 million during the Track Record Period.	We are in a capital intense industry, and to meet our working capital needs we often rely on draw down from our banking facilities. To better manage our capital needs and use of banking facilities we delayed salary payments to our employees in the past when we considered such delay can help us manage our working capital and/or reduce our interest expenses. We have communicated with our employees on the relevant salary payment arrangement, and accordingly, our employees are aware of and agreed to such salary payment arrangement. Furthermore, we have had employee union meetings regularly, and we have not received complaints in relation to our salary payment arrangement at such meetings.	According to Labor Law of the PRC (中華人民共和國勞動法), the relevant PRC labor administrative authorities may demand us to pay the overdue salary within a prescribed time period, and may order us to pay financial compensation or damages. In case of failure to rectify within the prescribed time, we may be imposed a fine of 50% to 100% of the total payable amount of the salary.	Since September 2015, we have made payment of monthly salary for all employees in full and has paid the monthly salary on time afterwards. On December 1, 2015, we received confirmation from substantially all of our employees at the material time that (i) they were informed by our senior management and agreed, at the time of employment and thereafter, that we may delay the payment of monthly salaries by one to three months ; (ii) they do not have any disputes against us in relation to not receiving timely payment of monthly salaries; and (iii) they have not and will not claim compensation or liquidated damages against us or the relevant governmental authorities through labor arbitration or litigation in relation to untimely payment of monthly salaries. On December 1, 2015, we received confirmation from Shijiazhuang City Gaocheng District General Labor Union* (石家莊市藁城區總工會) that (i) they are aware of our salary payment arrangement and (ii) they have not received any complaints or are not aware of any disputes raised by any of our employees as of the date of confirmation in relation to our late payment of salary. On March 7, 2016 and August 1, 2016, respectively, we received confirmation from Shijiazhuang City Gaocheng District Human Resource and Social Security Bureau that (i) we are in compliance with all material aspects of the PRC labor related laws and regulations; (ii) we have not engaged in material non-compliance in relation to PRC labor related laws and regulations, and there are no ongoing administrative investigation or complains against us; and (iii) no administrative penalties have been or would be imposed on us for any breach of applicable laws and regulations. Our PRC legal Advisers have advised us that both Shijiazhuang City Gaocheng District General Labor Union and Shijiazhuang City Gaocheng District Human Resource and Social Security Bureau are competent authorities to give the above confirmations.	Our Internal Control Consultant has confirmed that our Company has made payments of the monthly salaries on time since September 2015 and prepared a policy relating to salary payment to ensure compliance with relevant regulations. In addition, we require the head of our labor union, our general manager and secretary to the Board to check that salary has been paid on time every month and to immediately report to our Remuneration Committee if the salary is not paid on time and accordingly the Remuneration Committee shall take appropriate actions if deemed necessary. Furthermore, following our Listing, our Board will prepare quarterly compliance report in relation to the arrangement of salary payment to the Remuneration Committee. In the event that there is any non-compliance with the arrangement of salary payment, our Remuneration Committee will discuss with management to understand the reasons and ensure the non-compliance will be rectified in a timely manner.

Historical non-compliance incident	Reasons for non-compliance	Legal consequences, potential maximum penalties and other financial liability	Rectification actions taken, potential future impact on our operations and financial conditions, and status as of the Latest Practicable Date	Enhanced internal control measures to prevent non-compliance
			The Controlling Shareholders Group has also executed the Deed of Indemnity in favor of our Group whereby they will indemnify us for all claims, costs, expenses, losses incurred by us and liabilities and damages suffered by us arising out of or in connection with the above historical non-compliance. Based on (i) the confirmation letter we received, and (ii) the indemnity provided by our Controlling Shareholders Group in favor of our Group under the Deed of Indemnity, our PRC Legal Advisers are of the view that (i) delay in salary payment does not constitute material violation, and (ii) the likelihood that we will be fined by relevant authority is low. Base on the foregoing, our Directors are of the view that our non-compliance with respect to the payment of monthly salary will not have a material adverse impact on our business or operations.	

Historical non-compliance incident	Reasons for non-compliance	Legal consequences, potential maximum penalties and other financial liability	Rectification actions taken, potential future impact on our operations and financial conditions, and status as of the Latest Practicable Date	Enhanced internal control measures to prevent non-compliance
2. **Late attendance to environmental impact assessment approval and environmental protection facilities inspection and acceptance formalities** We failed to attend to the relevant environmental impact assessment approval and the environmental protection facilities inspection and acceptance formalities for our project of production of components of rail fastening systems (the "**Casting Project**") in a timely manner.	During the relevant period, environmental impact assessment approval and environmental protection facilities inspection and acceptance formalities were handled by our environmental and safety department and our staff at the relevant department did not fully understand the requirements of applicable laws and regulations.	Operating without going through and passing the environmental acceptance test, the competent authorities may order us to suspend our operation and/or impose penalties in the maximum amount of RMB500,000.	In November 2015, we had submitted the application for the environmental impact assessment approval for the Casting Project to Shijiazhuang City Gaocheng District Environmental Bureau* (石家莊市藁城區環境保護局) and we received the relevant environmental impact assessment approval in December 2015. On March 5, 2016, we have completed the environmental protection facilities inspection and acceptance formalities for such project. On March 7, 2015 and August 1, 2016, respectively, we obtained written confirmation from Shijiazhuang City Gaocheng District Environmental Bureau* (石家莊市藁城區環境保護局), confirming that (i) as of the date of the confirmation, we have been in full compliance with the applicable laws and regulations in relation to environmental protection, our production and operation activities have been in compliance with relevant standards and requirements of applicable national and local laws and regulations, we had completed relevant environmental protection facilities inspection and acceptance formalities for all of our production projects that have been put into operation and have been allowed full production under these projects; (ii) since the establishment of our Company till the date of the confirmation, we have been in compliance with applicable laws and regulations regarding environmental protection in all material aspects, had not conducted material non-compliance in relation to environmental protection, no administrative penalties have been or would be imposed on us for any breach of applicable laws and regulations, and no environmental pollution incident had happened to us; and (iii) we have applied for and received pollution permits and made full pollutant discharge fees. The Controlling Shareholders Group has also executed the Deed of Indemnity in favor of our Group whereby they will indemnify us for all claims, costs, expenses, losses incurred by us and liabilities and damages suffered by us arising out of or in connection with the above non-compliance. Based on the confirmation above, our PRC Legal Advisers are of the view that the likelihood that the relevant authorities will impose any administrative punishment or penalty on us is low. Based on the confirmation we received and indemnity provided by our Controlling Shareholders Group and our PRC Legal Advisers' opinion, our Directors are of the view that our historical late attendance to environmental impact assessment approval and environmental protection facilities inspection and acceptance formalities will not have a material adverse impact on our business or operations. Our PRC legal Advisers have further advised us that Shijiazhuang City Gaocheng District Environmental Bureau is the competent authority to give the above confirmations.	We have provided and intend to continue to provide training on environmental management related matters for relevant employees, and if necessary, engage external legal advisers for compliance with relevant environmental regulations. Furthermore, to better comply with relevant environmental approval and permission requirements in future, our internal legal team shall review relevant approvals and permission for the Group at least once every quarter of a year. We also received a ISO 14001:2004 certification for our environmental management in relation to our production process in July 2015, during the process of which enhanced our awareness of compliance with environmental regulations. We established a procedure to identify and monitor how our activities influence the environment, our ongoing compliance with the various policies regarding the prevention of environmental pollution, and carry out continual improvements as required to ensure compliance with the certification standards. In particular, we regularly monitor the environmental impact of our production process and review the effectiveness of our overall environment management system annually. We intend to continue undergo such certification process in the future to further enhance our compliance with relevant environmental regulations.

Based on the above, our Directors consider that none of the legal and compliance matters mentioned above will have any material adverse effect on our business operation and financial condition. Having considered the facts and circumstances leading to the non-compliance incidents as disclosed above, we have implemented certain specific internal control measures to avoid the future recurrence of such non-compliance incidents. For details, please refer to the paragraph headed "— Internal Control".

Views of our Directors and Sole Sponsor

After taking into account the nature of and reasons for the historical non-compliance incidents, the fact that our Group has taken measures to rectify such non-compliances and has adopted measures to prevent future breach, the written confirmations of the relevant competent government authorities, the legal consequences of such non-compliance incidents, our business nature and operation scale, our Directors are of the view, and the Sole Sponsor concurs with our Directors' view, that we have adequate and effective internal control procedures in place and in accordance with the requirements under the Listing Rules, and non-compliance incidents in the past will not affect the suitability of the Directors to act as directors of a listed issuer under Rules 3.08, 3.09, and 8.15 of the Listing Rules and/or the suitability for Listing of our Company under Rule 8.04 of the Listing Rules.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we have been in compliance with the applicable laws and regulations relating to our business operations in all material respects.

ANTI-CORRUPTION COMPLIANCE

As part of our risk management and internal control measures, since September 2015, we have established various internal regulations against corrupt and fraudulent activities, which includes measures against receiving bribes and kickbacks, and misuse of company assets. The internal regulations (including those internal controls relating to trading and anti-corruption) were reviewed by our internal control consultant in November 2015.

We ensure that all employees receive behavioral management training, and our internal regulations and policies on anti-corruption are included in staff handbooks. We have put in place procedures for handling complaints and investigations. We accept complaints through our telephone hotline and emails and will investigate if deem necessary accordingly. For any identified fraudulent activities within our Group, the responsible department shall immediately report to the anti-corruption department.

The internal control consultant did not have any significant negative findings following its review of the procedures agreed with us. Following the review of the internal regulations and the internal control consultant's assessment result, and the discussion with the internal control consultant with respect to the anti-corruption compliance, our Directors and the Sole Sponsor are of the view that such controls and measures are sufficient and effective to avoid the occurrence of corruption, bribery, or other improper conducts of our employees. Our Group has provided and will continue to provide anti-corruption compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations. Our Directors confirm that they are not aware of any corruption practice by our employees during the Track Record Period. Our Directors also confirm that our Group has not been involved in any monetary and non-monetary bribery or kick-back activities in the past.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, our Company will be owned as to approximately 66.92% by the Controlling Shareholders Group, being a group of individuals acting in concert with each other. Details of the concert party agreement entered into by the members of the Controlling Shareholders Group are set out under the paragraph headed "History and Development — Relationship Amongst Shareholders — Concert party agreement" of this prospectus. All the members of the Controlling Shareholders Group will be our Controlling Shareholders immediately after the Listing.

Information on Other Company Owned by Our Controlling Shareholders

As of the Latest Practicable Date, apart from the business of our Group, some of the Controlling Shareholders also had controlling interests in Longji.

Longji is a limited liability company incorporated under the laws of the PRC and is owned as to (i) 40% by Ms. Zhou Qiuju (周秋菊), the spouse of Mr. Zhang Haijun, our executive Director and one of the Controlling Shareholders; (ii) 20% by Ms. Zhang Junxia (張軍霞), one of the Controlling Shareholders; (iii) 20% by Ms. Sun Shujing (孫書京), the spouse of Mr. Zhang Xiaogeng (張小更), one of the Controlling Shareholders; and (iv) 20% by Ms. Zhang Xiaoxia (張小霞), the spouse of Mr. Zhang Xiaosuo (張小鎖), one of the Supervisors and one of the Controlling Shareholders. Longji is principally engaged in corporate management services, leasing of equipment and real property, and processing of metals.

In particular, the metal processing business of Longji was not included as part of our Group's business because (i) our principal business is the manufacture and sale of rail fastening system products for use in the construction, upgrading and/or maintenance of different railway systems (such as high speed railway, heavy haul railway and subway systems) in the PRC and also welding materials for heavy manufacturing and engineering use such as for shipbuilding that require specific product or manufacturer qualifications (such as CRCC product qualifications or certifications by classification societies), whereas the metal processing business of Longji is an upstream business involving the processing of steel into steel beams, which are used by us as upstream raw materials for production of baffles and fish plates, being two of the parts and components of our rail fastening system products, and can also be used as raw materials by manufacturers for other steel-based products. As it is our principal business to manufacture rail fastening system products, which are downstream products, rather than upstream raw materials, the metal processing business of Longji is outside the scope of our principal business; and (ii) the metal processing business of Longji serves a different market segment than that of our business, as we focus on railway and metro construction and/or operation companies, while Longji's metal processing business supplies steel materials for manufacturers using steel beams as raw materials. On the above basis, our Directors consider that such business does not compete directly or indirectly with our business.

Our Directors consider that it is not in the interest of the Shareholders if our Group allocates resources, management effort and expertise on activities outside the core business of our Group. As such, Longji is not included in our Group for the purpose of Listing. In addition, any potential competition between our Group and Longji would be minimal and could be closely monitored as each of the Controlling Shareholders has entered into the Non-compete Undertaking in favor of our Company and adequate corporate governance measures will be in place after the Listing in order to protect the interest of the minority Shareholders.

Competing Interests of Directors

Our Directors have confirmed that none of them is interested in any business which competes or may compete with our business as of the Latest Practicable Date.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as disclosed in the section headed "Continuing Connected Transactions" in this prospectus, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after Listing.

Our Group is capable of carrying on our business independently of and does not place undue reliance on our Controlling Shareholders and their respective associates, taking into consideration the following factors:

Management independence

Our Board comprises six executive Directors and three INEDs. Among our Board members, Mr. Zhang Haijun (張海軍), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超) and Mr. Zhang Lihuan (張力歡), being executive Directors, are Controlling Shareholders of our Company.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

We have an experienced senior management team to carry out the business decisions of our Group independently. Each of our Directors and senior management has entered into service contract and/or employment contract with our Group to provide services to our Group on full time basis and they are expected to devote sufficient time and attention to the affairs of the Group so as to discharge their respective management role and duties. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently. Our Board will consist of at least three INEDs who will bring an element of independence to the decision making process of the Board, in particular in respect of major corporate decisions and connected transactions of the Group, and the INEDs will also oversee the corporate governance matters of the Group at the Board level. Our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Listing.

Financial independence

During the Track Record Period, we principally financed our operations through a combination of (i) borrowings from banks; and (ii) cash generated from our operations, as well as (iii) borrowings from our Controlling Shareholders and their respective associates. As of December 31, 2013, 2014 and 2015 and June 30, 2016:

(i) our total bank borrowings (comprising bank loans, bank advance for factored receivables and entrusted loan) amounted to about RMB265.6 million, RMB148.3 million, RMB221.8 million and RMB240.1 million, respectively;

(ii) RMB51.0 million, RMB66.6 million, nil and nil respectively, were unsecured, interest bearing borrowings obtained by us from our Shareholders and key managements;

(iii) our bank loans amounted to RMB71.0 million, RMB54.5 million, RMB105.0 million and RMB80 million, respectively. As of June 30, 2016, the bank loans of RMB80 million were secured by (as the case may be) (a) prepaid lease payment for land use rights and buildings of our Group; and (b) personal guarantees by nine individuals, including Mr. Zhang Haijun, Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Suoquo (張鎖群), Mr. Zhang Xiaogeng (張小更) and their respective spouses, and Ms. Zhang Junxia (張軍霞), who are some of our Controlling Shareholders and their associates; and

(iv) our bank advance for factored receivables amounted to approximately RMB181.2 million, RMB80.4 million, RMB66.8 million and RMB96.7 million respectively. As of June 30, 2016, our bank advance for factored receivables of RMB96.7 million were secured by personal guarantees by nine individuals, including Mr. Zhang Haijun, Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Suoquo (張鎖群), Zhang Xiaogeng (張小更) and their respective spouses, and Ms. Zhang Junxia (張軍霞), who are some of our Controlling Shareholders and their associates.

As of the date of this prospectus, all loans, advances and balances due to and from our Controlling Shareholders have been fully settled, and all guarantees by them and their respective spouses in connection with our Group's borrowings will be fully released upon the Listing.

Save as mentioned above, our source of funding is independent from our Controlling Shareholders and none of our Controlling Shareholders or their respective associates financed our operations during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had independent financial and accounting system, independent treasury function for receiving cash and making payments. Our Group is capable of making financial decisions according to our own business needs. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

Save as aforesaid, our Group does not rely on our Controlling Shareholders and/or their respective associates by virtue of their provision of financial assistance.

Operational and administrative independence

We do not place any undue reliance on any of our Controlling Shareholders or any customer of our Group or any other third party. During the Track Record Period and as of the Latest Practicable Date, we had independent access to our customers and suppliers. We have our own work force to carry out our core business which operates independently and do not share our operational personnel and administrative personnel with our Controlling Shareholders.

Upon Listing, there will be transactions between our Group and some of our Controlling Shareholders which will constitute continuing connected transactions of our Company under the Listing Rules. Please see the section headed "Continuing Connected Transactions" of this prospectus. Such continuing connected transactions would continue to be conducted on normal commercial terms. In particular:

(A) in relation to our leasing of certain premises in Beijing from Mr. Zhang Haijun as dormitory and carpark for employees and office premises in Shijiazhuang City, Hebei Province from Longji for our general corporate use, given that (i) the rents payable by us under each of the relevant tenancy agreements are comparable to the prevailing market rents for similar premises in similar location; (ii) we have the right to early terminate each of the relevant tenancy agreements, and to renew each of them upon expiry of the existing terms as we may consider appropriate; and (iii) there are similar premises available in the vicinity offered in the market, our Directors do not consider any material reliance on our Controlling Shareholders in this regard;

(B) in relation to the procurement of conference facilities, staff cafeteria and staff amenities and warehouse services from Longji, there are suppliers in the market offering comparable services, and these facilities and services are not considered to be critical to the business operation of our Group. As such, our Directors do not consider any material reliance on our Controlling Shareholders and/or their respective associates in the comprehensive services; and

(C) in relation to the purchase of steel beams and procurement of processing services for the manufacturing of steel billets from Longji, as steel beams and steel billets are production materials of baffles, fish plates and iron plates, being three of the parts and components of our rail fastening system products with insignificant sales during the Track Record Period, it is expected that our future demand for these products and services from Longji would not be significant to our business operation, with the anticipated purchases of these products by us from Longji not exceeding 1% of our anticipated total cost of sales for each of the three years ending December 31, 2018, and the processing fees not exceeding 2% of our anticipated total cost of sales for each of the three years ending December 31, 2018. Also, there are different suppliers in the market offering comparable products and services. As such, our Directors do not consider any material reliance on our Controlling Shareholders and/or their respective associates in the supply of these products and the processing services.

On the above basis, our Directors believe that we do not unduly rely on our Controlling Shareholders to carry on our business.

NON-COMPETITION

Non-compete Undertaking

Each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, each of Controlling Shareholders has given the irrevocable Non-compete Undertaking in favor of our Company (for ourselves and our subsidiaries) on November 30, 2015 pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective close associates (other than our Group) shall:

(i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group (the "**Restricted Business**") including but not limited to (a) research and development, manufacture, assembling and sale of fastening system products and parts for use in high speed railway, national railway, subway, light railway and heavy haul railway systems in the PRC, (b) research and development, manufacture and sale of flux-core welding products, (c) provision of technical assistance and after-sale services for the installation of rail fastening systems, and (d) such other businesses as may be engaged in by the Group and disclosed in this prospectus or in the annual reports of our Company from time to time;

(ii) not solicit any existing or then existing employee of our Group for employment by them or their respective close associates (excluding our Group);

(iii) not to procure or induce any customer, supplier or business partner of our Group to terminate their business relationship with our Group;

(iv) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholder and/or Directors for the purpose of competing with the Restricted Business;

For the above purpose:

(A) the "Relevant Period" means, in respect of each Controlling Shareholder, the period commencing from the Listing Date and shall expire upon the earliest date of occurrence of the events below:

(a) the date on which the relevant Controlling Shareholder ceases to be a controlling shareholder for the purpose of the Listing Rules;

(b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;

(B) the "Excluded Business" means:

(a) any direct or indirect investments of the relevant Controlling Shareholder and/or his/her close associates (excluding our Group) in any member of our Group; or

(b) the manufacture or supply by any Controlling Shareholder and/or his/her close associates (excluding our Group) of (1) any products or services which are supplied to the Group notwithstanding that the Group may be engaged in the manufacturing or provision of the same products or services, and (2) any raw materials or semi-finished products for production of baffles (檔板) and/or fish plates (魚尾板) products for use in railway systems or the provision of any related processing services to, any third party; or

(c) any direct or indirect investments of any Controlling Shareholder and/or his/her close associates (excluding our Group) in any business whereby (i) the aggregate investment by such Controlling Shareholder and/or his/her close associates in the business shall not exceed 30% of the entire economic interests in that business; and (ii) none of such

Controlling Shareholder and/or his/her close associates will be involved in the operation and management of that business; or

(d) any direct or indirect investments in shares of a publicly listed company (other than our Group) whereby (i) the aggregate interests held by such Controlling Shareholder and/or his/her close associates shall not exceed 5% of the entire issued shares of that company, and (ii) none of such Controlling Shareholder and/or his/her close associates will be involved in the operation and management of that company.

Each of our Controlling Shareholders has undertaken under the Non-Compete Undertaking that he or she shall provide to us and our Directors (including our INEDs) from time to time all information necessary for annual review by our INEDs with regard to compliance with the terms of the Non-Compete Undertaking by our Controlling Shareholders. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Non-Compete Undertaking in our annual report.

Corporate governance measures to avoid conflict of interests

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to contract, transaction, arrangement or proposal between our Group on one part and our Controlling Shareholders and/or their respective associates on the other part, including any connected transactions or continuing connected transactions entered or to be entered into between our Group and our Controlling Shareholders and/or their respective associates as more particularly described in the section headed "Continuing Connected Transactions" in this prospectus, and in relation to the compliance and enforcement of the Non-Compete Undertaking, we have adopted the following corporate governance measures:

(i) our INEDs shall review, at least on an annual basis, the compliance and enforcement of the terms of the Non-Compete Undertaking by our Controlling Shareholders;

(ii) we will disclose any decisions on matters reviewed by our INEDs relating to the compliance and enforcement of the Non-Compete Undertaking either through our annual report or by way of announcement;

(iii) we will disclose in the corporate governance report of our annual report on how the terms of the Non-Compete Undertaking have been complied with and enforced;

(iv) in the event that any of our Directors and/or his/her respective associates has material interest in any matter to be deliberated by our Board in relation to any connected transaction or continuing connected transaction with any of our Controlling Shareholders or their respective associates, or the compliance and enforcement of the Non-Compete Undertaking, he/she must physically absent himself/herself from the relevant board meetings of our Company in respect of such transactions unless such interested Director is required to be present by resolution of the remaining disinterested Directors. He/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association;

(v) unless exempted under the Listing Rules, our INEDs and our auditors will review all the continuing connected transactions entered into between our Group and our Controlling

Shareholders and/or their respective associates annually and report their respective findings in accordance with Rules 14A.55 and 14A.56 of the Listing Rules; and

(vi) our management will continuously monitor the conducts of all continuing connected transactions with our Controlling Shareholders and/or their respective associates to ensure that all these transactions will be conducted on normal commercial terms or better (as defined under the Listing Rules). In particular, (a) in relation to the purchase of steel beams and procurement of processing services from Longji under the Master Purchase Agreement and the Master Processing Agreement, we shall obtain quotations from at least one Independent Third Party supplier before placing any sales order or entering into any contract for products / processing services so as to ensure that any such sales order or contract with Longji will be on terms no less favorable to us than terms available from Independent Third Party suppliers; and (b) in relation to the procurement of Comprehensive Services from Longji under the Comprehensive Services Agreement, we shall review the competitiveness of the terms offered by Longji under the Comprehensive Services Agreement once every half year by obtaining quotations and other major commercial terms from at least one Independent Third Party service provider for the provisions of comparable comprehensive services and decide whether we will continue to obtain all or any such Comprehensive Services from Longji.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

OVERVIEW

Upon the Listing, the transactions set forth below will constitute continuing connected transactions (as defined in the Listing Rules) of our Company (collectively, the "**Continuing Connected Transactions**"):

(1) our leasing of premises situate at 1A and 1B, Unit 4, Building No. 5, Zone 3, Yuanda Yuan, Haidian District, Beijing, the PRC (中國北京海淀區遠大園三區5號樓4單元1A及1B) and an ancillary carpark space from Mr. Zhang Haijun as dormitory and carpark for employees;

(2) our leasing of office premises situate at No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, the PRC (中國河北省石家莊市藁城區翼辰北街1號) from Longji for our general corporate use;

(3) our procurement of conference facilities, staff cafeteria, staff amenities and warehouse services from Longji for our general corporate purposes; and

(4) our purchase of steel beams (型鋼) as raw materials or in semi-finished form and procurement of processing services for the manufacturing of steel billets (鋼坯) from Longji.

RELATIONSHIP BETWEEN OUR GROUP AND THE CONNECTED PERSONS

Mr. Zhang Haijun is our executive Director, chairman of the Board and one of the Controlling Shareholders.

Longji is a limited liability company established on June 8, 2013 under the laws of the PRC. Its scope of business includes corporate management, leasing of equipment and real property, and processing of metals. Longji is owned as to (i) 40% by Ms. Zhou Qiuju (周秋菊), the spouse of Mr. Zhang Haijun; (ii) 20% by Ms. Zhang Junxia (張軍霞), one of the Controlling Shareholders; (iii) 20% by Ms. Sun Shujing (孫書京), the spouse of Mr. Zhang Xiaogeng (張小更), one of the Controlling Shareholders; and (iv) 20% by Ms. Zhang Xiaoxia (張小霞), the spouse of Mr. Zhang Xiaosuo (張小鎖), one of the Supervisors and one of the Controlling Shareholders. In addition, each of Ms. Zhou Qiuju, Ms. Zhang Junxia, Ms. Sun Shujing, Ms. Zhang Xiaoxia and Ms. Liu Jiao (劉姣), the daughter-in-law of Mr. Zhang Haijun and one of our Supervisors, is a director of Longji.

Please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders" of this prospectus for more information on the relationship amongst the above-named persons.

Each of Mr. Zhang Haijun and Longji is a connected person of our Company. Under the Listing Rules, for so long Mr. Zhang Haijun and Longji remain as connected persons of our Company, the transactions described below would constitute continuing connected transactions of our Company upon the Listing.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE EXEMPT FROM THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Leasing of properties by our Group

Beijing Tenancy Agreements

During the Track Record Period, our Group had leased from Mr. Zhang Haijun certain premises and carpark in Beijing, the PRC as dormitory for use by our employees in Beijing. We expect to continue to lease such premises from Mr. Zhang Haijun after the Listing. Pursuant to two tenancy agreements (the "**Beijing Tenancy Agreements**") entered into between Mr. Zhang Haijun as lessor and our Company as lessee, our Company has agreed to lease from Mr. Zhang Haijun such premises on the principal terms and conditions as set out below:

Parties	Address	(i) Approximate gross floor area (ii) Use	(i) Date of agreement (ii) Term of lease	Annual rent payable under the Beijing Tenancy Agreements	Rent payable/paid during the Track Record Period
(a) First tenancy agreement (the "**First Beijing Tenancy Agreement**")					
Mr. Zhang Haijun as lessor Our Company as lessee	1A, Unit 4, Building No. 5, Zone 3, Yuanda Yuan, Haidian District, Beijing, the PRC (中國北京海淀區遠大園三區5號樓4單元1A) and carpark space no. C75	(i) 160.36 sq. m. (ii) Staff dormitory and carpark	(i) November 30, 2015 (ii) Three years commencing from August 1, 2015 to July 31, 2018, subject to the right of early termination by our Company by giving three-month notice in advance. Our Company shall have the option to renew the tenancy upon expiry of the current term on normal commercial terms or better terms to our Company or, if there is any third party interested in leasing the premises, our Company shall have the right of first refusal to renew the tenancy on the same terms offered to that third party	RMB75,000 for the year ending December 31, 2015 (since August 1, 2015) RMB180,000 for the year ending December 31, 2016 RMB180,000 for the year ending December 31, 2017 RMB105,000 for the year ending December 31, 2018 (up to July 31, 2018) The aggregate rent for each 12 month period from August 1 to July 31 during the term of the tenancy shall be payable by our Company to Mr. Zhang Haijun on or before September 30	RMB120,000 (2013) RMB120,000 (2014) RMB201,000 (2015)

Parties	Address	(i) Approximate gross floor area (ii) Use	(i) Date of agreement (ii) Term of lease	Annual rent payable under the Beijing Tenancy Agreements	Rent payable/paid during the Track Record Period
(b) Second tenancy agreement (the "**Second Beijing Tenancy Agreement**")					
Mr. Zhang Haijun as lessor Our Company as lessee	1B, Unit 4, Building No. 5, Zone 3, Yuanda Yuan, Haidian District, Beijing, the PRC (中國北京海淀區遠大園三區5號樓 4單元1B) and carpark space no. C73	(i) 161.39 sq. m. (ii) Staff dormitory and carpark	(i) November 30, 2015 (ii) Three years commencing from August 1, 2015 to July 31, 2018, subject to the right of early termination by our Company by giving three-month notice in advance. Our Company shall have the option to renew the tenancy upon expiry of the current term on normal commercial terms or better terms to our Company or, if there is any third party interested in leasing the premises, our Company shall have the right of first refusal to renew the tenancy on the same terms offered to that third party	RMB75,000 for the year ending December 31, 2015 (since August 1, 2015) RMB180,000 for the year ending December 31, 2016 RMB180,000 for the year ending December 31, 2017 RMB105,000 for the year ending December 31, 2018 (up to July 31, 2018) The aggregate rent for each 12 month period from August 1 to July 31 during the term of the tenancy shall be payable by our Company to Mr. Zhang Haijun on or before September 30	RMB120,000 (2013) RMB120,000 (2014) RMB201,000 (2015)

Our Directors confirmed that the rent payable under the Beijing Tenancy Agreements had been arrived at after arm's length negotiations among the parties and had been determined by the parties by reference to the then prevailing market rent of the premises in similar locations. JLL, an independent valuer engaged by our Company, and our Directors, based on the rental review performed by JLL, consider that the annual rent payable under the Beijing Tenancy Agreements is fair and reasonable and consistent with the prevailing market rents for similar premises in similar locations.

Our Directors anticipate that the rent payable by our Company to Mr. Zhang Haijun under the First Beijing Tenancy Agreement shall not exceed RMB180,000 (equivalent to approximately HK$202,000) for the year ending December 31, 2016, RMB180,000 (equivalent to approximately HK$202,000) for the year ending December 31, 2017 and RMB105,000 (equivalent to approximately HK$118,000) for the year ending December 31, 2018 (up to July 31, 2018). The annual caps represent the actual rent payable by our Group to Mr. Zhang Haijun under the First Beijing Tenancy Agreement.

Our Directors anticipate that the rent payable by our Company to Mr. Zhang Haijun under the Second Beijing Tenancy Agreement shall not exceed RMB180,000 (equivalent to approximately HK$202,000) for the year ending December 31, 2016, RMB180,000 (equivalent to approximately HK$202,000) for the year ending December 31, 2017 and RMB105,000 (equivalent to approximately HK$118,000) for the year ending December 31, 2018 (up to July 31, 2018). The annual caps represent the actual rent payable by our Group to Mr. Zhang Haijun under the Second Beijing Tenancy Agreement.

Given that each of the percentage ratios (other than the profits ratio) of the transactions contemplated under the Beijing Tenancy Agreements, on an aggregated basis, is expected to be less than 5% and the total consideration (on an annual basis) is expected to be less than HK$3,000,000, pursuant to Rule 14A.76(1) of the Listing Rules, the leasing of the properties under the Beijing Tenancy Agreements will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Shijiazhuang Tenancy Agreement

We have commenced leasing of certain office premises in Shijiazhuang, Hebei province, the PRC from Longji since August 2015 for our general corporate purposes to take advantage of the close proximity and convenience of such premises to us. Pursuant to a tenancy agreement (the "**Shijiazhuang Tenancy Agreement**") entered into between Longji as lessor and our Company as lessee, our Company has agreed to lease from Longji such office premises on the principal terms and conditions as set out below:

Parties	Address	(i) Approximate gross floor area (ii) Use	(i) Date of agreement (ii) Term of lease	Annual rent payable under the Shijiazhuang Tenancy Agreement	Rent payable/paid during the Track Record Period
Longji as lessor Our Company as lessee	No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, the PRC (中國河北省石家莊市藁城區翼辰北街1號)	(i) 3,151.62 sq. m. (ii) General corporate use	(i) November 30, 2015 (ii) Three years commencing from August 1, 2015 to July 31, 2018, subject to the right of early termination by our Company by giving three-month notice in advance. Our Company shall have the option to renew the tenancy upon expiry of the current term on normal commercial terms or better terms to our Company or, if there is any third party interested in leasing the premises, our Company shall have the right of first refusal to renew the tenancy on the same terms offered to other third party	RMB291,667 for the year ending December 31, 2015 (since August 1, 2015) RMB700,000 for the year ending December 31, 2016 RMB700,000 for the year ending December 31, 2017 RMB408,333 for the year ending December 31, 2018 (up to July 31, 2018) The aggregate rent for each 12 month period from August 1 to July 31 during the term of the tenancy shall be payable by our Company to Longji on or before September 30 of the relevant year	Nil (2013) Nil (2014) RMB291,667 (from August 1, 2015 to December 31, 2015)

Our Directors confirmed that the rent payable under the Shijiazhuang Tenancy Agreement had been arrived at after arm's length negotiations among the parties and had been determined by the parties by reference to the then prevailing market rent of the premises in similar locations. JLL, an independent valuer engaged by our Company, and our Directors, based on the rental review performed by JLL, consider that the annual rent payable under the Shijiazhuang Tenancy Agreement is fair and reasonable and consistent with the prevailing market rents for similar premises in similar locations.

Our Directors anticipate that the rent payable by our Company to Longji under the Shijiazhuang Tenancy Agreement shall not exceed RMB700,000 (equivalent to approximately HK$787,000) for the year ending December 31, 2016, RMB700,000 (equivalent to approximately HK$787,000) for the year ending December 31, 2017 and RMB408,333 (equivalent to approximately HK$459,000) for the year ending December 31, 2018 (up to July 31, 2018). The annual caps represent the actual rent payable by our Group to Longji under the Shijiazhuang Tenancy Agreement.

Given that each of the percentage ratios (other than the profits ratio) of the transactions contemplated under the Shijiazhuang Tenancy Agreement is expected to be less than 5% and the total consideration (on an annual basis) is expected to be less than HK$3,000,000, pursuant to Rule 14A.76(1) of the Listing Rules, the leasing of the property under the Shijiazhuang Tenancy Agreement will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Procurement of comprehensive services

Since August 2015, Longji has been providing conference facilities, staff cafeteria, staff amenities and warehouse services (the "**Comprehensive Services**") to our Group. Our Group procures for such services from Longji to take advantage of the proximity of the relevant facilities of Longji with our Group's premises and the lower quotations offered by Longji as compared to those offered by Independent Third Party suppliers. The total service fees payable by our Group to Longji amounted to, in aggregate, approximately RMB1,410,000 for the five months ended December 31, 2015.

On November 30, 2015, our Company entered into a comprehensive services agreement (the "**Comprehensive Services Agreement**") with Longji, pursuant to which Longji has agreed to provide the Comprehensive Services to our Group. Terms of the Comprehensive Services Agreement were reached on arm's length basis and fees will be based on the actual usage by our Group and determined on the basis of 115% of the actual costs of providing such services to our Group by Longji as verified with reference to Longji's financial statements and relevant supporting documents. The fees payable by our Company shall be settled on a monthly basis. The Comprehensive Services Agreement was entered into for a term of three years commencing from August 1, 2015 and expiring on July 31, 2018 unless terminated earlier by our Company with three months' written notice to Longji.

Our Directors anticipate that the aggregate annual fees payable by our Company to Longji under the Comprehensive Services Agreement shall not exceed RMB2,110,000 (equivalent to approximately HK$2,373,000) for the year ending December 31, 2016, RMB2,110,000 (equivalent to approximately HK$2,373,000) for the year ending December 31, 2017 and RMB1,230,000 (equivalent to approximately HK$1,383,000) for the year ending December 31, 2018 (up to July 31, 2018). The annual caps were determined by our Directors by reference to (i) our Group's estimated demand for such services; and (ii) the aggregate fees paid for such services by our Group to Longji since August 2015. To ensure that the transactions contemplated under the Comprehensive Services Agreement will be conducted on normal commercial terms or better, we will review the competitiveness of the terms offered by Longji under the Comprehensive Services Agreement once every half year. Please refer to the paragraph headed "Relationship with our Controlling Shareholders — Non-competition — Corporate governance measures to avoid conflict of interests" for details.

Given that each of the applicable percentage ratios (other than the profits ratio) of the transactions contemplated under the Comprehensive Services Agreement is expected to be less than 5% and the total consideration (on an annual basis) is expected to be less than HK$3,000,000, pursuant to Rule 14A.76(1) of the Listing Rules, the provision of comprehensive services under the Comprehensive Services Agreement will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

Purchase of steel beams and procurement of processing services

During the Track Record Period, our Group processed steel billets for production of steel beams, which are used as raw materials or semi-finished products for our production of baffles, fish plates and iron plates, being three of the parts and components of our rail fastening system products, from time to time at our own production facilities until July 2015, when we sold the buildings, production facilities and equipments for metal processing to Longji. For disposal of properties and production equipments to Longji, please refer to the paragraph headed "History and Development — Major Disposals — 2. Disposal of properties and production equipments to Longji" in this prospectus. As we had been processing steel billets to satisfy our production needs and due to the insignificant sales of baffles, fish plates and iron plates during the five months ended December 31, 2015, we had not procured any such processing services of steel billets, or otherwise purchased any steel beams, from Longji during the Track Record Period. Due to the fluctuation in steel price in the PRC during the six months ended June 30, 2016, we had also not procured for such services or purchased such products from Longji during the six months ended June 30, 2016. Our Group had purchased baffles and fish plates directly from Independent Third Party suppliers instead, as lower prices are offered by them.

Our Group may from time to time procure for the processing of steel billets from Longji or, where our Group considers appropriate taking into account, among others, the unexpected increase in demand of steel beams, our Group's procurement costs and resources for steel billets, our Group may purchase steel beams from Longji directly. Our Group intends to procure for and purchase such services and products from Longji to take advantage of the proximity of the relevant facilities of Longji with our Group's premises and the lower quotations offered by Longji as compared to those offered by Independent Third Party suppliers.

On November 30, 2015, our Company entered into a master purchase agreement (the "**Master Purchase Agreement**") and a master processing agreement (the "**Master Processing Agreement**") with Longji, pursuant to which Longji has agreed to supply steel beams and provide processing services in respect of steel billets to our Group from time to time as requested by our Company on such terms and conditions and at such prices to be determined on the basis of 110% of the actual costs of providing such products or services to our Group by Longji, provided that the terms and conditions shall not be less favorable than that offered by Longji to its Independent Third Party customers for the same and comparable products or services. Each transaction under the Master Purchase Agreement and the Master Processing Agreement will be reduced into separate contract or sales order as agreed between our Company and Longji. Each of the Master Purchase Agreement and the Master Processing Agreement was entered into for a term of three years commencing from August 1, 2015 and expiring on July 31, 2018 unless terminated earlier by our Company with three months' written notice to Longji.

It is expected that the aggregate annual consideration payable by our Company to Longji for the purchases under the Master Purchase Agreement will not exceed the annual cap of RMB850,000 (equivalent to approximately HK$956,000) for the year ending December 31, 2016, RMB1,700,000 (equivalent to approximately HK$1,912,000) for the year ending December 31, 2017 and RMB990,000 (equivalent to approximately HK$1,113,000) for the year ending December 31, 2018 (up to July 31, 2018). In arriving at the above annual caps, our Directors have considered (i) the sales quantity of baffles, fish plates and iron plates for the year ended December 31, 2015 and the corresponding quantity of steel beams consumed; (ii) our expected demand for steel beams to meet the production requirements of baffles, fish plates and iron plates for the three years ending December 31, 2018 (up to July 31, 2018), which is expected to be at similar level to that for the year ended December 31, 2015; (iii) our expected quantity of steel beams to be procured from Longji by way of processing services under the Master Processing Agreement; (iv) our estimated quantity of steel beams to be purchased by us to cater for any unexpected increase in demand for steel beams which may not be feasible or economically efficient for our Group to procure steel billets for processing by Longji; (v) our expected lower demand for purchase of steel beams for the year ending December 31, 2016, given that no procurement for such products from Longji had taken place during the six months ended June 30, 2016, and taking into account the orders for baffles, fish plates and/or iron plates as at the Latest Practicable Date; (vi) our average production costs of steel beams (excluding material costs) during the year ended December 31, 2015; and (vii) the prevailing material costs for production of steel beams. To ensure that the transactions contemplated under the Master Purchase Agreement will be conducted on normal commercial terms or better, we will obtain quotations from at least one Independent Third Party supplier before placing any sales order or entering into any contract for products with Longji. Our INEDs and our auditors will also review the transactions contemplated under the Master Purchase Agreement annually and report their respective findings in accordance with the Listing Rules. Please refer to the paragraph headed "Relationship with our Controlling Shareholders — Non-competition — Corporate governance measures to avoid conflict of interests" for details.

In addition, it is expected that the aggregate annual consideration payable by our Company to Longji for the processing services under the Master Processing Agreement will not exceed the annual cap of RMB3,300,000 (equivalent to approximately HK$3,712,000) for the year ending December 31, 2016, RMB6,200,000 (equivalent to approximately HK$6,673,000) for the year ending December 31, 2017 and RMB3,600,000 (equivalent to approximately HK$4,049,000) for the year ending December 31, 2018 (up to July 31, 2018). In arriving at the above annual caps, our Directors have considered (i) the sales quantity of baffles, fish plates and iron plates for the year ended December 31, 2015 and the corresponding quantity of steel beams consumed; (ii) the expected demand for steel beams to meet the production requirements of baffles, fish plates and iron plates for the three years ending December 31, 2018 (up to July 31, 2018), which is expected to be at similar level to that for the year ended December 31, 2015, and the expected quantity thereof to be satisfied by the processing services under the Master Processing Agreement; (iii) our expected lower demand for processing services of steel billets for the year ending December 31, 2016, given that no procurement for such services from Longji had taken place during the six months ended June 30, 2016 as we had purchased baffles, fish plates and iron plates directly from Independent Third Party suppliers during the period instead; and (iv) our average production cost of steel beams during the year ended December 31, 2015. To ensure that the transactions contemplated under the Master Processing Agreement will be conducted on normal commercial terms or better, we will obtain quotations from at least one Independent Third Party supplier before placing any sales order or entering into any contract for processing services with Longji. Our INEDs and our auditors will also review the transactions contemplated under the Master Processing Agreement annually and report their respective findings in accordance with the Listing Rules. Please refer to the paragraph headed "Relationship with our Controlling Shareholders — Non-competition — Corporate governance measures to avoid conflict of interests" for details.

As the transactions contemplated under the Master Purchase Agreement and the Master Processing Agreement are entered into by our Group with the same counterparty (i.e. Longji) and are related to our Group's production purposes, they are aggregated and treated as if they are a single series of transactions pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. Given that all of the percentage ratios (other than the profits ratio) of the transactions contemplated under the Master Purchase Agreement and the Master Processing Agreement, on an aggregated basis, are expected to be less than 5% but the total consideration (on an annual basis) is expected to be more than HK$3,000,000, the transactions contemplated under the Master Purchase Agreement and the Master Processing Agreement will be subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVER FROM THE ANNOUNCEMENT REQUIREMENT

Reason for the application

Given that the respective transactions under the Master Purchase Agreement and the Master Processing Agreement were entered into prior to the Listing Date and have been disclosed in this prospectus and that potential investors of our Company will participate in the Global Offering on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the Listing would add unnecessary administrative costs for us. Besides, given that the respective transactions to be entered into under the Master Purchase Agreement and the Master Processing Agreement will be entered into by our Group from time to time in its ordinary and usual course of business and on a recurring basis, our Directors consider it unduly burdensome, impracticable and would add unnecessary administrative costs for our Company to strictly comply with the announcement requirement as set out in Chapter 14A of the Listing Rules following the Listing.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, the above-mentioned waiver from strict compliance with the relevant announcement requirement in respect of the respective transactions contemplated under the Master Purchase Agreement and the Master Processing Agreement under Chapter 14A of the Listing Rules.

Compliance with applicable rules set out in Chapter 14A of the Listing Rules

Our Company will comply with the applicable requirements under the Listing Rules in respect of the respective transactions under the Master Purchase Agreement and the Master Processing Agreement. In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable provisions under Chapter 14A of the Listing Rules as of the date of this prospectus relating to the transactions, our Company will take immediate steps to ensure compliance with such requirements within a reasonable period.

Confirmation from the Directors

Our Directors (including INEDs) consider that the transactions contemplated under each of the Continuing Connected Transactions will be entered into in the ordinary and usual course of business and on normal commercial terms or better, and that the respective terms of the Continuing Connected Transactions and the respective annual caps set out above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the transactions contemplated under each of the Master Purchase Agreement and the Master Processing Agreement will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms, and that the respective terms of the Master Purchase Agreement and the Master Processing Agreement and the respective annual caps set out above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. As of the date of this prospectus, our Board consists of nine Directors, including six executive Directors and three INEDs.

The information of our Directors is set out as follows:

Name *(Note 1)*	**Age**	**Position**	**Date of joining our Group**	**Date of appointment as director**	**Roles and responsibilities**
Mr. Zhang Haijun (張海軍)	64	Executive Director and chairman of the Board	Founder of our Group	April 9, 2001	Overall business development strategies of our Group
Mr. Zhang Ligang (張立剛)	44	Executive Director and general manager of our Group	Since establishment of our Group	January 1, 2012	Overall day-to-day marketing, sales and operational management of our Group
Mr. Wu Jinyu (吳金玉)	47	Executive Director and chief financial officer of our Group	Since establishment of our Group	April 9, 2001	Overall day-to-day financial management of our Group
Mr. Zhang Chao (張超)	31	Executive Director, secretary to the Board and joint company secretary of our Company	January 2012	July 27, 2015	Overall business operation and company secretarial work of our Group
Mr. Zhang Lihuan (張力歡)	34	Executive Director and manager of welding business division of our Group	August 2009	July 27, 2015	Overall day-to-day management of the welding business division of our Group
Ms. Fan Xiulan (樊秀蘭)	63	Executive Director	March 2006	July 27, 2015	Overall day-to-day management of the chairman's office and capital operations of our Group
Mr. Jip Ki Chi (葉奇志)	46	INED	November 2015	November 30, 2015	*See Note 2 below*

Name *(Note 1)*	Age	Position	Date of joining our Group	Date of appointment as director	Roles and responsibilities
Mr. Wang Qi (王琦)	43	INED	November 2015	November 30, 2015	*See Note 2 below*
Mr. Zhang Liguo (張立國)	58	INED	November 2015	November 30, 2015	*See Note 2 below*

Notes:

(1) Please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus for details of the relationship between certain Directors with other Directors, Supervisors and/or senior management of our Group.

(2) Participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required; taking the lead where potential conflicts of interest arise and serving on the audit committee, remuneration committee, nomination committee and corporate governance committee (as the case may be).

Executive Directors

Mr. Zhang Haijun (張海軍), aged 64, is our founder, executive Director and chairman of our Group who is responsible for the overall business development strategies of our Group. Mr. Zhang has been a Director, chairman of the Board and the legal representative of our Company since our Company's establishment on April 9, 2001. Mr. Zhang had also been the general manager of our Company since our Company's establishment until July 2015. He is a qualified senior economist and engineer in the PRC. He graduated from Hebei Province Agriculture Broadcasting Television School* (河北省農業廣播電視學校) of the PRC with a diploma in agriculture in October 1993. He graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) of the PRC with a diploma in corporate management in July 1995.

Mr. Zhang had been engaged in the management of manufacturing enterprises in the PRC prior to founding our Group. In March 1990, Mr. Zhang, together with Mr. Zhang Xiaosuo (張小鎖) and other individuals, established Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠), a collectively owned enterprise in the PRC engaged in the manufacture of rolling steel products, in which Mr. Zhang served as the legal representative and factory director with overall business and factory management responsibilities. From May 1993 to July 1998, he had been the chairman and general manager of Gaocheng City Yichen Industrial Trading Co., Ltd.* (藁城市翼辰工貿公司), which was principally engaged in manufacturing of different metal products and trading of industrial goods, and he had been responsible for its overall business and corporate management.

From May 1989 to March 2001, Mr. Zhang had been the deputy supervisor of Nanshangzhuang Village Committee of Lianzhou, Gaocheng City (藁城市廉州鎮南尚莊村委會) of the PRC. He was a representative of the Gaocheng City People's Congress (藁城市人民代表大會) of the PRC, the Hebei Province People's Congress (河北省人民代表大會) of the PRC and the 12th and 13th Shijiazhuang City People's Congress (石家莊市第十二屆及第十三屆人民代表大會) of the PRC. He had also been the deputy chairman of Shijiazhuang City Private Enterprises Association* (石家莊市私營企業協會) from 2006 to 2015, the chairman of Gaocheng District Private Enterprises Association* (藁城區私營企業協

會) from 2006 to 2015 and a standing member and the deputy chairman of the third council of Hebei Province Private Enterprises Association (河北省私營企業協會第三屆理事會). He is currently a standing committee member of the General Affairs Committee of the Gaocheng People's Congress (藁城區人民代表大會常務委員會).

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. Zhang Ligang (張立剛), aged 44, is our executive Director and general manager of our Group who is responsible for the overall day-to-day marketing, sales and operational management of our Group. Mr. Zhang has been appointed as Director since January 1, 2012. He has been the sole director and legal representative of Yichen Railway since October 2000. He is a qualified engineer and assistant accountant in the PRC. He graduated from Gaocheng City Adult Vocational Secondary School* (藁城市成人中等專業學校) in the PRC with a diploma in accounting in July 1995 and from Hebei Province Township Enterprise Workers Vocational Secondary School* (河北省鄉鎮企業職工中等專業學校) in the PRC with a part time diploma in corporate management in January 1999. He then graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) in the PRC with a diploma in machinery in December 2001.

From March 1990 to February 1996, Mr. Zhang had been employed with Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠), a collectively owned enterprise in the PRC engaged in the manufacture of rolling steel products, in which Mr. Zhang served as a worker and then as an accountant with operational and financial management responsibilities. From March 1996 to March 2001, he had been employed with Gaocheng City Railway Works Equipment Factory* (藁城市鐵路工務器材廠), which was principally engaged in manufacture of railway works equipments, in which he served as a salesperson and was responsible for handling sales and marketing matters. He had served as the deputy general manager of our Company since April 2001 and was promoted to be the general manager in July 2015 with responsibilities for the overall business and operational management of our Company.

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. Wu Jinyu (吳金玉), aged 47, is our executive Director and chief financial officer of our Group who is responsible for the overall day-to-day financial management of our Group. Mr. Wu has been appointed as Director since our Company's establishment on April 9, 2001. He is a qualified senior accountant in the PRC. He graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) in the PRC with a diploma in accounting in July 1999. He then graduated from Hebei Province Chinese Accounting School* (河北省中華會計函授學校) in the PRC with a part time diploma in accounting in June 2002.

From March 1995 to April 2001, Mr. Wu had been an accountant of Gaocheng City Yichen Industrial Trading Co., Ltd.* (藁城市翼辰工貿公司) with responsibilities for handling accounting matters. He had served as the head of finance responsible for the overall financial management and reporting matters of our Company since April 2001 and was appointed as the chief financial officer in January 2012.

Mr. Wu is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. Zhang Chao (張超), aged 31, is our executive Director, secretary to the Board and joint company secretary who is responsible for overseeing the overall business operation and company secretarial work of our Group. Mr. Zhang joined our Group in January 2012 as secretary to the Board and was appointed as Director on July 27, 2015. Mr. Zhang was appointed as the joint company secretary of our Company on December 10, 2015. He graduated from University of Shanghai for Science and Technology* (上海理工大學) in the PRC with a bachelor's degree in thermal energy and power engineering in July 2009.

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. Zhang Lihuan (張力歡), aged 34, is our executive Director and manager of welding business division of our Group who is responsible for the overall day-to-day management of the welding business division of our Group. Mr. Zhang joined our Group in August 2009 as manager of the welding business division and was appointed as Director on July 27, 2015. He has been the sole director and legal representative of Yichen Trading since its establishment. He completed an online diploma course in business management at Central China Normal University* (華中師範大學) in the PRC in July 2015.

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our

Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Ms. Fan Xiulan (樊秀蘭), aged 63, is our executive Director who is responsible for the overall day-to-day management of the chairman's office and capital operations of our Group. She joined our Group in March 2006 as assistant to our chairman and head of capital operations department of our Group and was appointed as Director on July 27, 2015. She is a qualified economist and senior politician (高級政工師) in the PRC. She graduated from Institute of Party School of the Central Committee of the Central Party School* (中共中央黨校函授學院) of the PRC with a diploma in economic management through long distance learning in December 2000.

From December 1986 to November 1998, Ms. Fan had been the vice governor and governor of Industrial and Commercial Bank of China Limited, Gaocheng Branch. From December 1998 to August 2001, she had been the governor of Industrial and Commercial Bank of China Limited, Shijiazhuang Qiaodong Branch. From September 2001 to May 2008, she had been the head of the education bureau and labor union office supervisor of the business division of Industrial and Commercial Bank of China Limited, Hebei Province Branch.

Details of Ms. Fan's interest in Shares are set forth in the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus.

Independent non-executive Directors

Mr. Jip Ki Chi (葉奇志), aged 46, is our independent non-executive Director. Mr. Jip was appointed as an independent non-executive Director on November 30, 2015. He was admitted as a Certified Practicing Accountant of the Australian Society of Certified Practicing Accountants (currently known as CPA Australia) in October 1997. He obtained his qualification as a fellow member of Hong Kong Institute of Certified Public Accountants in October 2007. Mr. Jip graduated from Queensland University of Technology, Australia with a bachelor's degree of business in accountancy in March 1994. He then graduated from University of Adelaide, Australia with a master degree in business administration in August 2008.

The table below summarizes Mr. Jip's working experience in the past 10 years:

Period of time	Name of employer	Principal business activities of employer	Office	Principal functions
October 2005 to April 2007....	Total Sino Limited	Design, engineering and manufacturing of a wide range of children entertainment products	Financial controller	Preparation of monthly consolidated financial and management accounts and budgets, control and updating of financial and accounting systems
June 2007 to November 2010	Hao Tian Development Group Limited (stock code: 474; formerly named as Winbox International (Holdings) Limited and Hao Tian Resources Group Limited)	Money lending business, trading of securities investment, trading of futures and trading of commodities business	Financial controller, company secretary, qualified accountant and authorized representative	Liaison and communication with the Stock Exchange and SFC, liaison with internal and external auditors and legal advisors, preparation of monthly consolidated financial and management accounts and budgets, control and update financial and accounting systems
November 2010 to August 2012	Zhong Da Mining Limited	Mining of iron ore in the PRC	Chief financial officer and company secretary	Preparation of financial reporting and internal control and compliance with applicable laws of Hong Kong
September 2012 to November 2013	Hui Xiang Group	Mining and financial services	Chief financial officer and company secretary	Preparation of financial reporting and internal control and compliance with applicable laws of Hong Kong

Since November 2013, Mr. Jip has been an independent non-executive director of China MeiDong Auto Holdings Limited (stock code: 1268), whose shares are listed on the Main Board of the Stock Exchange. Since September 2014, Mr. Jip has been serving as the chief financial officer and the company secretary of Sage International Group Limited (stock code: 8082), whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Wang Qi (王琦), aged 43, is our independent non-executive Director. Mr. Wang was appointed as an independent non-executive Director on November 30, 2015. He is a qualified engineer in the PRC. He graduated from Harbin Institute of Architecture* (哈爾濱建築大學) of the PRC (currently known as Harbin Institute of Technology (哈爾濱工業大學)) with a bachelor's degree in architecture in July 1997.

Since January 1999, Mr. Wang has been a designer, person in charge of projects, head of the first design institute, deputy chief engineer and deputy head of rail transport institute and head of Shijiazhuang branch institute of Beijing Urban Construction Design & Development Group Co., Limited (北京城建設計發展集團股份有限公司) (stock code: 1599), whose shares are listed on the Main Board of the Stock Exchange and is principally engaged in design, survey and consultancy services for urban rail transit and urban rail transit related industrial and civil construction and municipal engineering projects, and construction contracting services for urban rail transit, and is responsible for overall organization and management of subway line design.

Mr. Zhang Liguo (張立國), aged 58, is our independent non-executive Director. Mr. Zhang was appointed as an independent non-executive Director on November 30, 2015. He is a senior engineer in the PRC. He graduated from Northern Jiaotong University* (北方交通大學) (currently known as Beijing Jiaotong University (北京交通大學)) of the PRC with a bachelor's degree in railway architecture in January 1982.

Since August 1996, Mr. Zhang has been a deputy head and head of the rail design department, head of the rail department, head of the technology department and deputy chief engineer of China Railway Engineering Consulting Group Co., Ltd. (中鐵工程設計諮詢集團有限公司), which is principally engaged in large-scale comprehensive survey and design consultation, and is responsible for design of railways and overall business operation.

Save as disclosed above, as of the Latest Practicable Date, each of our Directors (i) did not hold other positions in our Company or other members of our Group; (ii) had no other relationship with any Directors, Supervisor, senior management or substantial or controlling shareholders of our Company; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and (iv), did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

SUPERVISORS

As of the date of this prospectus, the Supervisory Board of our Company consists of three members. The following table sets out certain information about our Supervisors.

Name *(Note)*	Age	Position	Date of joining our Group	Date of appointment as supervisor	Roles and responsibilities
Mr. Zhang Xiaosuo (張小鎖)	55	Chairman of the board of supervisors	Founder of our Group	April 9, 2001	Management of production of our Group
Mr. Zhou Encheng (周恩成)	27	Supervisor	August 2012	July 27, 2015	Capital operations of our Group
Ms. Liu Jiao (劉姣)	29	Supervisor	August 2012	November 18, 2015	Daily operation of general manager's office of our Group

Note: Please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" for details of the relationship between each of Mr. Zhang Xiaosuo, Ms. Liu Jiao and other Directors, Supervisors and/or senior management of our Group. Save for Mr. Zhang Xiaosuo and Ms. Liu Jiao, the other Supervisor does not have any family relationship with the Directors, other Supervisors and/or senior management of the Group.

Mr. Zhang Xiaosuo (張小鎖), aged 55, is our Supervisor and chairman of the Supervisory Board who is responsible for management of production of our Group. He is a qualified engineer in the PRC. He graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) in the PRC with a diploma in machinery in December 2001.

From March 1990 to December 2000, Mr. Zhang had served as the production supervisor of Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠) with overall production management. He has been appointed as our Supervisor since the establishment of our Company. Mr. Zhang is also the chairman of the Supervisory Board of our Company.

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. Zhou Encheng (周恩成), aged 27, is our Supervisor who is responsible for capital operations of our Group. He joined our Group as a representative of securities affairs in August 2012 and was appointed as the deputy head of capital operations department of our Group in April 2015. He graduated from Hebei University of Technology* (河北工業大學) in the PRC with a diploma in international trade practice in June 2011.

Ms. Liu Jiao (劉姣), aged 29, is our supervisor who is responsible for daily operation of the general manager's office of our Group. She joined our Group as a general staff in August 2012. She graduated from Hebei Normal University of Science & Technology (河北科技師範學院) in the PRC with a bachelor's degree in Italian language in June 2011.

Ms. Liu is the spouse of Mr. Zhang Libin (張力斌), one of our Controlling Shareholders and details of her interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of her family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus. Ms. Liu is also a director of Longji.

Save as disclosed above, as of the Latest Practicable Date, each of our Supervisors (i) did not hold other positions in our Company or other members of our Group; (ii) had no other relationship with any Directors, Supervisor, senior management or substantial or controlling shareholders of our Company; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and (iv) did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter in respect of our Supervisors that needs to be brought to the attention of the Shareholders and there was no information relating to our Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules as of the Latest Practicable Date.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our businesses. The following table sets forth information regarding our senior management other than the executive Directors listed above:

Name *(Note)*	**Age**	**Position**	**Date of joining our Group**	**Date of appointment as senior management**	**Roles and responsibilities**
Mr. Zhang Fengxuan (張風選)	62	Deputy general manager of our Group	September 2002	January 2012	Overall day-to-day management of safety production and human resources of our Group
Mr. Zhang Lifeng (張力峰)	36	Deputy general manager of our Group	August 2003	August 2003	Overall day-to-day management of marketing and sales of our Group

Name *(Note)*	Age	Position	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities
Mr. Zhang Lijie (張力杰)	36	Deputy general manager of our Group	August 2003	January 2012	Overall day-to-day management of procurement of our Group
Mr. He Jinxiang (和金祥)	56	Chief engineer of our Group	September 2006	January 2010	Overall day-to-day management of product quality control and technology projects of our Group

Note: Please refer to the paragraph headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus for details of the relationship between each of Mr. Zhang Lifeng and Mr. Zhang Lijie and other Directors, Supervisors and/or senior management of our Group. Save for Mr. Zhang Lifeng and Mr. Zhang Lijie, the other senior management of our Group as listed above do not have any family relationship with the Directors, other Supervisors and/or senior management of the Group.

Mr. Zhang Fengxuan (張風選), aged 62, is our deputy general manager who is responsible for the overall day-to-day management of safety production and human resources of our Group. Mr. Zhang is a mechanical engineer in the PRC. He graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) in the PRC with a diploma in machinery in December 2001.

From August 1996 to August 2002, Mr. Zhang had been the factory head of Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠) and was responsible for its overall production. He joined our Group in September 2002 as a manager of the welding business division and has been our deputy general manager since January 2012.

Mr. Zhang is beneficially interested in 1,267,400 Domestic Shares.

Mr. Zhang Lifeng (張力峰), aged 36, is our deputy general manager who is responsible for overall day-to-day management of marketing and sales of our Group. He joined our Group as our deputy general manager in August 2003. He has been the sole director and legal representative of Yichen Corporate since its establishment. Mr. Zhang completed an online diploma course in business management at Central China Normal University* (華中師範大學) of the PRC in July 2015.

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the section headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. Zhang Lijie (張力杰), aged 36, is our deputy general manager who is responsible for the overall day-to-day management of procurement of our Group. He graduated from Shijiazhuang Vocational and Technology Institute* (石家莊職業技術學院) in the PRC with a diploma in modern secretary in July 2003.

Mr. Zhang joined our Group as office supervisor of our welding business division in August 2003. He became supervisor of our supply department in December 2009 and has been our deputy general manager since January 2012.

Mr. Zhang is one of our Controlling Shareholders and details of his interest in Shares are set forth in the section headed "Substantial Shareholders" in this prospectus and the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" as set out in Appendix VI to this prospectus. For details of his family relationship with certain other Directors, Supervisors and senior management of our Group, please refer to the section headed "History and Development — Relationship Amongst Shareholders — Family relationship" in this prospectus.

Mr. He Jinxiang (和金祥), aged 56, is our chief engineer who is responsible for the overall day-to-day management of product quality control and technology projects of our Group. Mr. He is a qualified engineer in the PRC. He graduated from Taiyuan Heavy Machinery Institute* (太原重型機械學院) (currently known as Taiyuan University of Science and Technology (太原科技大學)) in the PRC with a bachelor's degree in machinery specializing in casting technology and equipments in August 1983.

From July 1983 to December 2001, Mr. He had been a casting engineer and chief engineer of Xuanhua Mining Machinery Factory and Foundry* (宣化採掘機械廠及鑄造分廠), which was principally engaged in casting of metal, and was responsible for casting techniques and quality control. From January 2002 to August 2006, he had been the chief engineer of Beijing Shougang Jingshun Rolling Co., Ltd., Xuanhua Branch Factory* (北京首鋼京順軋輥有限公司宣化分廠), which was principally engaged in rolling of steel, and was responsible for casting techniques and quality control. He joined our Group as an engineer of our foundry division in September 2006 and was promoted to be the chief engineer in January 2010.

JOINT COMPANY SECRETARIES

Mr. Zhang Chao (張超), aged 31, was appointed as the joint company secretary of our Company on December 10, 2015. Mr. Zhang is one of our executive Directors. For details of his biographical information, please refer to the paragraph headed "Executive Directors" above in this section.

Ms. Lo Yee Har Susan (盧綺霞), aged 58, was appointed as the joint company secretary of our Company on December 10, 2015. Ms. Lo is an executive director, a director of corporate services and head of learning and development of Tricor Services Limited ("**Tricor**"). Ms. Lo is a fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a holder of the Practitioner's Endorsement from the HKICS. Ms. Lo graduated from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a Higher Diploma in Company Secretaryship and Administration in November 1981.

Ms. Lo has over 30 years of experience in the corporate secretarial field. Prior to joining Tricor in January 2004, Ms. Lo had been a director of company secretarial department of Tengis Limited (currently known as Tricor Tengis Limited) from July 1981 to December 2003. Ms. Lo is currently the company secretary or joint company secretary of five listed companies on the Main Board of the Stock Exchange, namely, Dongfeng Motor Group Company Limited (stock code: 489), China National Building Material Company Limited (stock code: 3323), Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (stock code: 2196), NVC Lighting Holding Limited (stock code: 2222) and MicroPort Scientific Corporation (stock code: 853).

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The aggregate amounts of remuneration of our Directors and Supervisors for the three years ended December 31, 2015 and the six months ended June 30, 2016 were approximately RMB1.1 million, RMB1.1 million, RMB1.1 million and RMB0.7 million respectively. The aggregate amount of remuneration which was paid by our Company to our five highest paid individuals for the three years ended December 31, 2015 and the six months ended June 30, 2016 were approximately RMB0.9 million, RMB0.9 million, RMB1.0 million and RMB0.5 million respectively. Details of the arrangement for remuneration are set out in Note 26 to the Accountant's Report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' and Supervisors' service agreements and letters of appointment referred to in the paragraph headed "Further Information about our Directors and Supervisors — 11. Directors and Supervisors" as set out in Appendix VI to this prospectus, the aggregate amount of directors' and supervisors' fee and other emoluments payable to our Directors and Supervisors is estimated to be approximately RMB1.3 million and RMB0.5 million for the year ending December 31, 2016 respectively, excluding any discretionary bonuses.

Our Directors, Supervisors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors, Supervisors and senior management.

After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors, Supervisors and senior management with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or Supervisors as an inducement to join or upon joining us. No compensation was paid to, or is receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

EMPLOYEES

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labor disputes or strikes.

BOARD COMMITTEES

Audit committee

Our Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of 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, our audit committee comprises Mr. Jip Ki Chi, Mr. Wang Qi and Mr. Zhang Liguo, all being INEDs. Mr. Jip Ki Chi is the chairman of our audit committee.

Remuneration committee

Our Company has established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The primary functions of our remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors, Supervisors and senior management of our Group and review performance based remuneration. At present, our remuneration committee comprises Mr. Zhang Liguo and Mr. Jip Ki Chi, our INEDs, and Mr. Wu Jinyu, our executive Director. Mr. Zhang Liguo is the chairman of our remuneration committee.

Nomination committee

Our Company has established a nomination committee with written terms of reference. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experiences) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of INEDs; to identify individual suitably qualified as potential Board members and to select or make recommendation 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, our nomination committee comprises Mr. Wang Qi and Mr. Zhang Liguo, our INEDs, and Ms. Fan Xiulan, our executive Director. Mr. Wang Qi is the chairman of the nomination committee.

Corporate governance committee

Our Company has established a corporate governance committee with written terms of reference. The primary functions of our corporate governance committee are to introduce and propose relevant principles concerning corporate governance and to review and determine the corporate governance policy of our Group. At present, our corporate governance committee comprises Mr. Jip Ki Chi and Mr. Wang Qi, our INEDs, and Mr. Zhang Ligang, our executive Director. Mr. Jip Ki Chi is the chairman of the corporate governance committee.

CORPORATE GOVERNANCE

Our Directors recognize the importance of incorporating elements of good corporate governance in management and internal control procedures so as to achieve effective accountability.

In accordance with the requirements of and corporate governance practices prescribed under the Listing Rules and the Articles of Association, our Company has established an audit committee, remuneration committee, nomination committee and corporate governance committee. Our Company has adopted a system of corporate governance. We will comply with the Corporate Governance Code in Appendix 14 to the Listing Rules upon Listing.

COMPLIANCE ADVISER

We have appointed BOCOM International (Asia) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where our Company proposes to use the proceeds of the Hong Kong Public Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

So far as our Directors are aware, the following persons will, immediately following completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Class of Shares held after the Global Offering	Capacity/Nature of interest	Number of Shares	Deemed interest pursuant to Section 317 of the SFO *(Note 1)*	Total approximate percentage of shareholding in the relevant class after the Global Offering *(Note 2)*	Total approximate percentage of shareholding in the total share capital of our Company after the Global Offering *(Note 3)*
Mr. Zhang Haijun	Domestic Shares	Beneficial owner	133,598,592	467,258,382	89.23%	66.92%
Ms. Zhou Qiuju (周秋菊) *(Note 4)*	Domestic Shares	Interest of spouse	133,598,592	467,258,382	89.23%	66.92%
Ms. Zhang Junxia (張軍霞)	Domestic Shares	Beneficial owner	87,270,048	513,586,926	89.23%	66.92%
Mr. Zhang Xiaosuo (張小鎖)	Domestic Shares	Beneficial owner	87,068,034	513,788,940	89.23%	66.92%
Ms. Zhang Xiaoxia (張小霞) *(Note 5)*	Domestic Shares	Interest of spouse	87,068,034	513,788,940	89.23%	66.92%
Mr. Zhang Xiaogeng (張小更)	Domestic Shares	Beneficial owner	86,866,020	513,990,954	89.23%	66.92%
Ms. Sun Shujing (孫書京) *(Note 6)*	Domestic Shares	Interest of spouse	86,866,020	513,990,954	89.23%	66.92%
Mr. Wu Jinyu (吳金玉)	Domestic Shares	Beneficial owner	29,561,382	571,295,592	89.23%	66.92%
Ms. Zhang Xiaoxia (張曉霞) *(Note 7)*	Domestic Shares	Interest of spouse	29,561,382	571,295,592	89.23%	66.92%
Mr. Zhang Ligang (張立剛)	Domestic Shares	Beneficial owner	27,608,580	573,248,394	89.23%	66.92%
Ms. Di Junping (翟軍平) *(Note 8)*	Domestic Shares	Interest of spouse	27,608,580	573,248,394	89.23%	66.92%
Mr. Zhang Chao (張超)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Ms. Zhang Weihuan (張偉環) *(Note 9)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Lijie (張力杰)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Ms. Liu Lixia (劉麗霞) *(Note 10)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Lifeng (張力峰)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Ms. Yang Yunjuan (楊雲娟) *(Note 11)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%

Name	Class of Shares held after the Global Offering	Capacity/Nature of interest	Number of Shares	Deemed interest pursuant to Section 317 of the SFO *(Note 1)*	Total approximate percentage of shareholding in the relevant class after the Global Offering *(Note 2)*	Total approximate percentage of shareholding in the total share capital of our Company after the Global Offering *(Note 3)*
Ms. Zhang Yanfeng (張艷峰)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Weiwei (張偉衛) *(Note 12)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Libin (張力斌)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Ms. Liu Jiao (劉姣) *(Note 13)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Mr. Zhang Lihuan (張力歡)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Ms. Yin Yanping (尹彥萍) *(Note 14)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Mr. Zhang Ning (張寧)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Ms. Huang Li (黃麗) *(Note 15)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Ms. Zhang Hong (張宏)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Mr. Liu Chaohui (劉朝輝) *(Note 16)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Mr. Zhang Ruiqiu (張瑞秋)	Domestic Shares	Beneficial owner	2,356,830	598,500,144	89.23%	66.92%
Ms. Gao Xiangrong (高香榮) *(Note 17)*	Domestic Shares	Interest of spouse	2,356,830	598,500,144	89.23%	66.92%
Profaith Group Limited *(Note 18)*. .	H Shares	Beneficial owner	13,333,000	N/A	5.94%	1.49%
China Oil And Gas Group Limited *(Note 18)*	H Shares	Interest in controlled corporation	13,333,000	N/A	5.94%	1.49%

Notes:

(1) Members of the Controlling Shareholders Group are parties acting in concert and on December 2, 2015, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all, all the members of the Controlling Shareholders Group will together control approximately 66.92% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by the other members of the Controlling Shareholders Group.

(2) The calculation is based on the total number of 673,380,000 Domestic Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.

(3) The calculation is based on the total number of 897,840,000 Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.

(4) Ms. Zhou Qiuju (周秋菊) is the spouse of Mr. Zhang Haijun. Under the SFO, Ms. Zhou Qiuju (周秋菊) will be deemed to be interested in the same number of Shares in which Mr. Zhang Haijun is interested.

(5) Ms. Zhang Xiaoxia (張小霞) is the spouse of Mr. Zhang Xiaosuo (張小鎖). Under the SFO, Ms. Zhang Xiaoxia (張小霞) will be deemed to be interested in the same number of Shares in which Mr. Zhang Xiaosuo (張小鎖) is interested.

(6) Ms. Sun Shujing (孫書京) is the spouse of Mr. Zhang Xiaogeng (張小更). Under the SFO, Ms. Sun Shujing (孫書京) will be deemed to be interested in the same number of Shares in which Mr. Zhang Xiaogeng (張小更) is interested.

(7) Ms. Zhang Xiaoxia (張曉霞) is the spouse of Mr. Wu Jinyu (吳金玉). Under the SFO, Ms. Zhang Xiaoxia (張曉霞) will be deemed to be interested in the same number of Shares in which Mr. Wu Jinyu (吳金玉) is interested.

(8) Ms. Zhai Junping (翟軍平) is the spouse of Mr. Zhang Ligang (張立剛). Under the SFO, Ms. Di Junping (翟軍平) will be deemed to be interested in the same number of Shares in which Mr. Zhang Ligang (張立剛) is interested.

(9) Ms. Zhang Weihuan (張偉環) is the spouse of Mr. Zhang Chao (張超). Under the SFO, Ms. Zhang Weihuan (張偉環) will be deemed to be interested in the same number of Shares in which Mr. Zhang Chao (張超) is interested.

(10) Ms. Liu Lixia (劉麗霞) is the spouse of Mr. Zhang Lijie (張力杰). Under the SFO, Ms. Liu Lixia (劉麗霞) will be deemed to be interested in the same number of Shares in which Mr. Zhang Lijie (張力杰) is interested.

(11) Ms. Yang Yunjuan (楊雲娟) is the spouse of Mr. Zhang Lifeng (張力峰). Under the SFO, Ms. Yang Yunjuan (楊雲娟) will be deemed to be interested in the same number of Shares in which Mr. Zhang Lifeng (張力峰) is interested.

(12) Mr. Zhang Weiwei (張偉衛) is the spouse of Ms. Zhang Yanfeng (張艷峰). Under the SFO, Mr. Zhang Weiwei (張偉衛) will be deemed to be interested in the same number of Shares in which Ms. Zhang Yanfeng (張艷峰) is interested.

(13) Ms. Liu Jiao (劉姣) is the spouse of Mr. Zhang Libin (張力斌). Under the SFO, Ms. Liu Jiao (劉姣) will be deemed to be interested in the same number of Shares in which Mr. Zhang Libin (張力斌) is interested.

(14) Ms. Yin Yanping (尹彥萍) is the spouse of Mr. Zhang Lihuan (張力歡). Under the SFO, Ms. Yin Yanping (尹彥萍) will be deemed to be interested in the same number of Shares in which Mr. Zhang Lihuan (張力歡) is interested.

(15) Ms. Huang Li (黃麗) is the spouse of Mr. Zhang Ning (張寧). Under the SFO, Ms. Huang Li (黃麗) will be deemed to be interested in the same number of Shares in which Mr. Zhang Ning (張寧) is interested.

(16) Mr. Liu Chaohui (劉朝輝) is the spouse of Ms. Zhang Hong (張宏). Under the SFO, Mr. Liu Chaohui (劉朝輝) will be deemed to be interested in the same number of Shares in which Ms. Zhang Hong (張宏) is interested.

(17) Ms. Gao Xiangrong (高香榮) is the spouse of Mr. Zhang Ruiqiu (張瑞秋). Under the SFO, Ms. Gao Xiangrong (高香榮) will be deemed to be interested in the same number of Shares in which Mr. Zhang Ruiqiu (張瑞秋) is interested.

(18) Pursuant to the cornerstone investor placing agreement dated December 5, 2016 and entered into between Profaith Group Limited ("Profaith"), our Company and the Joint Global Coordinators, Profaith has agreed to subscribe for such number of International Offer Shares that may be subscribed for with HK$40 million at the final Offer Price (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%), to be rounded down to the nearest whole board lot of 1,000 H Shares. Please refer to the section headed "Our Cornerstone Investors" in this prospectus for further information. The above number of H Shares assumes that the final Offer Price is fixed at HK$3.00, being the lower end of the stated Offer Price range. Profaith is wholly owned by China Oil And Gas Group Limited ("China O&G"). Under the SFO, China O&G will be deemed to be interested in the H Shares in which Profaith is interested.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

THE CORNERSTONE PLACING

As part of the International Offering, we and the Joint Global Coordinators have entered into cornerstone investor placing agreements with a number of investors (the "**Cornerstone Investors**"), which have agreed to subscribe for such number of International Offer Shares to be determined in the manner as set out below at the final Offer Price per H Share with an aggregate amount of HK$80 million. Assuming the final Offer Price of HK$3.00 (being the lower end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by the Cornerstone Investors would be 26,666,000 H Shares, representing approximately 13.20% of the total International Offer Shares initially available under the International Offering and approximately 2.97% of the total number of Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option).

To the best knowledge of our Directors, each of the Cornerstone Investors and their respective ultimate beneficial owners is an Independent Third Party, and is independent of our Company, its connected persons and their respective associates. Accordingly, the shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares under the Listing Rules. Immediately after completion of the Global Offering, none of the Cornerstone Investors will have any Board representation in our Company, nor will any of them become a substantial Shareholder of our Company.

The International Offer Shares to be subscribed for by each of the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering as described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation" in this prospectus.

THE CORNERSTONE INVESTORS

We set out below a brief description of our Cornerstone Investors:

Profaith Group Limited

Profaith Group Limited ("**Profaith**") is a company incorporated in the British Virgin Islands and is wholly owned by China Oil And Gas Group Limited ("**China O&G**"), a company incorporated in Bermuda with limited liability whose shares are listed on the main board of the Stock Exchange (Stock Code: 00603). Profaith is an investment holding company. China O&G and its subsidiaries are principally engaged in investment in natural gas and energy related business.

Under the relevant cornerstone investor placing agreement, Profaith has agreed to subscribe for such number of International Offer Shares that may be subscribed for with HK$40 million at the final Offer Price (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%), to be rounded down to the nearest whole board lot of 1,000 H Shares. Assuming the final Offer Price is fixed at HK$3.00 (being the lower end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by Profaith would be 13,333,000 H Shares, representing approximately 6.60% of the total International Offer Shares initially available under the International Offering and approximately 1.49% of the total number of Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option). Assuming the final Offer Price is fixed at HK$3.74 (being the higher end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by Profaith would be 10,695,000 H Shares, representing approximately 5.29% of the total International Offer Shares initially available under the International Offering and approximately 1.19% of the total number of H Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option).

Mr. Cai Yongwang (蔡永旺)

Mr. Cai Yongwang (蔡永旺) ("**Mr. Cai**") is our individual Cornerstone Investor. Mr. Cai is the deputy general manager of the fund management department of a PRC investment company which is principally engaged in investment in high technology project in Hebei Province, the PRC. Mr. Cai has been engaged in investment business and has years of experience in investing equity markets.

Under the relevant cornerstone investor placing agreement, Mr. Cai has agreed to subscribe for such number of International Offer Shares that may be subscribed for at the Offer Price with HK$16 million at the final Offer Price (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%), to be rounded down to the nearest whole board lot of 1,000 H Shares. Assuming the final Offer Price is fixed at HK$3.00 (being the lower end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by Mr. Cai would be 5,333,000 H Shares, representing approximately 2.64% of the total International Offer Shares initially available under the International Offering and approximately 0.59% of the total number of Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option). Assuming the final Offer Price is fixed at HK$3.74 (being the higher end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by Mr. Cai would be 4,278,000 H Shares, representing approximately 2.12% of the total International Offer Shares initially available under the International Offering and approximately 0.48% of the total number of Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option).

Ms. Xie Nuan (謝暖)

Ms. Xie Nuan (謝暖) ("**Ms. Xie**") is our individual Cornerstone Investor. Ms. Xie is a director of Shijiazhuang Duma Medicine Co., Ltd. (石家莊杜馬醫藥有限公司), a company incorporated in the PRC which is principally engaged in the medicine and other pharmaceutical products. Ms. Xie has been engaged in pharmaceutical business for over 10 years.

Under the relevant cornerstone investor placing agreement, Ms. Xie has agreed to subscribe for such number of International Offer Shares that may be subscribed for at the Offer Price with HK$24 million at the final Offer Price (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%), to be rounded down to the nearest whole board lot of 1,000 H Shares. Assuming the final Offer Price is fixed at HK$3.00 (being the lower end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by Ms. Xie would be 8,000,000 H Shares, representing approximately 3.96% of the total International Offer Shares initially available under the International Offering and approximately 0.89% of the total number of Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option). Assuming the final Offer Price is fixed at HK$3.74 (being the higher end of the stated Offer Price range), the total number of International Offer Shares to be subscribed for by Ms. Xie would be 6,417,000 H Shares, representing approximately 3.18% of the total International Offer Shares initially available under the International Offering and approximately 0.71%

of the total number of Shares upon completion of the Global Offering (without taking into account any H Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option).

Conditions Precedent

The placing of the International Offer Shares to the Cornerstone Investors under the cornerstone investor placing agreements is conditional upon: (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become unconditional by no later than the respective time and date as specified therein; (ii) the Offer Price having been agreed upon between our Company and BOCOM International Securities (for itself and on behalf of the Underwriters); (iii) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated; and (iv) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange.

Restrictions on Disposals by the Cornerstone Investors

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Joint Global Coordinators, it/he/she will not, during the period of six months following the Listing Date (the "**Lock-up Period**"):

(i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the H Shares subscribed for by it/him/her under the relevant cornerstone investor placing agreement (the "**Investor Shares**") (or any interest in any company or entity holding any of the Investor Shares);

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Investor Shares (or any interest in any company or entity holding any of the Investor Shares);

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above;

(iv) suffer or permit any person (the "**Investor Shareholder**") who has a beneficial interest in that Cornerstone Investor to enter into a transaction the economic effect of which is similar to effecting a transaction of a kind described in (i), (ii) or (iii) above in relation to the share capital of that Investor Shareholder; or

(v) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i), (ii), (iii) or (iv) above,

whether any of the transactions above is to be settled by delivery of the Investor Shares, in cash or otherwise.

The Cornerstone Investors shall not be subject to the restrictions above after the expiry of the Lock-up Period provided that the Cornerstone Investors shall first inform our Company in writing and consult our Company and the Joint Global Coordinators prior to any transactions described in above and the Cornerstone Investors shall use their best endeavours to ensure that any such transactions will not create a disorderly or false market.

Each of the Cornerstone Investors also agreed that, save with the prior written consent of our Company, the aggregate holding (direct or indirect) of the relevant Cornerstone Investor and its/his/her associates in the total issued share capital of our Company should be less than 10% of our Company's entire issued share capital at any time. Furthermore, each of the Cornerstone Investors shall not, and shall procure that none of its/his/her associates will, apply for or place an order through the book building process for the H Shares in the Global Offering (other than the Investor Shares), except where the Cornerstone Investor or its/his/her associate is acting as a nominee for its/his/her customer.

As of the date of this prospectus, the share capital of our Company is RMB336,690,000, divided into 336,690,000 Shares with a nominal value of RMB1 each.

On November 30, 2015, the then shareholders of our Company resolved that subject to CSRC approval, the nominal value of our Shares shall be sub-divided from RMB1 per Share to RMB0.5 per Share prior to the Listing. On January 18, 2016, we obtained the CSRC approval for the issue of not more than 258,129,000 H Shares with a nominal value of RMB0.5 each under the Global Offering. As a result, a total of 673,380,000 Domestic Shares with nominal value of RMB0.5 each will be in issue upon the Listing.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of shares	Approximate percentage to total share capital
673,380,000	Domestic Shares	75%
224,460,000	H Shares to be issued under the Global Offering	25%
897,840,000	**Shares**	**100%**

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of shares	Approximate percentage to total share capital
673,380,000	Domestic Shares	72.29%
258,129,000	H Shares to be issued under the Global Offering	27.71%
931,509,000	**Shares**	**100%**

The above table assumes the Global Offering becomes unconditional and is completed.

Our Shares

Upon completion of the Global Offering, our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in HK$. Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC or via Shanghai-Hong Kong Stock Connect (滬港通) or Shenzhen-Hong Kong Stock Connect (深港通), H Shares generally cannot be subscribed for by or traded by legal or natural persons of the PRC. We must pay all dividends in respect of H Shares in HK$ and all dividends in respect of Domestic Shares in RMB.

Our promoters hold 100% of the existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from November 26, 2015, on which we were organized as a joint stock limited liability company. This lock-up period will expire on November 25, 2016. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange.

Except as described in this prospectus and in relation to the despatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Under our Articles of Association, any change or abrogation of the rights of class shareholders should be approved by way of a special resolution of the general meeting of shareholders and by a separate meeting of shareholders convened by the affected class shareholders. However, as provided in our Articles of Association, the procedures for the approval by separate class shareholders shall not apply (i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently in any twelve-month period, not more than 20% of each of the existing issued Domestic Shares and H Shares; or (ii) where the plan for the issue of Domestic Shares and H Shares upon the Company's establishment is implemented within fifteen months following the date of approval by the authorized securities regulatory authorities of the State Council.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

Our Domestic Shares have not been admitted for trading or dealing on any authorised trading facility such as the Securities Trading Automated Quotation System in the PRC.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Upon Listing, we will have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such converted shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our Domestic Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No class shareholder voting is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed conversion. After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from our Domestic Share register and we will re-register such shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due despatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such shares would not be listed as H Shares.

LOCK-UP OF SHARES

The PRC Company Law provides that in relation to the Global Offering of a company, the shares issued by a company prior to the Global Offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to its statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange* (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon listing.

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements as of and for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 and the accompanying notes thereto, the text of which is set forth in the accountant's report set out in Appendix I to this prospectus (the "Accountant's Report"). The financial information included in the accountant's report has been prepared in accordance with IFRS. Potential investors should read the accountant's reports and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see "Risk Factors" in this prospectus for more details.

OVERVIEW

We are a leading rail fastening system provider to the PRC railway industry. According to Frost & Sullivan, we were the largest rail fastening system provider in the PRC in terms of revenue for the year ended December 31, 2015. In 2015, we accounted for approximately 17.1% of the rail fastening systems market in the PRC. We have over 10 years of experience in supplying rail fastening systems to the PRC railway industry, and during the Track Record Period, we entered into supply contracts for rail fastening system projects with total initial contract value of RMB2,704.5 million, including high speed railway projects with total initial contract value of RMB1,866.3 million, metro series projects with total initial contract value of RMB392.7 million, traditional track projects with total initial contract value of RMB349.6 million and heavy haul railway projects with total initial contract value of RMB95.9 million.

Our rail fastening systems have a nationwide coverage that include all Four Vertical and Four Horizontal High Speed Railway Corridors. Leveraging on such extensive experience, we have grown into one of the few rail fastening system manufacturers in the PRC with the capability to produce all core components of the rail fastening system. We have a diverse production capability while maintaining the focus on delivering the right products to meet our customer's needs in accordance with the relevant quality and safety standards in the PRC.

Benefiting from our competitive advantages and the favorable economic and industry trends in the PRC, we have achieved rapid growth in recent years. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from our rail fastening system manufacturing business was RMB530.3 million, RMB771.2 million, RMB828.4 million and RMB486.2 million, respectively, which accounted for approximately 87.0%, 90.2%, 91.3% and 93.1% of our total revenue for the same periods, respectively. In addition to rail fastening system products, we also sell flux cored wire products, which are materials used for welding. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue generated from our flux cored wire manufacturing business was RMB65.0 million, RMB73.9 million, RMB71.9 million and RMB33.2 million, respectively, which accounted for 10.7%, 8.6%, 7.9% and 6.4% of our total revenue for the same periods, respectively.

BASIS OF PRESENTATION

The financial information has been prepared in accordance with IFRS issued by the IASB. The financial information has been prepared under the historical cost convention. Standards and interpretations that are effective as of each of years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 have been adopted and applied by us consistently throughout the respective periods. The preparation of the financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the preparation of the financial information are disclosed in "— Critical Accounting Policies, Judgments and Estimates."

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including the following:

Investment in the Rail Transportation Industry

The growth of the rail fastening system industry is closely related to the continuous growth of the PRC rail transportation industry. Taking into account the investment in railways by the PRC government and the future maintenance and upgrade demands of the large number of existing lines, it is anticipated that the PRC rail fastening system industry will continue to expand in the near future. According to Frost & Sullivan, the future growth of the mileage of national railways in operation in the PRC is expected to be driven by further expansion and upgrade of the railway network layout, reaching approximately 148,000 km by 2020. The development of rail transportation in the PRC will create significant market opportunities, which in turn will drive the increasing demands for rail fastening system market. However, if there is any slowdown in the pace of growth of the PRC government's expenditures on railway infrastructures, our revenue growth could be adversely affected. See the paragraph headed "Risk Factors — Risks Relating to Our Business Operations — Our business, financial condition and results of operations may be affected by changes in the PRC government policies with respect to the rail transportation industry."

Progress of railway construction projects and timing of final inspection and acceptance of the relevant railway construction projects

Revenue from our rail fastening systems products are recognized when our customer has completed inspection and accepted the products and collectability of the related receivables is reasonably assured. We are generally required to provide a specified amount or a certain percentage with reference to the tender amount as deposit (the "**Tender Deposit**") when we submit tenders and a 1% to 10% deposit of our contracted amount (generally in the form of letter of guarantee issued by banks) as performance deposit with our customers (the "**Deposit Guarantee**") when we enter into contracts with customers. The Tender Deposit will be returned to us upon the publication of the results of the tender irrespective of whether we win the tender. The Deposit Guarantee is generally released or payable to us following the final inspection and acceptance of the relevant railway construction projects. Our customers generally withhold 5% to 20% of each invoiced amount (the "**Retention Money**") for the project and release to us after deducting any warranty claims, if any, upon expiring of the warranty period. The warranty period may take various forms: (i) six months to two years beginning from the date of completion of the customer's rail construction project; or (ii) up until the completion of their rail construction project. As such, our results of operation, trade receivables and other receivables are closely tied to the progress of the railway construction projects and the timing of final inspection and acceptance of the relevant railway construction projects. Any changes to the progress of the projects and the timing of the final inspection and acceptance of our products would affect our business, financial condition and results of operation.

Product mix

During the Track Record Period, we generated our revenue primarily from the manufacturing and provision of rail fastening systems products including pre-assembled products and parts and components for high speed rail, metro series, traditional rail and heavy haul rail. We also generated revenue from other business such as manufacturing and sales of welding materials. See the paragraph headed "Business — Flux Cored Wire." The profitability of our product sales varies according to factors including the nature of the products and/or market supply and demand. Changes in revenue mix in connection with the sales of goods may affect our revenue and financial results. We believe that a flexible product mix enables us to cater to different markets and achieve stable revenue. Due to the different gross profit margins associated with different products, if we adjust our product mix to reflect prevailing market demand in the future, our gross profit margin could be affected.

Sales volume, capacity expansion and capacity utilization

Our results of operations have been and will continue to be affected by our ability to leverage our production capacity to capture growing demand for rail fastening systems products and welding materials. Our results of operations are directly affected by our sales volume. Based on our consideration of the following factors, we believe it is important to build capacity to meet demand in the short term: (i) the strong growth of the PRC rail fastening systems products market, which has grown in terms of revenue at a CAGR of 5.3% from 2010 to 2015, and is expected to grow at a CAGR of 10.8% from 2016 to 2020, according to Frost & Sullivan and (ii) our historical track record of exceeding the market growth rate, with our rail fastening systems products revenue increasing at a CAGR of approximately 25.0% from 2013 to 2015. In light of these factors, we have expanded and will continue to expand the scale of our operations by building new production facilities and purchasing additional manufacturing equipment and seeking opportunities to acquire companies that fit into our expansion plan. We believe our capacity expansion will enable us to better serve our customers and grow our sales.

Another factor that will affect our results of operations is a change in our production facilities' effective capacity utilization, which measures actual production output as compared to the pro rata annual production capacity. Please see "Business — Production Facilities and Utilization Rate" for further details. The effective utilization rate of our spring bar production facilities increased from 80.1% for the year ended December 31, 2013 to 87.0% for the year ended December 31, 2015, and further increased to 89.2% for the six months ended June 30, 2016. A higher effective capacity utilization could result in lower overhead cost of each unit of products produced and will consequently result in higher profit margins and vice versa. Please see "Business — Expansion Plan" and "— Capital Expenditures" in this section of the prospectus for additional information on our capacity expansion plan.

Competition and product price

We are positioned as a leading rail fastening system provider in the PRC. We face competition from a number of other domestic rail fastening systems products providers, and we expect competition to intensify if new suppliers enter the market. In such an environment, competitive pricing and results of bidding, is an important factor affecting our results of operations, and changes in pricing/bidding strategies by our competitors may have an adverse impact on our results of operations. In addition, competitive pricing behavior in the market affects our ability to manage relationships with existing customers. As our competitors improve their offerings, merely providing superior quality products and services may not be sufficient to increase our market share. In addition to the pricing/bidding strategy of competitors, other factors affecting how we price our products include market demand, market share and raw material costs. Please see "Risk Factors — Risks Relating to Our Business Operations — Increasing competition in the PRC rail fastening systems market could have an adverse impact on our ability to maintain competitiveness" for further details on competition.

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our net profit in relation to percentage changes of the average selling prices of our rail fastening systems products. The sensitivity analysis assumes that the only variable that changes is the average selling price of rail fastening system products while other variables remain unchanged. The analysis is intended for reference only, and any variation may differ from the amounts indicated.

	Year ended December 31,			Six months ended June 30,
	2013	**2014**	**2015**	**2016**
Increase/(decrease) in average selling prices of rail fastening systems products	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
10%	39,772	57,838	70,411	41,325
5%	19,886	28,919	35,205	20,663
0	—	—	—	—
(5%)	(19,886)	(28,919)	(35,205)	(20,663)
(10%)	(39,772)	(57,838)	(70,411)	(41,325)

Raw material used

Cost of raw materials used is the most important component in our cost of sales. As the selling price of our products are fixed once we enter into the relevant sales contracts, our ability to obtain a stable supply of raw materials at favorable prices will affect our profitability and our overall operating performance. Our most important raw material is steel including spring steel, round steel and scrap steel. We entered into strategic cooperation agreements with our suppliers for the provision of spring steel and scrap steel in 2015. For details of the strategic cooperation agreements, please refer to the paragraph headed "Business — Raw Materials and Suppliers". During the Track Record Period, our profitability generally strengthened when steel price decreased. On the other hand, when the cost of steel increases we generally pass a portion of such raw material price increase to our customers when new sales contract are entered into, and our gross profit margin is generally not materially and adversely affected. During the Track Record Period, we had maintained stable relationship and established strategic cooperation with our major steel supplier. We also maintain an agreement for the provision of nylon and rubber from our associate, Tieke Yichen, which is renewable on an annual basis. Nevertheless, if we are not able to pass any or all of the increase in raw material cost to our customers in the future, our profit and profit margin would be adversely affected.

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our net profit in relation to percentage changes of total steel costs. The sensitivity analysis assumes that only variable change is the total steel cost while other variables remain unchanged. The analysis is intended for reference only, and any variation may differ from the amounts indicated. For details on historical price fluctuation of various kinds of steel, please refer to the paragraph headed "Industry Overview — Rail Fastening System Market in China — Raw Materials Trend". Over the Track Record Period, sales from rail fastening systems products constitute a substantial portion of our total revenue, thus we believe an analysis of the estimated increase/decrease of net profit to changes to the charges in total steel costs will illustrate how our business may be affected by changes in raw material prices.

	Year ended December 31,			Six months ended June 30,
	2013	**2014**	**2015**	**2016**
Increase/(decrease) in total steel costs	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**	**Increase/ (decrease) in net profit**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
10%	(18,040)	(16,062)	(15,445)	(7,290)
5%	(9,020)	(8,031)	(7,723)	(3,645)
0	—	—	—	—
(5%)	9,020	8,031	7,723	3,645
(10%)	18,040	16,062	15,445	7,290

Regulatory environment of the rail fastening system industry

We currently generate a substantial portion of our revenues and profits from providing rail fastening system products in the PRC. The PRC railway sectors are regulated by the PRC government and our operations are subject to policies and regulations such as the "18 Items of Railway Industry Technical Standard (高速鐵路扣件系列等18項鐵道行業技術標準)", "Provisions on Supervision and Administration of Railway Construction Projects (鐵路建設工程品質監督管理規定)", "Administrative Measures for Railway Industry Technical Standards (鐵道行業技術標準管理辦法)", and etc. Any changes in the regulatory environment in such sectors may affect our business and results of operations. Please see the section headed "Regulations" for further details.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

Our accounting policies are important for an understanding of our financial condition and results of operations. We have identified and summarized below certain accounting policies and accounting estimates and judgments that are significant to the preparation of our financial information. These accounting policies are in conformity with IFRS and require our management to exercise its judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and judgments are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. During the Track Record Period, we did not revise our estimates and underlying assumptions. Our Directors do not expect that our estimates and underlying assumptions will change in the foreseeable future.

Revenue recognition

We recognize revenue at the fair value of the consideration received, or receivable, and we present amounts receivable for goods supplied net of discounts, returns and value added taxes. We recognize revenue when (i) such revenue can be reliably measured; (ii) it is probable that future economic benefits will flow to the entity; and (iii) specific criteria have been met for the recognition for the relevant activities. We manufacture and sell rail fastening systems products and welding materials to our customers. Sales of products are recognized when significant risks and rewards of ownership of the products have been passed to the buyers and the amount of revenue can be measured reliably.

Government grant

We recognize government grants at their fair value when there is reasonable assurance that the grant will be received and we will comply with all of the attached conditions, where applicable. Benefits of government grants are deferred and recognized in the statement of comprehensive income over the period in which they are received to match the relevant benefits with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the relevant assets.

Depreciation and amortization

We determine the estimated useful lives and related depreciation/amortization charges for the property, plant and equipment and intangible assets using the straight-line method to allocate their cost to their residual values over their estimated useful lives according to the following schedule:

Lands	50 years
Buildings	10–20 years
Machinery	5–10 years
Vehicles	5 years
Electronic and communication equipment	3–5 years
Furniture, office equipment and others	3–5 years

We will review and adjust as appropriate, the assets' residual values and useful lives, at the end of each reporting period. We will write down the carrying value of the assets if the asset's carrying amount is greater than its estimated recoverable amount.

Impairment for trade and other receivables

We estimate impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

We base the estimates on the aging of the trade and other receivables balance, evidence that the customer or a group of customers is/are experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If the financial condition of the customers were to deteriorate, the actual writeoffs of the receivables would be higher than estimated.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as a improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

Income taxes

We were subject to income taxes in the PRC at a rate of 25% for the years ended December 31, 2013 and 2014. Following our Company's certification as a High-Tech Enterprise in 2015, our Company is currently subject to income tax in the PRC at a rate of 15%. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized only if it is probable that there will be taxable profits available against which the deductible temporary differences can be utilized. This determination requires significant judgment regarding the realizability of deferred tax assets. For entities with a recent history of losses, there would be a need for sufficient evidence that taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

We lease certain property, plant and equipment. Leases of property, plant and equipment where we own substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

We conducted a sales and leaseback transaction during the Track Record Period and the lease back resulted in a finance lease. Difference between the sales proceeds and the carrying amount of the sales and leaseback assets is deferred and amortized over the lease term.

Impairment of non-financial assets (other than goodwill)

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognized initially at fair value. We only assumed financial liabilities classified as "other financial liabilities" during the Track Record Period. Other financial liabilities are recognized initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the other financial liabilities using the effective interest method.

Our other financial liabilities mainly comprise accounts payable, bank borrowings, other borrowings, and other payables and accruals in the consolidated balance sheets. Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Critical Accounting Judgments and Estimates

Impairment for trade and other receivables

We estimate impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. We base the estimates on the aging of the trade and other receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Income taxes

We are subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets are recognized only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. This determination requires significant judgment regarding the realizability of deferred income tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

SUMMARY OF FINANCIAL INFORMATION

Following is a summary of the financial results of our Group for the Track Record Period which has been extracted from the Accountant's Report set out in Appendix I to this prospectus:

Consolidated Statement of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	609,318	854,777	907,049	437,699	521,949
Cost of sales	(409,933)	(500,437)	(517,079)	(244,627)	(282,403)
Gross profit	199,385	354,340	389,970	193,072	239,546
Selling and distribution expenses	(38,722)	(41,364)	(50,525)	(22,452)	(23,812)
General and administrative expenses	(52,455)	(51,223)	(54,147)	(21,155)	(28,967)
Other gains, net	1,737	11,808	2,235	1,100	2,909
Operating profit	109,945	273,561	287,533	150,565	189,676
Finance income	1,323	500	1,137	698	1,165
Finance costs	(24,342)	(29,784)	(20,888)	(12,767)	(8,826)
Finance costs, net	**(23,019)**	**(29,284)**	**(19,751)**	**(12,069)**	**(7,661)**
Share of profits of an associate	2,345	6,170	7,588	2,440	2,745
Profit before income tax	89,271	250,447	275,370	140,936	184,760
Income tax expense	(21,935)	(61,593)	(47,359)	(34,702)	(27,609)

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Profit and total comprehensive income for the year	67,336	188,854	228,011	106,234	157,151
Attributable to:					
Equity holders of the Company	67,171	188,410	228,069	106,059	157,151
Non-controlling interests	165	444	(58)	175	—

DESCRIPTION OF CERTAIN COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following paragraphs set out a brief discussion on the revenue, cost of sales, gross profit, gross profit margin, and other components of consolidated statements of profit or loss and other comprehensive income during the Track Record Period.

Revenue

During the Track Record Period, we derived our revenue primarily from our two operating segments (i) rail fastening systems products and (ii) welding material products. Our revenue represents the invoiced value of goods sold. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our revenue was RMB609.3 million, RMB854.8 million, RMB907.0 million and RMB521.9 million, respectively.

The following tables set out the relative revenue contribution of our products by project type and by business segment for the periods indicated:

	For the Year Ended December 31,									For the Six Months Ended June 30,					
	2013			2014			2015			2015			2016		
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year
		(RMB'000)			*(RMB'000)*			*(RMB'000)*			*(RMB'000)*			*(RMB'000)*	
Railway fastening systems products															
High Speed Rail	68,096	170,352	238,448	256,071	254,459	510,530	283,653	194,014	477,667	97,155	87,847	185,002	234,782	126,606	361,388
Traditional Rail	6,424	199,363	205,787	5,550	157,383	162,933	3,915	111,010	114,925	1,201	72,160	73,361	5,678	51,964	57,642
Metro Series	18,883	52,237	71,120	20,327	51,266	71,593	103,854	71,441	175,295	50,972	35,977	86,949	20,159	37,397	57,556
Heavy Haul Rail	—	14,937	14,937	—	26,119	26,119	374	60,121	60,495	250	49,222	49,472	—	9,596	9,596

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Railway fastening systems products					
Pre-assembled products	93,403	281,948	391,796	149,578	260,619
Parts and components products	436,889	489,227	436,586	245,206	225,563
Subtotal	530,292	771,175	828,382	394,784	486,182
Welding materials	64,961	73,867	71,866	39,353	33,209
Others[(1)]	14,065	9,735	6,801	3,562	2,558
Total	609,318	854,777	907,049	437,699	521,949

Note:

(1) Others primarily include (i) rent and other payments received in association with leasing property to Tieke Yichen and (ii) payment of electricity expenses received from Tieke Yichen.

Rail fastening systems products

A substantial portion of our revenue was generated from the sales of our rail fastening systems products. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue from our rail fastening systems product sales represented approximately 87.0%, 90.2%, 91.3% and 93.1% of our total revenue, respectively. Revenue from our rail fastening systems product segment grew over the Track Record Period, from RMB530.3 million for the year ended December 31, 2013 to RMB828.4 million for the year ended December 31, 2015.

By Product Type

Over the Track Record Period, sales of our pre-assembled products as a portion of our total revenue generally increased materially, while sales of our parts and components, which mainly include spring bars, bolts and screws and cast iron products as a proportion of our total sales of rail fastening system products decreased. The aforementioned trend is primarily a result of us entering into more pre-assembled products sales contracts, as demand for such products increased. Accordingly, sales of some of our parts and components products, primarily cast iron products, decreased as a proportion to our overall sales, as such parts and components, which would otherwise be sold as a separate item, are now included as part of the pre-assembled products. Sales of our parts and components slightly decreased since 2015 primarily because (i) we have prioritized the production and sale of pre-assembled products, and (ii) of a decrease in the production volume of our spring bars and cast iron products, which in turn was attributable to the decrease in production capacity of spring bars and cast iron products as we terminated certain production lines as part of our production technology renewal process for spring bars and changed our production process to elevate our product quality of our cast iron products in 2015. Please see "Business — Production Facilities and Utilization Rate — Utilization rate of our machineries".

By Project Type

With regard to project type, the growth in revenue was primarily contributed by an increase in sales of our railway fastening system products applied to high speed rail, metro series and heavy haul rail projects, which was partially offset by a decrease in revenue derived from rail fastening systems products that are applied to traditional rail projects. In turn, the increase in sales to high speed rail, metro series and heavy haul rail projects was mainly a result of (i) increase in the scale of high speed rail, metro series and heavy haul rail constructions and (ii) our decision to enter into more bids for such type of projects in view of the increased demand and higher gross profit margin of products applied to those projects. On the other hand, the decrease in our revenue derived from sales of rail fastening systems applied to traditional rail was mainly due to a slowdown in the growth of such projects and our decision to focus our resource into other types of projects.

Welding materials

Revenue from our welding materials represents 10.7%, 8.6%, 7.9% and 6.4% of our total revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Changes to our welding materials revenue primarily resulted from fluctuations in the sales volume and the selling price of such materials. In turn, our welding materials sales volume and selling price reflects the demand from our main welding material customers, which were primarily private shipbuilding companies and trading companies operating in the shipbuilding industry.

The tables below set forth our sales volume of pre-assembled products by project type, parts and components by project type and welding materials during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	Units	**Units**	**Units**	**Units**	**Units**
	(in thousands)	*(in thousands)*	*(in thousands)*	*(in thousands)*	*(in thousands)*
Railway fastening systems products					
Pre-assembled products					
High Speed Rail	479	1,850	1,655	558	1,625
Traditional Rail	37	86	20	7	58
Metro Series	168	153	628	325	124
Heavy Haul Rail	—	—	2	1	—
Subtotal	684	2,089	2,305	891	1,807
Parts and components products					
High Speed Rail	21,010	35,688	29,378	13,974	17,218
Traditional Rail	82,655	66,278	47,257	28,744	19,530
Metro Series	3,666	3,206	6,675	2,925	4,276
Heavy Haul Rail	1,687	1,301	3,145	2,707	285
Subtotal	109,018	106,473	86,455	48,350	41,309
Railway fastening systems products	109,702	108,562	88,760	49,241	43,116
Welding materials	6,834	8,342	8,878	4,701	4,727

Our sales volume of pre-assembled rail fastening systems products generally increased materially over the Track Record Period while sales volume of parts and components generally decreased. Such change primarily reflected our decision to enter into more pre-assembled products sales contracts by giving priority in tendering for such contracts as (i) demand for pre-assembled rail fastening systems products grew and (ii) such products generally had a higher gross profit margin. Please see "— Gross profit and gross profit margin" for more details. At the same time, the sales volume of our welding materials reflects demand of such products in the respective period.

The tables below set forth our average selling price of our products during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB/unit)	*(RMB/unit)*	*(RMB/unit)*	*(RMB/unit)*	*(RMB/unit)*
Railway fastening systems products					
Pre-assembled products					
High Speed Rail	142.2	138.4	171.4	174.1	144.5
Traditional Rail	173.6	64.5	195.8	171.6	97.9
Metro Series	112.4	132.9	165.4	156.8	162.6
Heavy Haul Rail	—	—	187.0	250.0	—
Parts and components products					
High Speed Rail	8.1	7.1	6.6	6.3	7.4
Traditional Rail	2.4	2.4	2.3	2.5	2.7
Metro Series	14.2	16.0	10.7	12.3	8.7
Heavy Haul Rail	8.9	20.1	19.1	18.2	33.7
Welding materials	9.5	8.9	8.1	8.4	7.0

The average selling price of each category of our rail fastening systems products and welding materials for a particular year is mainly affected by the sales mix sold within each product category during the relevant period. With exception to the six months ended June 30, 2016, during the Track Record Period, the average selling price of our pre-assembled rail fastening systems products generally increased. Such increase reflects (i) an increase in demand for such products, particularly pre-assembled products for high speed railways and metro series and (ii) change in product mix of pre-assembled rail fastening systems products which we sold over the relevant periods.

For instance, the average selling price of our pre-assembled products for high speed rail and metro series were higher in 2015 because we sold more complicated and/or more technically advanced products that commanded higher selling price, and the average selling price of our pre-assembled products for traditional rail was higher in 2013 and 2015 primarily because we sold a specific type of product that was not widely applied but had a higher selling price. On the other hand, for the six months ended June 30, 2016, the average selling price of our high speed rail and traditional rail pre-assembled rail fastening systems products generally decreased because our customers demanded more basic products that generally had lower average selling prices. The price for the same model of product has been relatively stable over the Track Record Period.

Our sales volume and average selling price for parts and components products is determined by a large portfolio of products. For instance, the average selling price of our parts and components products for metro series projects decreased in 2015 due to us selling more lower margin products, such as gage bars. The sales volume and average selling price of each of such parts and components can differ materially from product to product.

Cost of sales

The following table sets forth the components of our cost of sales for the periods indicated:

	Year ended December 31,			**Six months ended June 30,**	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Raw materials used					
Steel material and iron	240,529	214,165	181,706	103,680	97,042
Spring plate	3,109	22,767	50,284	19,381	12,715
Rubber material[1]	4,443	23,572	24,830	11,339	10,581
Nylon material[1]	13,712	42,137	74,008	33,054	39,358
Others[2]	138,887	67,382	58,339	37,655	45,690
Subtotal	400,680	370,023	389,167	205,109	205,386
Changes in finished goods and work-in-progress	(101,920)	10,044	12,392	(19,994)	24,982
Utilities	44,256	49,174	43,776	23,795	19,063
Employee benefit costs	45,269	44,795	44,031	22,143	20,320
Depreciation and amortization	15,112	15,049	14,661	7,689	6,864
Tax and levies	3,489	9,574	9,869	5,885	5,788
Others	3,047	1,778	3,183	—	—
Total	409,933	500,437	517,079	244,627	282,403

Notes:

(1) Our costs incurred in relation to purchase of rubber and nylon (as opposed to purchase of chemicals or other raw materials to produce rubber and nylon) materials increased in 2014 primarily because we commenced to purchase such materials from Tieke Yichen following our disposal of certain production and testing equipment of rubber and nylon to Tieke Yichen.

(2) Others include the raw material used to produce our flux core products and our purchase of chemicals to produce certain components (i.e., rubber and nylon) of our rail fastening system products. Our other materials costs decreased significantly in 2014 mainly because we commenced to purchase nylon and rubber from Tieke Yichen in 2014 following our disposal of certain production and testing equipment of rubber and nylon to Tieke Yichen, which in turn, lead to a decrease in our purchase of chemicals and other raw materials used to produce nylon and rubber.

Our raw material used primarily include costs for steel and iron. Our manufacturing overheads consist of costs for utilities, employee benefits costs, depreciation and amortization expenses relating to our production-related property, plant and equipment and tax and levies. Our employee benefit costs include salaries and related welfare benefits for our workforce directly related to our production activities. We incurred a reduction in cost of sales of RMB101.9 million in changes in finished products and work-in-progress products because our production exceeded sales in 2013. Such amount represents unallocated cost relating to our production that was recognised in our finished goods and work-in-progress inventories as of December 31, 2013 as such inventories were produced but not sold in 2013. In turn, our larger number of finished goods and work-in-progress inventories primarily resulted from us receiving a large amount of orders for rail fastening system products in 2013 for delivery in 2014 in accordance with the construction schedule of various projects.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our cost of sales was RMB409.9 million, RMB500.4 million, RMB517.1 million and RMB282.4 million, respectively. The increase in our cost of sales during the Track Record Period is mainly caused by the growth in sales volume and changes in cost of our raw material used. Costs of our steel material and iron used decreased over the Track Record Period mainly because of a reduction in steel and iron prices. Our other materials costs decreased significantly in 2014 mainly because we commenced to purchase nylon and rubber from Tieke Yichen in 2014, which in turn, lead to a decrease in our purchase of materials used to produce nylon and rubber following our disposal of certain production and testing equipment of rubber and nylon to Tieke Yichen.

For the year ended December 31, 2014, our cost of sales increased to approximately RMB500.4 million mainly as a result of a substantial increase in the sales of our rail fastening systems products. Such increase was partially offset by the decrease in price of steel which is a key raw material used in our production of rail fastening systems products. For the year ended December 31, 2015, our cost of sales increased to approximately RMB517.1 million mainly because of an increase in our sales of rail fastening systems products. Such increase was partially offset by a decrease in price of steel and a decrease in the cost of sales of our welding materials.

For the six months ended June 30, 2016, our cost of sales increased to approximately RMB282.4 million from RMB244.6 million for the six months ended June 30, 2015 mainly because of an increase in our sales of rail fastening systems products. Such increase was partially offset by a decrease in the cost of sales of our welding materials.

The following tables show the respective cost of sales by project type and by business segment for the periods indicated:

	For the Year Ended December 31,									For the Six Months Ended June 30,					
	2013			2014			2015			2015			2016		
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Subtotal by year
		(RMB'000)			(RMB'000)			(RMB'000)			(RMB'000)			(RMB'000)	
Railway fastening systems products															
High Speed Rail	28,935	118,615	147,550	122,136	143,747	265,883	134,532	103,616	238,148	36,682	47,703	84,385	117,035	59,127	176,162
Traditional Rail	3,522	143,227	146,749	4,567	107,697	112,264	1,439	87,260	88,699	381	53,573	53,954	3,065	35,977	39,042
Metro Series	9,951	33,128	43,079	10,456	31,335	41,791	46,433	52,868	99,301	21,983	27,277	49,260	10,240	25,883	36,123
Heavy Haul Rail	—	10,963	10,963	—	16,507	16,507	158	33,417	33,575	93	25,347	25,440	—	2,477	2,477

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2013	2014	2015	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Railway fastening systems products					
Pre-assembled products	42,408	137,159	182,562	59,139	130,340
Parts and components products	305,933	299,286	277,161	153,900	123,464
Subtotal	348,341	436,445	459,723	213,039	253,804
Welding materials	50,210	56,484	52,202	28,895	26,096
Others	11,382	7,508	5,154	2,693	2,503
Total	409,933	500,437	517,079	244,627	282,403

Gross profit and gross profit margin

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our gross profit was RMB199.4 million, RMB354.3 million, RMB390.0 million and RMB239.5 million, respectively, and our gross profit margin was 32.7%, 41.5%, 43.0% and 45.9%, respectively, for the respective period. Our gross profit margin increased over the Track Record Period primarily because of (i) change of sales mix, which includes increase in sales of our higher margin products, such as pre-assembled rail fastening systems products, and (ii) decrease in our major raw material price.

The following tables show the respective gross profit and gross profit margin by our business segments and by project type for the periods indicated:

	For the Year Ended December 31,														
	2013					2014					2015				
	Gross Profit			Gross Profit Margin		Gross Profit			Gross Profit Margin		Gross Profit			Gross Profit Margin	
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products
		(RMB'000)		%			(RMB'000)		%			(RMB'000)		%	
Railway fastening systems products															
High Speed Rail	39,161	51,737	90,898	57.5%	30.4%	133,935	110,712	244,647	52.3%	43.5%	149,121	90,398	239,519	52.6%	46.6%
Traditional Rail	2,902	56,136	59,038	45.2%	28.2%	983	49,686	50,669	17.7%	31.6%	2,476	23,750	26,226	63.2%	21.4%
Metro Series	8,932	19,109	28,041	47.3%	36.6%	9,871	19,931	29,802	48.6%	38.9%	57,421	18,573	75,994	55.3%	26.0%
Heavy Haul Rail	—	3,974	3,974	—	26.6%	—	9,612	9,612	—	36.8%	216	26,704	26,920	57.8%	44.4%

	For the Six Months Ended June 30,									
	2015					2016				
	Gross Profit			Gross Profit Margin		Gross Profit			Gross Profit Margin	
	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products	Pre-assembled products	Parts and components products	Subtotal by year	Pre-assembled products	Parts and components products
	(RMB'000)			%		(RMB'000)			%	
Railway fastening systems products										
High Speed Rail	60,473	40,144	100,617	62.2%	45.7%	117,747	67,479	185,226	50.2%	53.3%
Traditional Rail	820	18,587	19,407	68.3%	25.8%	2,613	15,987	18,600	46.0%	30.8%
Metro Series	28,989	8,700	37,689	56.9%	24.2%	9,919	11,514	21,433	49.2%	30.8%
Heavy Haul Rail	157	23,875	24,032	62.9%	48.5%	—	7,119	7,119	—	74.2%

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2013		2014		2015		2015		2016	
	(RMB'000) Gross Profit	% Gross Profit Margin	(RMB'000) Gross Profit	% Gross Profit Margin	(RMB'000) Gross Profit	% Gross Profit Margin	(RMB'000) Gross Profit	% Gross Profit Margin	(RMB'000) Gross Profit	% Gross Profit Margin
Rail fastening systems products										
Pre-assembled products	50,995	54.6	144,789	51.4	209,234	53.4	90,439	60.3	130,279	50.0
Parts and components products	130,956	30.0	189,941	38.8	159,425	36.5	91,306	37.2	102,099	45.3
Subtotal	181,951	34.3	334,730	43.4	368,659	44.5	181,745	46.0	232,378	47.8
Welding materials	14,751	22.7	17,383	23.5	19,664	27.4	10,458	26.6	7,113	21.4
Others	2,683	19.1	2,227	22.9	1,647	24.2	869	24.4	55	2.2
Total	199,385	32.7	354,340	41.5	389,970	43.0	193,072	44.1	239,546	45.9

Rail fastening systems products

By Product Type

The gross profit margin for our rail fastening systems products business increased from 34.3% for the year ended December 31, 2013 to 43.4% for the year ended December 31, 2014, and further increased to 44.5% for the year ended December 31, 2015. It subsequently increased to 47.8% for the six months ended June 30, 2016. Such increase was primarily attributable to (i) increase in our pre-assembled rail fastening system products sales which have higher gross profit margin, and (ii) decrease in the price of our major raw materials, mainly steel. For further details of changes in our raw material prices please see the paragraph headed "Industry Overview — Rail Fastening System Market in China — Raw Material Trends".

By Project Type

With regard to project type, the increase in our gross profit and gross profit margin during the Track Record Period was mainly a result of an increase in sales of our rail fastening systems for our metro series projects, high speed rail projects and heavy haul projects. The increase in our overall gross profit and gross profit margin was partially offset by a decrease in the gross profit and gross profit margin contributed by our traditional rail project segment. In turn, the lower gross profit margin from our traditional rail projects was mainly a result of our sales of parts and components to traditional rail projects, which were generally sold at lower margins.

Welding materials

The gross profit margin for our welding materials business generally increased over the Track Record Period. It increased from 22.7% for the year ended December 31, 2013 to 23.5% for the year ended December 31, 2014, subsequently increased to 27.4% for the year ended December 31, 2015. Such changes were correlated to (i) our sales volume, whereby we were able to spread our fixed production costs over a larger unit of products sold when our sales volume increase and thus leading to an increase in gross profit margin, and (ii) decrease in raw material price. The gross profit margin for our welding materials business decreased to 21.4% for the six months ended June 30, 2016 mainly because of a change in sales mix.

Other gains

Our other gains consist primarily of amortization of deferred income, income related to government grants and gain on disposal of property, plant and equipment. We recognized a gain on disposal of property, plant and equipment of approximately RMB10.9 million in the year ended December 31, 2014 from the disposal of production equipment used in the production of nylon and rubber to Tieke Yichen, our associate. As a result, our other gains for the year ended December 31, 2014, is higher than other periods in the Track Record Period. Please see "History and Development — Major Disposals" for further details. Other than income related to government grants and gain on disposal of property, plant and equipment, other components of our other gains has been stable during the Track Record Period. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our other gains as a percentage of our total revenue were 0.3%, 1.4%, 0.2% and 0.6%, respectively. During the Track Record Period, the components of the other gains of our Group are summarized below:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amortization of deferred income	233	233	233	116	116
Income related to government grants	1,131	442	1,206	802	2,500
Gain/(loss) on disposal of property, plant and equipment	—	10,875	619	72	(160)
Others	373	258	177	110	453
Total	1,737	11,808	2,235	1,100	2,909

Selling and distribution expenses

Our selling and distribution expenses mainly consist of transportation and warehouse expenses, royalty fee, employee benefit costs, office and travel expenses, service fees and charges, product examination costs and other costs. Our selling and distribution expenses increased from RMB38.7 million for the year ended December 31, 2013 to RMB50.5 million for the year ended December 31, 2015. Our selling and distribution expenses increased from RMB22.5 million for the six months ended June 30, 2015 to RMB23.8 million for the six months ended June 30, 2016. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our selling and distribution expenses as a percentage of our total revenue were 6.4%, 4.8%, 5.6% and 4.6%, respectively. Changes in our selling and distribution expenses during the Track Record Period were primarily attributable to the movements in our transportation and warehouse expenses, royalty fees and other expenses. In turn, our transportation and warehouse expenses mainly include freight costs for our products. Our transportation and warehouse expenses were higher for the years ended December 31, 2013 and 2015 primarily because we were required to deliver a higher proportion of our products to distant locations during the respective period. Our royalty fees primarily relate to costs relating to the use of technology procured from the Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所) for production of Spring bar IV fastening system, Spring bar V fastening system, WJ-7 fastening system and WJ-8 fastening system. Pursuant to our agreements with the Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所), we agreed to pay 2.5% of our sales on the aforementioned products as royalty fee. Please see "Business — License Agreements with Key Cooperation Partner" for further details. As sales of our aforementioned products increased in 2014 and 2015, our royalty fees increased accordingly. Our other expenses was higher in 2015 primarily because we incurred more costs in relation to our CRCC license renewal during the relevant period. During the Track Record Period, the components of the selling and distribution expenses of our Group are summarized below:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Transportation and warehouse expenses	28,496	22,755	27,361	12,220	11,543
Royalty fee	2,818	9,903	10,566	3,626	5,468
Employee benefit costs	3,389	4,436	5,075	2,411	2,654
Office and travel expenses	2,190	2,142	2,695	1,149	1,781
Service fees and charges	—	471	336	220	75
Product examination costs	614	1,084	1,367	878	544
Others	1,215	573	3,125	1,948	1,747
Total	38,722	41,364	50,525	22,452	23,812

General and administrative expenses

Our general and administrative expenses primarily consist of employee benefit costs, provision for impairment of receivables, depreciation and amortization, office and travel expenses, operating lease expenses, utilities and repair cost, service fees and charges, and car rental fee. Our general and administrative expenses increased from RMB52.5 million for the year ended December 31, 2013 to RMB54.1 million for the year ended December 31, 2015. Our general and administrative expenses increased from RMB21.2 million for the six months ended June 30, 2015 to RMB29.0 million for the six months ended June 30, 2016. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our general and administrative expenses as a percentage of our total revenue were 8.6%, 6.0%, 6.0% and 5.5%, respectively. During the Track Record Period, the changes in general and administrative expenses as a percentage of our total revenue decreased primarily because of (i) growth in revenue and (ii) changes in provision for impairment of receivables and depreciation and amortization. We estimate impairment of receivables resulting from the inability of the customers to make the required payments based on aging of the receivable balances, customer credit-worthiness, and historical write-off experience. In 2013, we have made a specific provision of approximately RMB3.0 million for impairment for our prepayments in 2013 due to the bankruptcy of one of our suppliers. As a result, our provision for impairment of receivables was larger in 2013. While for the six months ended June 30, 2016, our provision for impairment of receivables increased mainly because of an increase in our receivables overdue by one to two years. During the Track Record Period, the components of the general and administrative expenses are summarized as below:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Employee benefit costs	15,180	14,645	14,517	6,176	8,165
Provision for impairment of receivables	16,035	13,885	14,265	3,760	7,858
Depreciation and amortization	8,265	8,310	7,829	4,703	3,464
Operating lease expenses, utilities and repair cost, service fees and charges	3,987	5,527	5,873	1,894	3,138
Office and travel expenses	3,799	2,437	3,140	1,402	1,186
Car rental fee	2,910	2,984	2,227	900	—
Listing expenses	—	—	1,131	—	1,481
Tax and levies	1,803	2,844	2,882	1,495	2,574
Others	476	591	2,283	825	1,101
Total	52,455	51,223	54,147	21,155	28,967

Finance income

Our finance income mainly consists of interest on bank deposits. Our finance income for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 was RMB1.3 million, RMB0.5 million, RMB1.1 million and RMB1.2 million, respectively. Changes in our finance income during the Track Record Period mainly reflect the changes of average bank deposits of different periods.

Finance costs

Our finance costs mainly consist of interest expense on bank borrowings, interest expense on financial lease, interest expense on shareholders/key managements' loan, interest expense on other private loans and bank charges and others. Changes to our finance costs over the Track Record Period were mainly attributable to the movements of our interest expense on bank borrowings and shareholders/key managements' loans. For details of the interest rates on bank borrowings and shareholders/key managements' loans, please refer to the subsection headed "— Indebtedness". An analysis of finance costs from continuing operations is as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Interest expense on bank borrowings	14,829	17,269	13,450	6,329	7,333
Interest expense on financial lease	861	1,162	409	451	217
Interest expense on shareholders/key managements' loans	5,395	8,689	4,655	4,284	—
Interest expense on other private loans	753	524	363	216	—
Bank charges and others	2,504	2,140	2,011	1,487	1,276
Total	24,342	29,784	20,888	12,767	8,826

Share of profits of an associate

Our share of profits of an associate represents the profits attributable to us from our associate, namely Tieke Yichen, in proportion to our equity interests in such associate. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, our share of profits of associates was RMB2.3 million, RMB6.2 million, RMB7.6 million and RMB2.7 million, respectively.

Income tax expenses

Our income tax expenses are the sum of current income tax and deferred income tax. Our income tax expenses for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 were RMB21.9 million, RMB61.6 million, RMB47.4 million and RMB27.6 million, respectively, and our effective tax rate was 24.6%, 24.6%, 17.2% and 14.9%, respectively. Provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% for each of the years ended December 31, 2013 and 2014 on the assessable income of respective Group entities in accordance with relevant PRC enterprise income tax rules and regulations, while our Company's statutory income tax rate for the year ended December 31, 2015 and the six months ended June 30, 2016 was 15% as our Company was certified as a High-tech Enterprise in September 2015. Our effective income tax rate has been below the statutory tax rate for the two years ended December 31, 2013 and 2014 and the six months ended June 30, 2016 mainly because of part of our incomes are not subject to tax, such as share of profits of an associate. Our effective income tax rate was above 15% for the year ended December 31, 2015 primarily due to decrease of our deferred income tax assets by RMB4.0 million in 2015 as a result of the decrease in our applicable tax rate. As of the Latest Practicable Date, we had paid or made provisions for all relevant taxes and we did not have any material disputes with the relevant tax authority.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Comparison between the six months ended June 30, 2016 and the six months ended June 30, 2015

Revenue

Our revenue increased by RMB84.3 million, or approximately 19.2%, from RMB437.7 million for the six months ended June 30, 2015 to RMB521.9 million for the six months ended June 30, 2016. The increase was primarily attributable to increase in our sales of rail fastening system products.

Rail fastening system products

By Product Type

The revenue from our rail fastening systems products segment increased from RMB394.8 million for the six months ended June 30, 2015 to RMB486.2 million for the six months ended June 30, 2016. Our revenue generated from rail fastening systems products increased primarily because of growth in the sales volume of our pre-assembled products. Such sales increase primarily resulted from an increase in the high speed rail projects we participated in, which in turn, was mainly a result of a growth in demand for our pre-assembled rail fastening systems products and parts and components for high speed rail projects. The increase in revenue generated from sales from our high speed rail pre-assembled products was partially offset by a decrease in the sales of pre-assembled products for metro series projects. In turn, the decrease in sales of pre-assembled products for metro series projects was mainly a result of our completion of supply to two metro series projects in 2015.

By Project Type

With regard to project type, the growth in revenue was primarily contributed by an increase in sales of our railway fastening system products applied to high speed rail projects, which was partially offset by decrease in revenue derived from rail fastening systems products that are applied to metro series projects and traditional rail projects. In turn, the increase in sales to high speed rail projects was mainly a result of increase in the demand and sales volume of such products. On the other hand, the decrease in our revenue derived from sales of rail fastening systems applied to metro series projects was mainly due to a slowdown in demand for our pre-assembled products as we completed our supply to two metro series projects in 2015. Our decrease in revenue derived from sales of rail fastening systems applied to traditional rail projects was mainly due to a slower growth in traditional rail projects and our decision to focus our resource into other types of projects.

Welding materials

The revenue from our welding materials decreased from RMB39.4 million for the six months ended June 30, 2015 to RMB33.2 million for the six months ended June 30, 2016. Our revenue from welding materials decreased primarily because of decrease in the average selling price of our welding material products.

Cost of sales

Our cost of sales increased by RMB37.8 million, or approximately 15.4%, from RMB244.6 million for the six months ended June 30, 2015 to RMB282.4 million for the six months ended June 30, 2016.

Rail fastening systems products

The cost of sales of our rail fastening systems products segment increased from RMB213.0 million for the six months ended June 30, 2015 to RMB253.8 million for the six months ended June 30, 2016. The cost of sales of our rail fastening systems products increased mainly as a result of the increase in the sale of our rail fastening systems products.

Welding materials

The cost of sales of our welding materials segment decreased from RMB28.9 million for the six months ended June 30, 2015 to RMB26.1 million for the six months ended June 30, 2016. Our welding materials segment cost of sales decreased mainly because of a reduction in raw material prices used to produce our welding material products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB46.5 million, or approximately 24.1%, from RMB193.1 million for the six months ended June 30, 2015 to RMB239.5 million for the six months ended June 30, 2016. Our gross profit margin increased from 44.1% for the six months ended June 30, 2015 to 45.9% for the six months ended June 30, 2016 primarily because of an increase in the gross profit margin of our rail fastening systems products.

Rail fastening systems products

By Product Type

The gross profit margin of our rail fastening systems products segment increased from 46.0% for the six months ended June 30, 2015 to 47.8% for the six months ended June 30, 2016. Such increase was primarily a result of an increase in the sales volume of our pre-assembled products, which generally have higher gross profit margin.

By Project Type

With regard to project type, the increase in our gross profit and gross profit margin in the six months ended June 30, 2016 was primarily attributable to increase in (i) sales of high speed rail pre-assembled products and parts and components, and (ii) gross profit margin of high speed rail parts and components, as we sold more parts and components with higher profit margin in the six months ended June 30, 2016. Such increase was partially offset by a decrease in (i) sales and gross profit margin of our pre-assembled products for metro series projects, which in turn was mainly a result of our completion of supply to two metro series projects in 2015 and a change in the sales mix to metro series projects, (ii) the gross profit margin of our high speed rail pre-assembled products decreased because our customers demanded basic products that generally had lower average selling prices and gross profit margins and (iii) the gross profit and gross profit margin of our traditional rail pre-assembled and parts and components products, which in turn was a result of us being more focused on the development of and supplying other type of rail projects.

Welding materials

The gross profit margin of our welding materials segment decreased from 26.6% to 21.4% for the six months ended June 30, 2015 and 2016, respectively. The decrease was mainly a result of a change in sales mix.

Other gains, net

Our other gains increased significantly by RMB1.8 million from RMB1.1 million for the six months ended June 30, 2015 to RMB2.9 million for the six months ended June 30, 2016. The increase was primarily a result of an RMB2.5 million government subsidy we received mainly in relation to an energy saving project.

Finance income

Our finance income increased by RMB0.5 million from RMB0.7 million for the six months ended June 30, 2015 to RMB1.2 million for the six months ended June 30, 2016. The increase primarily resulted from an increase in our cash and cash equivalents.

Selling and distribution expenses

Our selling and distribution expenses increased from RMB22.5 million for the six months ended June 30, 2015 to RMB23.8 million for the six months ended June 30, 2016. The increase was mainly contributed by an increase in our royalty fees as our sales of licensed products increased.

General and administrative expenses

Our general and administrative expenses increased from RMB21.2 million for the six months ended June 30, 2015 to RMB29.0 million for the six months ended June 30, 2016. The increase was primarily attributable to an increase in (i) provision for impairment of receivables, (ii) employee benefits costs and (iii) operating lease expenses, utilities and repair cost, service fees and charges.

Finance costs

Our finance costs decreased by RMB4.0 million from RMB12.8 million for the six months ended June 30, 2015 to RMB8.8 million for the six months ended June 30, 2016. The decrease was primarily a result of a reduction in interest expenses on shareholders/key management loans as we repaid such borrowings.

Income tax expense

Our income tax expense decreased by RMB7.1 million, from RMB34.7 million for the six months ended June 30, 2015 to RMB27.6 million for the six months ended June 30, 2016. Our effective tax rate for the six months ended June 30, 2016 was 14.9%.

Profit for the period and net profit margin

As a result of the foregoing, our profit for the six months increased by RMB50.9 million, or approximately 47.9%, from RMB106.2 million for the six months ended June 30, 2015 to RMB157.2 million for the six months ended June 30, 2016. Our net profit margin increased from 24.3% for the six months ended June 30, 2015 to 30.1% for the six months ended June 30, 2016 primarily because of (i) an increase in our gross profit margin, (ii) a decrease in our statutory tax rate and (iii) a decrease in our finance costs.

Comparison between the year ended December 31, 2015 and the year ended December 31, 2014

Revenue

Our revenue increased by RMB52.3 million, or approximately 6.1%, from RMB854.8 million for the year ended December 31, 2014 to RMB907.0 million for the year ended December 31, 2015. The increase was primarily attributable to growth in the revenue from our rail fastening systems products.

Rail fastening systems products

By Product Type

The revenue from our rail fastening systems products segment increased from RMB771.2 million for the year ended December 31, 2014 to RMB828.4 million for the year ended December 31, 2015. Our rail fastening systems products revenue grew primarily because of growth in both sales volume and average selling price of our pre-assembled products. In turn, such sales increase primarily resulted from an increase in the metro series construction projects we participated in, which in turn, was mainly a result of an increase in demand for our pre-assembled rail fastening system products for metro series projects. The increase in revenue generated from sales of our pre-assembled products was partially offset by a decrease in sales of our parts and components products. Such decrease was primarily a result of (i) us giving priority to bidding for contracts of pre-assembled products leading to some of the parts and components which would otherwise be sold as a separate item being included as part of the pre-assembled products and (ii) a decrease in the production volume of our spring bars and cast iron products in 2015, which in turn was attributable to the decrease in production capacity of spring bars and cast iron products as we renewed our production technology. Please see "Business — Production Facilities and Utilization Rate — Utilization rate of our machineries". Although we have a reduction in actual production volume for spring bars and cast iron products in 2015 when comparing to 2014, as we have prioritized production of higher priced and gross margin products (primarily the pre-assembled products), we have been able to generate a higher revenue for rail fastening systems products in 2015 than 2014.

By Project Type

With regard to project type, the increase in our revenue was mainly a result of (i) a growth in our sales of high speed rail pre-assembled products, which in turn was primarily due to change in product mix with more complex and higher priced products; (ii) a growth in our overall sales of metro series products, which resulted from an increase in sales volume and an increase the average selling price of our pre-assembled products for metro series projects; and (iii) a gradual expansion of our heavy haul business. Such increase was partially offset by a decrease in our sales (i) to traditional rail projects and (ii) of parts and components to high speed rail projects. In turn, the decrease in sales to traditional rail projects was mainly a result of (i) us being more focused in the development of and supplying to other types of rail projects and (ii) a general slowdown in the traditional rail construction in the PRC. At the same time our decrease in the sales of parts and components under the high speed rail segment was mainly due to one of our customer's reduced demand for such products in 2015.

Welding materials

The revenue from our welding materials decreased from RMB73.9 million for the year ended December 31, 2014 to RMB71.9 million for the year ended December 31, 2015. Our welding materials revenue decreased primarily because of decrease in the average selling price of our welding material products.

Cost of sales

Our cost of sales increased by RMB16.7 million, or approximately 3.3%, from RMB500.4 million for the year ended December 31, 2014 to RMB517.1 million for the year ended December 31, 2015.

Rail fastening systems products

The cost of sales of our rail fastening systems products segment increased from RMB436.4 million for the year ended December 31, 2014 to RMB459.7 million for the year ended December 31, 2015. The increase in cost of sales was slower than that of revenue mainly due to the decrease in steel price in 2015.

Welding materials

The cost of sales of our welding materials segment decreased from RMB56.5 million for the year ended December 31, 2014 to RMB52.2 million for the year ended December 31, 2015. Our welding materials segment cost of sales decreased mainly because of decrease in raw material prices used to produce our welding material products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB35.6 million, or approximately 10.1%, from RMB354.3 million for the year ended December 31, 2014 to RMB390.0 million for the year ended December 31, 2015. Our gross profit margin increased slightly from 41.5% for the year ended December 31, 2014 to 43.0% for the year ended December 31, 2015.The increase in our gross profit margin was primarily contributed by (i) an increase in sales of our pre-assembled rail fastening systems products, which generally had higher margins and (ii) lower steel price.

Rail fastening systems products

By Product Type

The gross profit margin of our rail fastening systems products segment increased from 43.4% for the year ended December 31, 2014 to 44.5% for the year ended December 31, 2015. Such increase was primarily a result of the increased sales of higher profit margin products, primarily our pre-assembled rail fastening systems products for high speed rail and metro series projects, and the decreased raw materials price. The aforementioned changes overcame the adverse effect caused by a decrease in gross profit and gross profit margin of our parts and components products, which in turn was mainly a result of (i) a reduction in sales volume and (ii) a change in product mix.

By Project Type

With regard to project type, the increase in our gross profit and gross profit margin was mainly a result of (i) a growth in our sales of high speed rail pre-assembled products; (ii) a growth in sales and gross profit margin of our pre-assembled metro series products, which had higher prices and margins because of its shock-absorbing capability; and (iii) a gradual expansion of our heavy haul business, which had higher margin. Such increase was partially offset by the decrease in (i) the gross profit and gross profit margin of our traditional rail parts and components products, which was in turn a result of us being more focused on the development of and supplying other type of projects rail; and (ii) the gross profit margin of the parts and components of metro series projects. In turn, such decrease was mainly a result of selling more lower margin products, such as gage bars.

Welding materials

The gross profit margin of our welding materials segment increased from 23.5% for the year ended December 31, 2014 to 27.4% for the year ended December 31, 2015. The gross profit margin of our welding materials segment increased mainly because of decrease in raw material prices used to produce our welding material products.

Other gains, net

Our other gains decreased by RMB9.6 million, or approximately 81.1%, from RMB11.8 million for the year ended December 31, 2014 to RMB2.2 million for the year ended December 31, 2015. The decrease was primarily a result of the one-time gain on disposal of property, plant and equipment in relation to our sales of assets to our associate, Tieke Yichen, during the year ended December 31, 2014.

Finance income

Our finance income increased by RMB0.6 million from RMB0.5 million for the year ended December 31, 2014 to RMB1.1 million for the year ended December 31, 2015. The growth was mainly attributable to our increased average bank deposits for the year ended December 31, 2015.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB9.2 million, or approximately 22.1%, from RMB41.4 million for the year ended December 31, 2014 to RMB50.5 million for the year ended December 31, 2015. The increase was primarily due to (i) an increase in our transportation and warehouse expense by approximately RMB4.6 million as we were required to deliver more products to distant locations, (ii) an increase in royalty fees as our sales of licensed products increased and (iii) a growth in our others expenses, which mainly constituted of costs incurred in relation to renewal of our CRCC licenses.

General and administrative expenses

General and administrative expenses increased by RMB2.9 million, or approximately 5.7%, from RMB51.2 million for the year ended December 31, 2014 to RMB54.1 million for the year ended

December 31, 2015. The increase was primarily a result of (i) a listing expense of RMB1.1 million, (ii) an increase in office and travel expenses and (iii) costs we incurred in relation to enhancement of our safety measures.

Finance costs

Our finance costs decreased by RMB8.9 million, or approximately 29.9%, from RMB29.8 million for the year ended December 31, 2014 to RMB20.9 million for the year ended December 31, 2015. The decrease was primarily a result of a decrease in interest expense on shareholder/key management loans and bank borrowings, which in turn, was mainly attributable to our smaller amount of average total borrowings outstanding for the year ended December 31, 2015 and lower weighted average interest rate.

Income tax expense

Our income tax expense decreased by RMB14.2 million, or 23.1%, from RMB61.6 million for the year ended December 31, 2014 to RMB47.4 million for the year ended December 31, 2015. Our effective income tax rate decreased from approximately 24.6% in 2014 to 17.2% in 2015, primarily due to decrease in our Company's statutory tax rate from 25% to 15% in 2015 as our Company was certified as High-tech Enterprise in 2015.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year ended December 31, 2015 increased by RMB39.2 million, or approximately 20.7%, from RMB188.9 million for the year ended December 31, 2014 to RMB228.0 million for the year ended December 31, 2015. Our net profit margin increased from 22.1% for the year ended December 31, 2014 to 25.1% for the year ended December 31, 2015 primarily for the aforementioned reasons.

Comparison between the year ended December 31, 2014 and the year ended December 31, 2013

Revenue

Our revenue increased by RMB245.5 million, or approximately 40.3%, from RMB609.3 million for the year ended December 31, 2013 to RMB854.8 million for the year ended December 31, 2014. The increase was primarily due to a substantial growth in the sales of our rail fastening systems products.

Rail fastening systems products

By Product Type

The revenue from our rail fastening systems products segment increased from RMB530.3 million for the year ended December 31, 2013 to RMB771.2 million for the year ended December 31, 2014. Our rail fastening systems products revenue grew substantially primarily because of an increase in the sales of both our pre-assembled and parts and components products. In turn, such increase was primarily because of an increase in the sales volume of our pre-assembled products.

By Project Type

With regard to project type, the growth in revenue was primarily contributed by an increase in sales of our railway fastening system products applied to high speed rail projects, which was partially offset by a decrease in revenue derived from rail fastening systems products that are applied to traditional rail projects. In turn, the increase in sales to high speed rail projects was mainly a result of increase in the demand and sales volume of such products. On the other hand, the decrease in our revenue derived from sales of rail fastening systems applied to traditional rail was mainly due to a slowdown in our parts and components products, which in turn is primarily due to a slower growth of traditional rail projects and our decision to focus our resource into other types of projects.

Welding materials

The revenue from our welding materials increased from RMB65.0 million for the year ended December 31, 2013 to RMB73.9 million for the year ended December 31, 2014. Our revenue from welding materials grew primarily because of increase in the sales volume of our welding material products as we increased our sales to customers who were primarily private shipbuilding companies and trading companies operating in the shipbuilding industry.

Cost of sales

Our cost of sales increased by RMB90.5 million, or approximately 22.1%, from RMB409.9 million for the year ended December 31, 2013 to RMB500.4 million for the year ended December 31, 2014. The increase in our cost of sales primarily resulted from the increase of cost of sales of our rail fastening systems products.

Rail fastening systems products

The cost of sales of our rail fastening systems products segment increased from RMB348.3 million for the year ended December 31, 2013 to RMB436.4 million for the year ended December 31, 2014. The cost of sales of our rail fastening systems products increased mainly as a result of the increase in the sale of our rail fastening systems products, which was partially offset by the decrease in our key raw material price.

Welding materials

The cost of sales of our welding materials segment increased from RMB50.2 million for the year ended December 31, 2013 to RMB56.5 million for the year ended December 31, 2014. Our welding materials segment cost of sales grew because our sales volume increased.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB155.0 million, or approximately 77.7%, from RMB199.4 million for the year ended December 31, 2013 to RMB354.3 million for the year ended December 31, 2014. Our gross profit margin increased from 32.7% for the year ended December 31, 2013 to 41.5% for the year ended December 31, 2014 primarily because of an increase in the gross profit margin of our rail fastening systems products.

Rail fastening systems products

By Product Type

The gross profit margin of our rail fastening systems products segment increased from 34.3% for the year ended December 31, 2013 to 43.4% for the year ended December 31, 2014. Such increase was primarily a result of (i) an increase in the sales volume of our pre-assembled products, which generally have higher gross profit margin and (ii) lower major raw material prices.

By Project Type

With regard to project type, the increase in our gross profit and gross profit margin in 2014 was primarily attributable to increase in (i) sales of high speed rail pre-assembled products and parts and components, and (ii) gross profit margin of high speed rail parts and components, as we sold more parts and components with higher profit margin in 2014. Such increase was partially offset by a decrease in (i) the gross profit margin of our high speed rail pre-assembled products as a result of change in product mix in the segment and (ii) the gross profit and gross profit margin of our traditional rail pre-assembled and parts and components products, which in turn was a result of us being more focused on the development of and supplying other type of rail projects.

Welding materials

The gross profit margin of our welding materials segment remained stable at 22.7% and 23.5% for the year ended December 31, 2013 and 2014, respectively.

Other gains, net

Our other gains increased significantly by RMB10.1 million from RMB1.7 million for the year ended December 31, 2013 to RMB11.8 million for the year ended December 31, 2014. The increase was primarily a result of a one-time gain from disposal of property, plant and equipment of RMB10.9 million to our associate, Tieke Yichen.

Finance income

Our finance income decreased by RMB0.8 million, or approximately 62.2%, from RMB1.3 million for the year ended December 31, 2013 to RMB0.5 million for the year ended December 31, 2014. The decrease primarily resulted from a reduction in our average bank deposits during the year.

Selling and distribution expenses

Our selling and distribution expenses increased from RMB38.7 million for the year ended December 31, 2013 to RMB41.4 million for the year ended December 31, 2014. The increase was mainly caused by the growth of royalty fee by approximately RMB7.1 million as a result of increase sales of the licensed products, which was partially offset by a decrease in transportation and warehouse expenses by approximately RMB5.7 million.

General and administrative expenses

Our general and administrative expenses decreased slightly from RMB52.5 million for the year ended December 31, 2013 to RMB51.2 million for the year ended December 31, 2014. The decrease was primarily attributable to a reduction in our provision for impairment of receivables, which was partially offset by an increase of operating lease expenses, utilities and repair cost, service fees and charges.

Finance costs

Our finance costs increased by RMB5.4 million, or approximately 22.4%, from RMB24.3 million for the year ended December 31, 2013 to RMB29.8 million for the year ended December 31, 2014. The increase was primarily a result of a growth in interest expenses on bank borrowings and shareholders/key management loans as the average balances for such loans increased in 2014. We subsequently repaid a portion of our bank borrowings prior to December 31, 2014, and accordingly, our outstanding bank borrowings balance was lower as of December 31, 2014 when compared to the same of December 31, 2013.

Income tax expense

Our income tax expense increased by RMB39.7 million, from RMB21.9 million for the year ended December 31, 2013 to RMB61.6 million for the year ended December 31, 2014. The increase was primarily a result of an increase in gross profit as a result of our revenue growth and the decrease in our major raw material prices. At the same time, our effective tax rate remained stable at 24.6%.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year increased by RMB121.5 million, or approximately 180.5%, from RMB67.3 million for the year ended December 31, 2013 to RMB188.9 million for the year ended December 31, 2014. Our net profit margin increased from 11.1% for the year ended December 31, 2013 to 22.1% for the year ended December 31, 2014 primarily because of the increase in our gross profit margin and our revenue growth outpacing the increase in our selling and distribution expenses and general and administrative expenses.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

Our primary uses of cash are payments for raw materials, operational expenses and expansion related expenditures. To date, we have funded our operations principally with cash from operating activities, bank credit facilities and other debt instruments. Due to our business nature, we have long trade and notes receivables turnover days, and our trade and notes receivables turnover days are generally longer than our trade and notes payables turnover days. Please see "— Accounts receivables" and "— Trade and notes payables" for further details. Given the timing difference in receipts from customers and settlements to suppliers, we may incur net cash outflow from operating activities from time to time, which in turn, may adversely affect our working capital. To ensure we have sufficient working capital for our business operation, we monitor our cashflow balance on a daily basis, in particular, we emphasize on (i) the amount of cash balance plus expected short-term cash inflow, and (ii) the expected short-term cash outflow. When the aforementioned (ii) exceeds (i) by more than RMB10 million, we arrange for external financing, whereby such financing includes obtaining factoring services from banks for our receivables. Upon approval of the banks (which typically take around one week), an amount up to 80% of the invoiced amount of products delivered will be loaned to us. The total amount of loan we can obtain via factoring services are limited by the bank facilities granted to us, and during the Track Record Period we have not fully utilized our bank facilities and our application for bank borrowings, including factoring services, have not been unduly delayed or rejected.

We have adopted policies to improve our liquidity position. We have enhanced our trade and notes receivables collection. Please see "— Accounts Receivables — Reasons for Long Trade and Notes Receivables Turnover Days — Overdue Balance Collection and Review" for further details. We have also adopted cash flow management policies for bids over total RMB5 million. We require the approval of our general manager for such bidding when the expected capital needs (calculated on a per month basis), which includes the expected expenditure for existing projects and the project(s) we intend to bid for (calculated on a per month basis), exceeds 60% of the working capital available (calculated on a per month basis). Our working capital available includes cash available, bank facilities available and estimated cash inflow for the corresponding period. After Listing, when our expected capital needs (calculated on a per month basis) exceeds 80% of the working capital available (calculated on a per month basis), approval of all of our independent non-executive Directors will be required before we enter into relevant bids. Furthermore, we have established a reserve fund of RMB30 million which is used as emergency capital when trade receivables or bank loans cannot be timely obtained. We also intend to increase our credit facilities, which has increased from RMB450.0 million as of December 31, 2013 to RMB515.0 million as of December 31, 2015, and from RMB499.0 million as of June 30, 2016 to RMB516.0 million as of October 31, 2016.

In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from operating activities, bank credit facilities, together with cash received from the Global Offering and other funds raised from the capital markets from time to time.

Cash Flow

As of December 31, 2013, 2014 and 2015 and June 30, 2016, we had cash and cash equivalents of approximately RMB38.1 million, RMB44.1 million, RMB85.5 million and RMB202.8 million, respectively. The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			**Six months ended June 30,**	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net cash flows (used in)/generated from operating activities	(69,507)	130,553	97,059	44,577	123,515
Net cash flows (used in)/generated from investing activities	(55,778)	3,180	(85,214)	(10,758)	(8,851)
Net cash flows generated from/(used in) financing activities	62,251	(127,703)	29,550	52,044	2,552
Net (decrease)/increase in cash and cash equivalents .	(63,034)	6,030	41,395	85,863	117,216
Cash and cash equivalents at beginning of year	101,210	38,062	44,146	44,146	85,541
Effect of foreign exchange rate changes, net	(114)	54	—	—	—
Cash and cash equivalents at end of year	38,062	44,146	85,541	130,009	202,757

Cash flows generated from/(used in) operating activities

For the six months ended June 30, 2016, our net cash generated from operating activities amounted to RMB123.5 million, primarily reflecting cash generated from operations of RMB157.4 million, which is partially offset by income tax payments of RMB27.2 million and interest payments of RMB7.3 million.

For the year ended December 31, 2015, our net cash generated from operating activities amounted to RMB97.1 million, primarily reflecting cash generated from operations of RMB222.8 million, which is partially offset by income tax payments of RMB99.0 million and interest payments of RMB27.7 million.

For the year ended December 31, 2014, our net cash generated from operating activities amounted to RMB130.6 million, primarily reflecting our cash generated from operations of RMB180.1 million, which is partially offset by income tax payments and interest payments of RMB28.1 million and RMB22.0 million, respectively.

For the year ended December 31, 2013, our net cash used in operating activities amounted to RMB69.5 million, primarily reflecting our cash used in operations of RMB24.1 million, which in turn was mainly attributable to an increase in raw material purchased for meeting a large number of orders for rail fastening system products received in 2013 for delivery in 2014 in accordance with the construction schedule of various projects, income tax payment of RMB26.9 million and interest payment of RMB19.8 million, respectively. Our cash outflow was partially offset by interest received of RMB1.3 million.

Cash flows (used in)/generated from investing activities

For the six months ended June 30, 2016, our net cash used in investing activities amounted to RMB8.9 million, primarily reflecting our cash outflow of RMB4.9 million for payments for acquisition of land use right and RMB4.0 million for purchase of property, plant and equipment.

For the year ended December 31, 2015, our net cash used in investing activities amounted to RMB85.2 million, primarily reflecting payments for acquisition of land use right of RMB68.3 million and an increase in term deposit of RMB50.0 million, which was partially offset by proceeds from disposals of property, plant and equipment of RMB49.2 million (net of taxes) in connection with sales of property, plant and equipment to a related party, Longji.

For the year ended December 31, 2014, our net cash generated from investing activities amounted to RMB3.2 million, primarily reflecting our proceeds of RMB37.6 million from disposal of property, plant and equipment in relation to sales of a portion of our assets to an associate Tieke Yichen. Such amount was partially offset by (i) a RMB19.9 million payment for acquisition of land use rights and (ii) an cash outflow in the amount of RMB14.3 million for purchase of property, plant and equipment.

For the year ended December 31, 2013, our net cash used in investing activities amounted to RMB55.8 million, primarily reflecting our cash outflow of RMB28.1 million to purchase property, plant and equipment, a capital injection of RMB14.5 million into an associate, Tieke Yichen, and a net cash outflow of RMB9.5 million in relation to capital which we previously injected into our former subsidiary, Tieke Yichen. Such amount was then documented as a net cash outflow when we ceased to consolidate Tieke Yichen into our financial statements after it became our associate in 2013.

Cashflows generated from/(used in) financing activities

For the six months ended June 30, 2016, our net cash generated from financing activities amounted to RMB2.6 million, primarily reflecting proceeds from bank borrowings of RMB226.1 million, which was partially offset by repayment of bank borrowings of RMB187.8 million and dividend payment of RMB28.0 million (including related withholding tax).

For the year ended December 31, 2015, our net cash generated from financing activities amounted to RMB29.6 million, primarily reflecting proceeds from bank borrowings of RMB330.4 million and proceeds from other borrowings of RMB48.4 million, which was partially offset by repayment of bank borrowings of RMB256.9 million, repayment of borrowings from shareholders/key management/other individuals of RMB62.4 million, dividend payment of RMB10.0 million, payments of financing lease fee of RMB9.6 million and payments for listing expenses of RMB7.5 million.

For the year ended December 31, 2014, our net cash flow used in financing activities amounted to RMB127.7 million, primarily reflecting a RMB476.3 million repayment of bank borrowings, a RMB12.5 million financing lease fee payment, a dividend payment of RMB10.0 million and repayments of other borrowings of RMB3.5 million, which was partially offset by proceeds from bank borrowings of RMB359.0 million and other borrowings of RMB15.7 million, which primarily relate to borrowings from shareholders/key management/other individuals to support our business development.

For the year ended December 31, 2013, our net cash flow generated from financing activities amounted to RMB62.3 million, primarily reflecting proceeds from bank borrowings of RMB420.8 million, proceeds from a sales and leaseback transaction of RMB28.6 million, proceeds from other borrowings of RMB23.7 million primarily relating to borrowings from shareholders/key management/other individuals to support our business development and proceeds from non-controlling interests holder's investment of RMB2.1 million, which was partially offset by repayments of bank borrowings in the amount of RMB386.4 million, a dividend payment of RMB10.0 million, a RMB8.6 million repayment of other borrowings and a payment of RMB8.0 million in financing lease fee.

DESCRIPTION OF CERTAIN COMPONENTS OF STATEMENTS OF FINANCIAL POSITION

Current Assets and Liabilities

The following table sets forth details of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2013	2014	2015	2016	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Current Assets					
Inventories	172,859	165,679	137,459	120,226	158,811
Accounts receivable	500,037	636,711	753,375	883,569	1,000,130
Advances to suppliers	11,695	4,446	12,196	9,039	13,911
Other receivables and prepayments	7,834	10,186	21,242	27,153	31,443
Restricted cash	36,948	48,619	78,746	72,912	44,208
Cash and cash equivalents	38,062	44,146	85,541	202,757	131,460
	767,435	909,787	1,088,559	1,315,656	1,379,963
Current Liabilities					
Accounts payable	163,171	178,007	189,076	264,648	280,965
Advances from customers	9,314	2,396	4,550	4,628	8,411
Other payables and accruals	44,746	81,164	54,771	46,283	49,572
Current income tax liabilities	17,103	53,223	351	798	22,512
Bank borrowings	265,636	148,340	221,755	240,075	246,986
Other borrowings	55,332	70,697	47,400	47,400	—
Dividends payable	—	—	—	45,062	45,062
Finance lease liabilities	11,374	9,103	3,900	—	—
	566,676	542,930	521,803	648,894	653,508
Net Current Assets	200,759	366,857	566,756	666,762	726,455

We recorded net current assets of approximately RMB200.8 million, RMB366.9 million, RMB566.8 million, RMB666.8 million and RMB726.5 million as of December 31, 2013, 2014 and 2015 and June 30 and October 31, 2016, respectively. Our current assets consist of inventories, accounts receivable, advances to suppliers, other receivables and prepayments, restricted cash, and cash and cash equivalents. The key components of our current liabilities include accounts payable, advances from customers, other payables and accruals, current income tax liabilities, bank borrowings, other borrowings and finance lease liabilities.

Our net current assets increased from RMB666.8 million as of June 30, 2016 to RMB726.5 million as of October 31, 2016, mainly because of (i) a RMB116.6 million increase in accounts receivable which was in line with our increase in sales, and (ii) a RMB38.6 million increase in inventories which was a direct result of increase in production to meet our delivery schedule, which was partially offset by (i) a RMB28.7 million decrease in restricted cash as we increased our usage of bank guarantees as Deposit Guarantee, and (ii) a RMB71.3 million decrease in cash and cash equivalents as a result of payment made for acquisition of land use rights, repayment of bank borrowings and other borrowings and dividend payments.

Our net current assets increased from RMB566.8 million as of December 31, 2015 to RMB666.8 million as of June 30, 2016, mainly because of (i) a RMB117.2 million increase in cash and cash equivalents, which was primarily a result of cash generated from operations of RMB157.4 million, and (ii) a RMB130.2 million increase in accounts receivables as a result of our increase in sales, which was partially offset by (i) a RMB75.6 million increase in accounts payables, which was in line with our increase in purchases, (ii) RMB45.1 million increase in dividends payables, (iii) RMB18.3 million increase in bank borrowings and (iv) a RMB17.2 million decrease in inventories as we made deliveries in accordance with demand from our customers.

Our net current assets increased from RMB366.9 million as of December 31, 2014 to RMB566.8 million as of December 31, 2015, primarily because of (i) a RMB116.7 million increase in accounts receivables, which is a direct result of us delivering more products in fourth quarter of 2015 in accordance with the demand from our customers, (ii) a RMB52.9 million decrease in our current income tax liabilities mainly because we made tax payments based on a 25% tax rate prior to being certified as a High-tech Enterprise in September 2015, (iii) a RMB41.4 million increase in cash and cash equivalents, (iv) a RMB30.1 million increase in restricted cash in relation to us entering into a term deposit that was applied as pledge for the RMB47.4 million unsecured borrowing from a third-party, (v) a RMB26.4 million decrease in our other payables and accruals, which in turn was a result of us paying off our other taxes and (vi) a RMB23.3 million decrease in our other borrowings as we repaid loans from shareholders/key management/other individuals, which was partially offset by (i) a RMB73.4 million increase in bank borrowings and (ii) a RMB28.2 million decrease in inventories as we made deliveries in the fourth quarter of 2015 in accordance with the demand from our customers.

Our net current assets increased from RMB200.8 million as of December 31, 2013 to RMB366.9 million as of December 31, 2014, primarily because of (i) a RMB136.7 million increase in accounts receivables, which was mainly caused by our business growth, (ii) a RMB117.3 million decrease in bank borrowings, (iii) a RMB11.7 million increase in restricted cash as we increased our usage of bank guarantees as Deposit Guarantee and (iv) a RMB6.1 million increase in cash and cash equivalents, which was partially offset by (i) a RMB36.1 million increase in current income tax liabilities, (ii) a RMB36.4 million increase in other payables and accruals, which include (a) a RMB25.4 million increase in other taxes, (b) a RMB8.0 million increase in wages, salaries and other employee benefits (such payments were made in January 2015). Please see the section headed "Business — Employees" for further details and (c) a RMB3.3 million increase in royalty fees, which was in line with our business growth, and (iii) a RMB15.4 million increase in other borrowings.

Inventories

Our inventories consist of raw materials, work-in-progress products and finished goods. The following table sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2013	**2014**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Raw materials	28,621	31,485	15,657	23,406
Work-in-progress	23,661	31,827	42,672	35,783
Finished goods	120,577	102,367	79,130	61,037
Total	172,859	165,679	137,459	120,226

Our inventories decreased from RMB172.9 million as of December 31, 2013 to RMB165.7 million as of December 31, 2014, primarily as a result of a decrease in finished goods. In turn, such decrease was primarily because we received a large number of orders for rail fastening system products in 2013 for delivering in 2014 in accordance with the construction schedule of various projects, therefore we accumulated a large amount of finished goods in 2013 in preparation for delivering to those orders, and those products were subsequently delivered in 2014. Our inventories decreased to RMB137.5 million as of December 31, 2015, primarily because of a decrease in raw materials and finished goods. In turn, such decrease was mainly a result of us delivering to various projects in accordance with their construction schedule in the fourth quarter of 2015. Our inventories decreased to RMB120.2 million as of June 30, 2016 as we made deliveries in accordance with demand from customers prior to June 30, 2016.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2013	**2014**	**2015**	**2016**
Average inventory turnover days(1)	107	123	107	83

Note:

(1) Average inventory turnover days for each one-year period equals to the average of the beginning and closing balances of inventories of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days, and the inventory turnover days for a six-month period equals to the average of the beginning and closing balances of inventories of the relevant period divided by the cost of sales of the relevant period and multiplied by 183 days.

The inventory turnover days increased from 107 days for the year ended December 31, 2013 to 123 days for the year ended December 31, 2014 primarily because of our lower inventory level as of December 31, 2012, which in turn, led to a lower average inventory turnover days for 2013. Our inventory turnover days decreased to 107 days for the year ended December 31, 2015, primarily because of a decrease in raw materials and finished goods as we manufactured and delivered products to meet the construction schedule of various customers in fourth quarter of 2015. Our inventory turnover days decreased to 83 days for the six month ended June 30, 2016 primarily because (i) of increase in our revenue, and (ii) we made a large number of deliveries in accordance with demand from customers prior to June 30, 2016.

As of October 31, 2016, approximately 68.0% of our inventories as of June 30, 2016 were subsequently utilized or sold.

Accounts receivables

For our rail fastening systems products, we generally recognize revenue and trade receivables at the same time, after our products were delivered and received by the relevant customers and collectability of the related receivables is reasonably assured. However, our customers need to complete their internal procedures before they arrange for payment. Such internal procedures as a whole could take up to several months, with the products acceptance payment process, usually the last process in such procedure, taking around one month. We will only issue invoices to customers after completion of the relevant customers' internal products acceptance payment process. We typically require our customers to pay within 10 to 60 days upon delivery of invoice. As such, the time difference between our revenue recognition and receipt of payment could be up to several months. In addition, in accordance with industry practice, our customers typically withhold a portion of the outstanding contract value as Retention Money. The Retention Money is generally between 5% to 20% of each invoiced amount and released to us after deducting warranty claims, if any, upon expiring of the warranty period. The warranty period may take various forms: (i) for six months to two years beginning from the date of completion of the customer's rail construction project; or (ii) up until the completion of their rail construction project. We maintain strict control over outstanding receivables and overdue balances are reviewed regularly by senior management.

	As of December 31,			**As of June 30,**
	2013	**2014**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade receivables	521,236	667,834	803,817	952,842
Notes receivables	15,355	18,812	13,028	1,747
Provision for impairment of trade receivables	(36,554)	(49,935)	(63,470)	(71,020)
Total	500,037	636,711	753,375	883,569

Our trade and notes receivables increased from RMB500.0 million as of December 31, 2013 to RMB636.7 million as of December 31, 2014, and further increased to RMB753.4 million as of December 31, 2015 primarily because of increase in sales of our rail fastening systems products. Our notes and trade receivables subsequently increased to RMB883.6 million as of June 30, 2016, which was in line with our growth in sales.

The following table sets forth the ageing analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Current to two months	13,869	143,301	223,301	302,081
Three months to one year	383,153	358,203	436,697	435,892
One to two years	82,340	110,243	70,339	139,522
Two to three years	29,989	32,626	40,265	38,368
Over three years	11,885	23,461	33,215	36,979
Total	521,236	667,834	803,817	952,842

The following table sets forth our trade and notes receivables turnover days for the years indicated:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
Average trade and notes receivables turnover days[(1)]	284	243	280	287

Note:

(1) Average trade and notes receivable turnover days for each one-year period equals to the average of the beginning and closing balances of trade and notes receivables of the relevant year divided by revenue of the relevant year and multiplied by 365 days, and the average trade and notes receivable turnover days for a six-month period equals to the average of the beginning and closing balances of trade and notes receivables of the relevant period divided by revenue of the relevant period and multiplied by 183 days.

Our average trade and notes receivables turnover days decreased from 284 days for the year ended December 31, 2013 to 243 days for the year ended December 31, 2014, primarily because of an increase in total revenue in 2014. Our average trade and notes receivables turnover days increased to 280 days and 287 days for the year ended December 31, 2015 and six months ended June 30, 2016 respectively mainly because of an increase in receivables as we made a large number of deliveries to various projects in the fourth quarter of 2015 and prior to June 30, 2016, respectively in accordance with their construction schedule.

The following table sets forth the movement in the provision for impairment of accounts receivables as of the dates indicated:

	December 31,			June 30,
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening balance	23,652	36,554	49,935	63,470
Impairment losses recognized	12,902	13,381	13,535	7,550
Closing balance	36,554	49,935	63,470	71,020

Impairment losses in respect of trade and notes receivables are recorded using a provision account unless we consider that recovery of the amount is remote, in which case the impairment loss is written off against trade and notes receivables directly. We estimate such impairment loss resulting from the inability of the customers to make the required payments based on aging of the receivable balances, customer credit-worthiness and historical write-off experience.

The table below sets forth the subsequent settlement of our trade receivables as of the Latest Practicable Date:

	Settlement of trade receivables as of			
	December 31, 2015		June 30, 2016	
	(RMB'000)	*%*	*(RMB'000)*	*%*
Current to two months	150,354	67.3	96,121	31.8
Three months to one year	246,511	56.4	138,970	31.9
One to two years	18,800	26.7	26,612	19.1
Two to three years	11,571	28.7	4,160	10.8
Over three years	7,913	23.8	2,597	7.0
Total	435,149	54.1	268,460	28.2

Trade and Notes Receivables Excluding Retention Money

The table below sets forth our trade and notes receivables excluding retention money for the periods indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade receivables	521,236	667,834	803,817	952,842
Retention money	(33,266)	(63,540)	(82,944)	(94,789)
Notes receivables	15,355	18,812	13,028	1,747
Provision for impairment of trade receivables	(36,554)	(49,935)	(63,470)	(71,020)
Total	466,771	573,171	670,431	788,780

The table below the ageing analysis of our retention money for the period indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Current to one year	27,646	36,338	61,385	68,237
One to two years	4,989	24,702	13,583	20,034
Two to three years	137	2,049	7,422	4,280
Over three years	494	451	554	2,238
Total	33,266	63,540	82,944	94,789

The table below sets forth our trade and notes receivable turnover days excluding retention money for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
Average trade and notes receivables excluding retention money turnover days[(1)]	274	222	250	256

Note:

(1) Average trade and notes receivable excluding retention money turnover days for each one-year period equals to the average of the beginning and closing balances of trade and notes receivables excluding retention money of the relevant year divided by revenue of the relevant year and multiplied by 365 days, and the average trade and notes receivable excluding retention money turnover days for a six-month period equals to the average of the beginning and closing balances of trade and notes receivables excluding retention money of the relevant period divided by revenue of the relevant period and multiplied by 183 days.

Reasons for Long Trade and Notes Receivables Turnover Days

We have long trade and notes receivable turnover days due to our business nature and revenue recognition policy.

A substantial portion of our revenue is derived from sales to state-owned enterprises operating in railway construction and major metro construction companies and operation companies. For such government related agencies/entities, it may take a longer period to complete their internal procedure for processing of payments to us.

In addition, revenue from our rail fastening systems products are recognized when our customer has completed inspection and accepted the products and collectability of the related receivables is reasonably assured. However, our customers need to complete their internal procedures before they arrange for payments. Such internal procedures as a whole could take up to several months, with the products acceptance payment process, usually the last process in such procedure, taking around one month. We will only issue invoices to customers after completion of the relevant customers' internal products acceptance payment process. Following the issuance of invoice we require our customers to pay within 10 to 60 days upon delivery of invoice. As a result, even when our customers strictly adhere to the contractual terms, the time difference between our revenue recognition and receipt of payment could be up to several months.

Furthermore, our customers generally withhold 5% to 20% of each invoiced amount for the project and release to us after deducting any warranty claims, if any, upon expiring of the warranty period. The warranty period may take various forms: (i) six months to two years beginning from the date of completion of the customer's rail construction project; or (ii) up until the completion of their rail construction project. As such, our results of operation, trade receivables and other receivables are closely tied to the progress of the railway construction projects and the timing of final inspection and acceptance of the relevant railway construction projects.

Our receivables that are past due but not impaired generally relate to state-owned enterprises operating in railway construction and major metro construction companies and operation companies that have a good payment record with us. As such customers are generally engaged in construction projects that are backed by the financing of central and local governments, our Directors are of the view that the risk of the relevant customers defaulting on such receivables is remote. Furthermore, over the Track Record Period, we have not had to write-off any receivables.

Overdue balance collection and review

We engage in regular reviews of the collection and payment for account receivables. We have relevant personnel responsible for the collection of the receivables for their assigned accounts and have strengthened our collection of receivables through more strictly enforcing the accountability of relevant personnel over the collection of receivables from their respective customers. We ask that the assigned personnel to communicate with the relevant customer on the payment of such receivables, and to the extent possible, facilitate the completion of our customer's internal payment approval procedures with less delay. In addition, we now include collection of receivables as part of such employee's evaluation and we may require advance payment from customers with lower credit ratings.

Other receivables and prepayments — current portion

The following table sets forth the other receivables and prepayments as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Deposits for project biddings and contracts	7,681	9,689	10,648	12,073
Prepayments of listing expenses	—	—	8,324	14,560
Others	3,495	4,343	6,846	5,404
Less: Provision for impairment	(3,342)	(3,846)	(4,576)	(4,884)
Total other receivables and prepayments	7,834	10,186	21,242	27,153

Other receivables and prepayments primarily consist of deposits and other prepayments, which primarily include Tender Deposit and Deposit Guarantee for various bids and contracts. Our other receivables and prepayments increased from RMB7.8 million as of December 31, 2013 to approximately RMB10.2 million as of December 31, 2014 primarily because we participated in more project bids in 2014 compared to 2013 and our deposits for the various bids increased accordingly. Our other receivables and prepayments further increased to RMB21.2 million as of December 31, 2015 mainly because of prepayments for listing expenses of RMB8.3 million. Our other receivables and prepayments subsequently increased to RMB27.2 million as of June 30, 2016, primarily because of increases in prepayments of listing expenses.

Cash and cash equivalents

Our cash and bank balances as of December 31, 2013, 2014 and 2015 and June 30, 2016 amounted to RMB38.1 million, RMB44.1 million, RMB85.5 million and RMB202.8 million, respectively. Our cash denominated in RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, we are permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Our cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the cash needs of the Group and earn interest at the respective short term deposit rates. Our cash and bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

	As of December 31,			As of June 30,	
	2013	2014	2015	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Cash and cash equivalents	38,062	44,146	85,541	130,009	202,757

Our cash and cash equivalents increased from RMB38.1 million as of December 31, 2013 to RMB44.1 million as of December 31, 2014. The cash and cash equivalents remain steady as the net cash generated from operating activities in 2014 was partially offset by the increase in repayments of bank borrowings due to lower level of bank loan required because of changing business environment. Our cash and cash equivalents increased to RMB85.5 million as of December 31, 2015 which was primarily because of net cash generated from operating activities of RMB97.1 million and net cash generated from financing activities of RMB29.6 million, which was partially offset by a net cash used in investing activities of RMB85.2 million primarily as a result of our cash payments for acquisition of land use right and increase in term deposit of RMB50.0 million. Our cash and cash equivalents further increased to RMB202.8 million as of June 30, 2016 which was primarily because of net cash generated from operating activities of RMB123.5 million and net cash generated from financing activities of RMB2.6 million, which was partially offset by net cash used in investing activities of RMB8.9 million.

Trade and notes payables

The following table sets forth a breakdown of our trade and notes payables as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade payables to associate and other related party	23,168	18,830	5,536	20,821
Trade payables to third-parties	115,752	114,494	169,382	212,055
Notes payable	24,251	44,683	14,158	31,772
Total	163,171	178,007	189,076	264,648

Our trade and notes payables increased from RMB163.2 million as of December 31, 2013 to RMB178.0 million as of December 31, 2014, and further increased to RMB189.1 million as of December 31, 2015 because of our increased orders for raw materials and other supplies to meet the increase in demand for our products. Our trade and notes payables subsequently increased to RMB264.6 million as of June 30, 2016, which is in line with increase in our purchases.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2013	**2014**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Current to one year	125,641	117,787	163,365	216,474
One year to two years	7,326	9,912	6,989	12,026
Two years to three years	4,881	2,203	1,912	1,657
Over three years	1,072	3,422	2,652	2,719
Total	138,920	133,324	174,918	232,876

The following table sets forth our trade and notes payables turnover days for the years indicated:

	Year ended December 31,			Six months ended June 30,
	2013	**2014**	**2015**	**2016**
Average turnover days trade and notes payables[(1)]	144	124	130	147

Note:

(1) Average trade and notes payable turnover days for each one-year period equals to the average of the beginning and closing balances of trade and notes payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days, and the average trade and notes payable turnover days for a six-month period equals to the average of the beginning and closing balances of trade and notes payables of the relevant period divided by cost of sales of the relevant period and multiplied by 183 days.

Our average trade and notes payables turnover days decreased from 144 days as of December 31, 2013 to 124 days as of December 31, 2014 mainly because total cost of sales grew at a faster pace than the growth of our trade and notes payables in 2014. Our average trade and notes payables turnover days increased to 130 days and 147 days as of December 31, 2015 and June 30, 2016, respectively, primarily as a result of an increase in trade payables as we ordered raw materials to meet unfulfilled orders following our large number of product delivery in the fourth quarter of 2015 and prior to June 30, 2016, respectively that contributed to our lower inventory level as of December 31, 2015 and June 30, 2016, respectively.

As of the Latest Practicable Date, approximately 59.5% of our trade payables as of June 30, 2016 were subsequently settled. As our supply contracts regarding the unsettled trade payables generally require payment after receipt of invoice and we have not received all invoices from the relevant suppliers yet.

Other payables and accruals

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Wages, salaries and other employee benefits	5,615	13,620	4,269	3,800
Car rental fee	1,800	1,798	—	—
Royalty fee	7,710	10,973	16,477	21,946
Freight	2,906	2,724	7,927	6,708
Other taxes	26,415	51,781	25,794	12,110
Others	300	268	304	1,719
Total	44,746	81,164	54,771	46,283

Our other payables and accruals primarily consist of other taxes, wages, salaries and other employee benefits and royalty fees. Our other payables and accruals increased from RMB44.8 million as of December 31, 2013 to RMB81.2 million as of December 31, 2014 mainly because of (i) increase in wage, salaries and other benefits payables as we paid a portion of the salaries due to employees for 2014 in January 2015. For further details, please see the section headed "Business — Employees"; (ii) an increase in royalty fees payable to Railway Construction Institute of China Academy of Railway Sciences (中國鐵道科學研究院鐵道建築研究所) resulting from the increase in the licensed products sold; and (iii) an increase in payable of other taxes such as value-added taxes. Our other payables and accruals decreased to RMB54.8 million as of December 31, 2015 primarily due to (i) a decrease in wages, salaries and other employee benefits because of the reason aforementioned and (ii) a decrease in car rental fee as we ceased all car rental arrangements with Shareholders and key management in July 2015, which was partially offset by (i) an increase in royalty fee paid as a result of the increase in sales volume of the licensed products and (ii) an increase in freight as we were required to deliver a higher proportion of our products to distant locations. Our other payables and accruals decreased to RMB46.3 million as of June 30, 2016 due to decreases in other taxes.

NON-CURRENT ASSETS

Our non-current assets increased from RMB263.6 million for the year ended December 31, 2013 to RMB267.1 million for the year ended December 31, 2014. The increase in non-current assets was primarily a result of an increase in the non-current portion of our other receivables and prepayments, which in turn mainly reflects (i) an increase in prepayment for acquisition of land use rights of approximately RMB19.9 million, (ii) shares of profits from our associate, Tieke Yichen of approximately RMB6.2 million and (iii) increases in deferred income tax assets of approximately RMB4.8 million. Such increase was partially offset by a decrease in property, plant and equipment, which mainly resulted from sales of our property, plant and equipment to Tieke Yichen.

Our non-current assets increased from RMB267.1 million for the year ended December 31, 2014 to RMB278.3 million for the year ended December 31, 2015. The increase in non-current assets was primarily a result of (i) an increase in lease prepayment for land use rights of approximately RMB86.5 million and (ii) shares of profits from our associate, Tieke Yichen of approximately RMB7.6 million. Such increase was partially offset by a decrease in property, plant and equipment, which mainly resulted from sales of our property, plant and equipment to Longji in 2015.

Our non-current assets increased to RMB282.3 million as of June 30, 2016. The increase was primarily attributable to an increase to the non-current potion of other receivables and prepayments, which in turn was a result of an increase in our prepayment for acquisition of land use rights.

WORKING CAPITAL

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash flow generated from operating activities and bank and other borrowings. We manage our cash flow and working capital by closely monitoring and managing, among other things, (i) the level of our trade payables and receivables, and (ii) our ability to obtain external financing. We also review future cash flow requirements and assess our ability to meet debt repayment schedules and adjust our investment and financing plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Based on the foregoing and taking into account the financial resources available to us, including our cash and cash equivalents on hand, bank and other borrowings, cash flow generated from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the opinion, and the Sole Sponsor concurs, that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus.

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures have principally consisted of expenditures on property, plant and equipment, land use right and other capital expenditure. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we incurred capital expenditures in the amounts of approximately RMB46.3 million, RMB34.4 million, RMB84.4 million and RMB9.0 million, respectively. Our historical capital expenditure increased materially in 2015 primarily because of the payments we made for land use rights. Please see "Business — Properties — Owned Properties — Land". The following table sets out our historical capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2013	**2014**	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Property, plant and equipment	28,106	14,319	16,065	3,996
Land use right (including prepayment for land[1])	3,608	19,935	68,293	4,885
Capital injection on investment of associate	14,510	—	—	—
Other intangible assets	54	116	42	35
Total	46,278	34,370	84,400	8,916

Note:

(1) Prepayment of land refers to prepayment made for the purchase of certain parcels of land.

Planned Capital Expenditures

As part of our future growth strategy, we plan to enhance our product portfolio and expand our production capacities to solidify our leading position as a rail fastening systems products provider in the PRC by constructing new plant, acquiring new equipment and upgrading our existing production facilities for our different business segments. The table below sets forth our planned capital expenditures for the periods indicated:

	Six months ending December 31, 2016	Year ending December 31, 2017
	(RMB'000)	*(RMB'000)*
Purchase of property, plant and equipment	24,600	110,670
Purchase of land use right (including payment of land and related tax)	31,200	—
Purchase of intangible assets	7,364	3,156
Total	63,164	113,826

We estimate that our planned capital expenditures for the six months ending December 31, 2016 and the year ending December 31, 2017 will be RMB63.2 million and RMB113.8 million, respectively, mainly for (i) construction of new plant, (ii) purchase of new equipment and upgrade our existing production facilities, and (iii) purchase of land use rights. We anticipate that our planned capital expenditures will be financed by cashflows from operating activities, external bank loans and proceeds from the Global Offering. Please see "Business — Production Facilities and Utilization Rate — Expansion Plan" for further details. Accordingly, we expect to incur depreciation charges of RMB0.5 million and RMB9.7 million, for the years ending December 31, 2016 and 2017, respectively. Our estimated depreciation charges are calculated with reference to planned capital expenditure project schedules and estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition and other factors. As we determine the estimated lives and related depreciation/amortization charges for the property, plant and equipment and intangible assets using the straight-line method to allocate their cost to their residual values, we expect our depreciation charges to increase as we incur more capital expenditure in the purchase of property, plant and equipment and intangible assets. Please see "— Critical Accounting Policies, Judgements and Estimates — Depreciation and amortization" and "Risk Factors — Our business, financial condition and results of operations may be affected by increases in capital expenditures and depreciation or other operating expenses".

Our current plan with respect to planned capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties, including our future results of operations, economic, political and other conditions in the PRC, and relevant rules and regulations in the PRC and Hong Kong regarding debt and equity financing. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. See the section headed "Forward-Looking Statements" in this prospectus.

CONTRACTUAL AND CAPITAL COMMITMENTS

Capital commitments

We have acquisition of property, plant and equipment. The table below sets forth the total amount of our capital commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Contracted but not yet incurred	4,041	877	1,356	1,351

Operating lease commitments

We lease a number of our office properties under non-cancellable lease agreements. These leases have an average ranging from one to five years and there are no restrictions placed upon the Group upon entering into these lease agreements. The table below sets forth our total future minimum lease payments under non-cancellable operating leases as of the dates indicated.

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Within one year	2,795	3,169	1,060	1,060
In the second to fifth years, inclusive	5,672	3,836	2,120	1,270
Over five years	8,282	7,323	—	—
Total	16,749	14,328	3,180	2,330

INDEBTEDNESS

As of December 31, 2013, 2014 and 2015 and June 30 and October 31, 2016, we had total borrowings (including bank borrowings, other borrowings and current and non-current finance lease liabilities) of approximately RMB345.3 million, RMB232.0 million, RMB273.1 million, RMB307.5 million and RMB267.0 million respectively. As of December 31, 2013, 2014 and 2015 and June 30, 2016, our total bank facilities granted amounted to RMB450.0 million, RMB460.0 million, RMB515.0 million and RMB499.0 million, respectively. As of December 31, 2013, 2014 and 2015 and June 30 and October 31, 2016, our total bank borrowings was RMB265.6 million, RMB148.3 million, RMB221.8 million, RMB260.1 million and RMB267.0 million, respectively. During the Track Record Period, we had not fully utilised our bank facilities. During the Track Record Period, all of our indebtedness was denominated in RMB. As of October 31, 2016, being the latest practicable date for the purpose of our indebtedness statement, we had RMB516.0 million bank facilities granted, of which RMB248.3 million was unutilized.

The following table sets forth the components of our bank borrowings as of the dates indicated:

Bank borrowings

	As of December 31,			As of June 30,	As of October 31,
	2013	2014	2015	2016	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Non-current					
Bank borrowings – secured	—	—	—	20,000	20,000
Current					
Bank borrowings					
— bank advance for factored receivables/payables					
— secured	—	—	66,755	96,675	83,586
— unsecured	181,236	80,440	—	—	50,000
— other bank loans					
— secured	71,000	54,500	105,000	80,000	100,000
— unsecured	—	—	50,000	50,000	—
— entrusted loan					
— unsecured	13,400	13,400	—	13,400	13,400
Subtotal	265,636	148,340	221,755	240,075	246,986
Total borrowings	265,636	148,340	221,755	260,075	266,986

	As of December 31,			As of June 30,	As of October 31,
	2013	2014	2015	2016	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Maturity of borrowings					
Within one year	265,636	148,340	221,755	240,075	246,986
One year to two years	—	—	—	20,000	20,000
Total borrowings	265,636	148,340	221,755	260,075	266,986
Weighted average annual interest rates					
Bank borrowings	6.28%	6.40%	5.95%	5.13%	5.10%

	As of December 31,			As of June 30,	As of October 31,
	2013	2014	2015	2016	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Currency denomination					
RMB	265,636	148,340	221,755	260,075	266,986

Our outstanding balance for bank borrowings as of December 31, 2013, 2014 and 2015 and June 30 and October 31, 2016 were approximately RMB265.6 million, RMB148.3 million, RMB221.8 million, RMB260.1 million and RMB267.0 million, respectively. During the Track Record Period, our current bank borrowings bore weighted average annual interest rates ranging from 5.13% to 6.40% per annum. Our outstanding balance for bank borrowings decreased as of December 31, 2014 primarily because we used a portion of cash generated from operating activities to repay a substantial portion of our bank borrowings in 2014. Our increase in outstanding balance for bank borrowings as of December 31, 2015 and June 30, 2016 was primarily for the purposes of supplementing the working capital of our Group.

As of December 31, 2013, our secured bank loans of RMB44.5 million were secured by lease prepayment for land use rights and buildings of the Company. Our secured bank loans of RMB6.5 million were guaranteed by Zhang Haijun and secured by his personal property.

As of December 31, 2014, our secured bank loans of RMB44.5 million were secured by lease prepayment for land use rights and buildings of the Company. Our secured bank loans of RMB10.0 million were guaranteed by Zhang Haijun and secured by his personal property.

As of December 31, 2015, our secured bank loans of RMB55.0 million were (i) secured by lease prepayment for land use rights and buildings of the Company; and (ii) guaranteed by nine individuals, including five of our Shareholders and their associates. Our secured bank loans of RMB50.0 million were (i) secured by lease prepayment for land use rights and buildings of the Company; and (ii) guaranteed by Zhang Haijun. Our bank advances for factored receivables of RMB66.8 million were guaranteed by nine individuals, including five of our Shareholders and their associates.

As of June 30, 2016, our current secured bank loans of RMB35.0 million and non-current secured bank loan of RMB20.0 million were (i) secured by lease prepayment for land use rights and buildings of the Company; and (ii) guaranteed by nine individuals, including five of our Shareholders and their associates. Our current secured bank loans of RMB45.0 million were secured by lease prepayment for land use rights and buildings of the Company. Our bank advances for factored receivables of RMB96.7 million were guaranteed by nine individuals, including five of our Shareholders and their associates.

As of October 31, 2016, being the latest practicable date for the purpose of our indebtedness statement, we had outstanding bank borrowings of RMB267.0 million. Our current secured bank loans of RMB55.0 million and non-current secured bank loan of RMB20.0 million were (i) secured by lease prepayment for land use rights and buildings of the Company, and (ii) guaranteed by nine individuals, including five of our Shareholders and their associates. Our current secured bank loans of RMB45.0 million were secured by lease prepayment for land use rights and buildings of the Company. Our bank advance for factored receivables of RMB83.6 million was guaranteed by nine individuals, including five of our Shareholders and their associates.

The guarantees provided by the nine individuals will be released upon Listing.

The following table set forth the components of our other borrowings as of the dates indicated:

Other borrowings

	As of December 31,			As of June 30,	As of October 31,
	2013	2014	2015	2016	2016
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Loans from Shareholders/key managements — unsecured	50,974	66,619	—	—	—
Other private borrowings — unsecured	4,358	4,078	—	—	—
Borrowing from other third party — unsecured	—	—	47,400	47,400	—
	55,332	70,697	47,400	47,400	—

Our outstanding balance for other borrowings as of December 31, 2013, 2014 and 2015 and June 30 and October 31, 2016 were approximately RMB55.3 million, RMB70.7 million, RMB47.4 million, RMB47.4 million and nil, respectively. Our other borrowings as of December 31, 2013 and 2014 were unsecured and payable on demand with interest rate of 12.0% per annum. As of December 31, 2015 and June 30, 2016, borrowing of RMB47.4 million was obtained from an institution that provides financial services, bearing interest rate of 5.4% per annum and in connection with a pledge of term deposit of RMB50.0 million. We entered into the loan agreement (being the borrower) with the third party non-financial institution on August 3, 2015 and, as advised by our PRC Legal Advisers, at that time such financing arrangement did not comply with the Lending General Provisions (《貸款通則》) promulgated by the PBOC in 1996. Article 61 of the Lending General Provisions prohibits any financing arrangements/lending transactions between non-financial institutions. Further, pursuant to Article 73 of the Lending General Provisions, the PBOC may impose on the offending lender (not the borrower), a fine of one to five times the income the lender receives from such non-compliant loans.

Our PRC Legal Advisers further advised that, notwithstanding the Lending General Provisions, the Supreme People's Court has made new interpretations concerning financing arrangements/lending transactions between non-financial institutions in the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) ("**Judicial Interpretations on Private Lending Cases**") which came into effect on September 1, 2015. According to Article 11 of the Judicial Interpretations on Private Lending Cases, the Supreme People's Court recognises the validity and legality of financing arrangements/lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied.

The Judicial Interpretations on Private Lending Cases prevail over the relevant prohibitive rules of the Lending General Provisions, which are regulations formulated by the PBOC. On this basis, our PRC

Legal Advisers are of the opinion that our financing arrangement with the third party non-financial institution have been legal, valid and enforceable since the implementation of the Judicial Interpretations on Private Lending Cases in September 2015, and the possibility for the PBOC to impose administrative liability on us (as the borrower) in relation to the loan is remote.

We repaid all such borrowings obtained from the third party non-financial institution as of October 31, 2016.

As advised by our PRC Legal Advisers, our borrowings from the Shareholders and key management personnel and third party individuals do not violate any applicable PRC laws and regulations.

Save as disclosed in this section as of October 31, 2016, being the latest practicable date for the purpose of our indebtedness statement, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that (i) there has not been any material change in our indebtedness since June 30, 2016 and up to October 31, 2016 being the latest practicable date for us to ascertain such information prior to printing of prospectus; (ii) the bank loans, finance lease and bank facilities are subject to the standard banking conditions; (iii) our Group has not received any notice from the bank indicating that it might withdraw or downsize the bank loans and bank facility; and (iv) there was no material default in payment of our trade and non-trade payables and bank and other borrowings, and there was no material covenant under our borrowings which would have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future, during the Track Record Period. Save as disclose herein, our Directors have confirmed that we do not have any plan to raise material external debt financing as of the Latest Practicable Date.

LISTING EXPENSES

We expect to incur listing expenses (including underwriting fees) of approximately RMB60.8 million (assuming an offer price of HK$3.37 per H Share, being the mid-point of the stated range of the Offer Price between HK$3.00 and HK$3.74 per H Share). Since only the newly issued H Shares will be listed and traded on the Stock Exchange, substantially all of our listing expenses are incremental cost directly attributable to the issue of the H Shares and should be accounted for as a deduction from equity pursuant to IAS 32. Accordingly, only approximately RMB1.1 million and RMB1.5 million were recognized as administrative and general expenses for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively, and approximately RMB2.1 million is expected to be recognized as administrative and general expenses for the six months ending December 31, 2016, while the remaining listing expenses will be deducted from equity upon the Listing. Our Directors do not expect those expenses to have a material adverse impact on our financial results for the year ending December 31, 2016.

FINANCIAL RATIOS

The following table sets forth certain financial ratios of our Group for the period and as of the dates indicated:

	As of or for the year ended December 31,			As of or for the six months ended June 30,
	2013	2014	2015	2016
Current Ratio[(1)]	1.4	1.7	2.1	2.0
Quick Ratio[(2)]	1.0	1.4	1.8	1.8
Gearing Ratio[(3)]	77.7%	37.2%	32.6%	33.3%
Net Debt to Equity Ratio[(4)]	69.1%	30.1%	22.4%	11.3%
Return on Equity[(5)]	15.1%	30.3%	27.2%	34.1%
Return on Assets[(6)]	6.5%	16.0%	16.7%	19.7%
Net Profit Margin[(7)]	11.1%	22.1%	25.1%	30.1%

Notes:

(1) Current ratio equals to current assets divided by current liabilities as of the end of the period.

(2) Quick ratio equals to current assets less inventories divided by current liabilities as of the end of the period.

(3) Gearing ratio equals to total debt divided by total equity as of the end of the period. Total debt includes bank borrowings, other borrowings and current and non-current finance lease liabilities.

(4) Net debt to equity ratio equals to net debt divided by total equity as of the end of the period. Net debt includes bank borrowings, other borrowings, and current and non-current finance lease liabilities less cash and cash equivalents.

(5) Return on equity is calculated based on our net profit divided by total equity at the end of the period multiplied by 100%. The return on equity for the six months ended June 30, 2016 is calculated on an annualized basis.

(6) Return on assets is calculated based on our net profit divided by total assets at the end of the period multiplied by 100%. The return on assets for the six months ended June 30, 2016 is calculated on an annualized basis.

(7) Net profit margin is equal to our net profit divided by our total revenue for the period.

Current Ratio

Our current ratios were 1.4, 1.7 , 2.1 and 2.0 as of December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our current ratio increased from 1.4 as of December 31, 2013 to 1.7 as of December 31, 2014, primarily because of an increase in accounts receivables and a decreased in our bank borrowings. Our current ratio further increased to 2.1 as of December 31, 2015 mainly because of an increase in accounts receivables that was in line with our sales growth, a growth in our cash and cash equivalents and a decrease in our current income tax liabilities. Our currency ratio was 2.0 as of June 30, 2016.

Quick Ratio

Our quick ratios were 1.0, 1.4, 1.8 and 1.8 as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Our quick ratio increased from 1.0 as of December 31, 2013 to 1.4 and 1.8 as of December 31, 2014 and 2015, respectively, primarily because of an increase in our accounts receivables, which was in line with our business growth in 2014 and a decrease in our inventories as of December 31, 2014 and 2015, respectively. Our quick ratio was 1.8 as of June 30, 2016.

Gearing Ratio

Our gearing ratios were 77.7%, 37.2%, 32.6% and 33.3% as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Our gearing ratio decreased to 37.2% as of December 31, 2014, mainly as a result of the decrease in our total borrowings and increase in our equity which was mainly attributable to an increase in our net profit in 2014. Our gearing ratio decreased to 32.6% as of December 31, 2015, primarily because of an increase in our equity which was mainly attributable to an increase in our net profit for the year ended December 31, 2015. Our gearing ratio was 33.3% as of June 30, 2016.

Net Debt to Equity Ratio

Our net debt to equity ratios were 69.1%, 30.1%, 22.4% and 11.3% as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. As of December 31, 2014, our net debt to equity ratio decreased to 30.1% primarily because of (i) a decrease in our net debt as we repaid a substantial portion of our total borrowings in 2014 and (ii) an increase in our total equity, which in turn, was mainly attributable to an increase in our net profit in 2014. Our net debt to equity ratio further decreased to 22.4% and 11.3% as of December 31, 2015 and June 30, 2016, respectively, primarily because of an increase in our cash and cash equivalents and total equity, which in turn was mainly a result of an increase in our net profits.

Return on Equity

Our return on equity was 15.1%, 30.3%, 27.2% and 34.0% (on an annualized basis) for the year ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our return on equity increased to 30.3% for the year ended December 31, 2014 mainly as a result of our net profit growth outpacing the increase in our total equity growth in 2014. Our return on equity decreased to 27.2% for the year ended December 31, 2015 primarily because of an increase in our capital reserve in 2015 that lead to the growth of our total equity outpacing the increase in our profit in 2015. Our return on equity was 34.1% for the six months ended June 30, 2016, primarily because of increase in our profit for the six months ended June 30, 2016.

Return on Assets

Our return on assets was 6.5%, 16.0%, 16.7% and 19.6% (on an annualized basis) for the year ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our return on assets subsequently increased to 16.0% for the year ended December 31, 2014 mainly as a result of our net profit growth outpacing the increase in our total asset in 2014. Our return on assets remained stable for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our return on assets was 19.7% for the six months ended June 30, 2016, primarily because of increase in our profit for the six months ended June 30, 2016.

Net Profit Margin

Our net profit margins were 11.1%, 22.1%, 25.1% and 30.1% for the year ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our net profit margin increased for the year ended December 31, 2014 mainly as a result of an increase in the profit margin of our rail fastening systems products due to change of product mix in 2014 and a decrease in our general and administrative expenses during the same period. Our net profit margin increased to 25.1% for the year ended December 31, 2015 primarily because of an increase in the gross profit margin of our rail fastening system products due to change of product mix in 2015. Our net profit margin increased to 30.1% for the six months ended June 30, 2016 mainly as a result of (i) increase in our gross profit margin, (ii) a decrease in our statutory tax rate and (iii) a decrease in our finance costs.

RELATED PARTY TRANSACTIONS

The following table sets forth the balances with related parties as of the dates indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of goods and materials to					
— an associate, Tieke Yichen	10,504	6,256	6,448	2,788	2,486
— other related companies [(1)(2)]	1,308	—	—	—	—
— a related party, TieLong DaoCha Company Limited (TLDC) (石家莊市鐵龍道岔有限公司)[(2)]	523	38	135	116	—
Purchases of goods and materials from					
— an associate, Tieke Yichen	21,081	72,628	86,278	33,962	43,280
— a related party, TieLong DaoCha Company Limited (TLDC) (石家莊市鐵龍道岔有限公司)[(2)]	581	75	43	—	13
Sale of property, plant and equipment to					
— an associate, Tieke Yichen [(2)]	—	37,550	307	307	—
— a related party, Longji Enterprises Management Co., Ltd (石家莊市藁城區隆基企業管理有限公司) [(2)]	—	—	49,186	—	—
Interest for loans from shareholders and key management [(2)]	5,395	8,689	4,655	4,284	—
Rental income from					
— an associate, Tieke Yichen[(3)]	753	1,506	878	413	—

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Expense for renting office and other services from					
— a related party, Longji Enterprises Management Co., Ltd (石家莊市藁城區隆基企業管理有限公司)	—	—	1,678	—	1,669
— an associate, Tieke Yichen	—	79	414	—	—
Expense for renting cars from shareholders and key management (2)	1,800	1,798	1,124	900	—
Expense for renting office from a shareholder	240	258	457	216	180
Key management compensations salaries	557	590	549	256	322
Capital injection from minority shareholder	2,139	—	—	—	—
Purchase of minority interests from a shareholder	—	—	2,760	—	—

Notes:

(1) Other related companies referred to two companies that were controlled by Zhang Ligang one of the shareholder and director of Group. In March and December 2013, Zhang Ligang disposed of equity interests of the companies.

(2) Such transactions with related parties are non-recurring in nature.

(3) The relevant property was sold on July 31, 2015. Such transaction has been terminated since July 31, 2015.

Our associate, Tieke Yichen, was formerly our wholly-owned subsidiary. We incorporated Tieke Yichen, which was formerly known as Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司), in April 2012 in Gaocheng District, Shijiazhuang, the PRC with a paid-in capital of RMB9,500,000. In March 2013, Tieke Shougang and us made additional capital injection of RMB24,990,000 and RMB14,510,000, respectively, into Tieke Yichen. After the capital injection, Tieke Shougang acquired 51% and we held 49% equity interest of Tieke Yichen, respectively. Consequently, Tieke Yichen became an associate of the Company.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, we had sales of goods and materials to Tieke Yichen, of approximately RMB10.5 million, RMB6.3 million, RMB6.5 million and RMB2.5 million, respectively. Such sales primarily relate to payment of electricity expenses received from Tieke Yichen, where the electricity is used in the production process of Tieke Yichen. At the same time, as of December 31, 2013, 2014 and 2015 and June 30, 2016, we purchased goods and materials, which primarily consist of nylons and rubber, from Tieke Yichen, that amounted to RMB21.1 million, RMB72.6

million, RMB86.3 million and RMB43.3 million, respectively. For details of our purchases from Tieke Yichen, see the paragraph headed "Business — Raw Materials and Suppliers — Nylon and Rubber". The significant increase in purchases from Tieke Yichen was primarily because of (i) the increase in demand for our products, which in turn required us to purchase more nylons and rubber components from Tieke Yichen to meet such increase in demand; and (ii) the RMB21.1 million of purchases of goods and materials we made from Tieke Yichen as of December 31, 2013 only reflected purchases which we made from April 2013, after Tieke Yichen became our associate, till December 31, 2013, while the RMB72.6 million, RMB86.3 million and RMB43.3 million represents purchases we made from Tieke Yichen for the twelve-months ended December 31, 2014 and 2015 and the six months ended June 30, 2016.

Our Directors confirm that these transactions (i) were conducted on normal commercial terms and were not less favorable to us than terms available to or from Independent Third Parties and (ii) would not distort our Group's track record results or make our historical results not reflective of our future performance. For further details, please see the sections headed "Relationship with our Controlling Shareholders" and "Continuing Connected Transactions" in this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISTRIBUTABLE RESERVES

As of June 30, 2016, we had distributable reserves of approximately RMB180.6 million which is available for distribution to our equity holders.

DIVIDEND AND DIVIDEND POLICY

We may distribute dividends in amounts not less than 10% of our net profit for a financial year by way of cash or by other means that we consider appropriate. As of December 31, 2015, we had distributable reserves of approximately RMB98.5 million which was available for distribution to our equity holders. We declared a dividend of approximately RMB73.1 million in February 2016 and paid RMB28.0 million (including related withholding tax) to the then shareholders in the first half year of 2016. The remaining dividend of approximately RMB45.1 million will be paid prior to Listing. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review our dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of the prospectus, there had been no material adverse change in our financial or trading position since June 30, 2016 (being the date of which our latest audited consolidated financial statements were made up as set out in the Accountant's Report).

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of June 30, 2016 as if it had taken place on June 30, 2016.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2016 or any future date. It is prepared based on our consolidated net tangible assets as of June 30, 2016 as set out in the Accountant's Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountant's Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company(4)	Unaudited pro forma adjusted consolidated net tangible assets per share	
	(in Thousands of RMB)			*(RMB)(3)*	*(HK$)(5)*
Based on the Offer Price of HK$3.00 per share	922,660	540,672	1,463,332	1.63	1.83
Based on the Offer Price of HK$3.74 per share	922,660	682,814	1,605,474	1.79	2.01

Notes:

(1) The consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the consolidated net assets attributable to shareholders of the Company as of June 30, 2016 of RMB922,793,000 with an adjustment for the intangible assets as of June 30, 2016 of RMB133,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$3.00 and HK$3.74 per share, being the lower end and higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and based on the assumption that the Over-allotment Option will not be exercised.

(3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustments as described in note 2 above and on the basis that 897,840,000 shares are in issue, assuming the share sub-division and the Global Offering had been completed on June 30, 2016 and the Over-allotment Option had not been exercised.

(4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2016.

(5) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of RMB0.8891 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vise versa, at that rate.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Our Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Our Directors focus on minimizing potential adverse effects on our Group's financial performance.

Foreign currency risk

We have limited international sales transactions and foreign currency balance of cash and cash equivalents. Our accounts receivable was immaterial and our foreign exchange risk is not significant.

Interest rate risk

Our Group has no financial assets or financial liabilities measured at fair value. Our borrowings, including bank borrowings and other borrowings, are all fixed rates. At 31 December 2013, 2014, 2015 and 30 June 2015 and 2016, if interest rates of borrowings had increased/decreased by 5% (approximately 30 basis points) with all other variables held constant, the Group's profit after tax for the relevant periods would have decreased/increased by approximately RMB786,750, RMB993,000, RMB784,550, RMB405,750 and RMB311,950, respectively.

Credit risk

As of December 31, 2013, 2014 and 2015 and June 30, 2016, our Group's restricted cash and cash and cash equivalents are held in reputable local joint-stock commercial banks or state-owned banks, which management believes are of high credit quality. Management does not expect any losses from non-performance by these counterparties.

Our Group has no significant concentrations of credit risk. Our Group has no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Normally, our Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of accounts and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. Our Group's historical experience in collection of accounts and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial information.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

Our Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. Our Group finances its working capital requirements through a combination of internal resources and short-term bank borrowings.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, our Group has net current assets of approximately RMB200.8 million, RMB366.9 million, RMB566.8 million and RMB666.8 million, respectively. Management regularly monitors our Group's current and expected liquidity requirements to ensure that it maintains sufficient cash and cash equivalents and has available funding to meet its capital commitments and working capital requirements.

FUTURE PLANS

For a detailed description of our future plans, please refer to the paragraph headed "Business — Our Strategies" in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$688.0 million (assuming an Offer Price of HK$3.37 per H share, being the mid-point of the Offer Price range stated in this prospectus), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering, and assuming no exercise of the Over-allotment Option.

Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

- approximately HK$213.3 million, representing approximately 31% of the net proceeds from the Global Offering, will mainly be used to partially finance the expansion of our production capacity and fixed asset investments in Gaocheng, Hebei Province. Please see "Business — Our Strategies — Continue to enhance our leading position in the rail fastening system industry and capture the growing opportunities in the railway construction industry" and "Business — Production Facilities and Utilization Rate — Expansion Plan" for further details; among which, (i) 15% on the construction of a manufacturing facility and offices with a floor area of approximately 32,500 sq. meters, based on the latest plan as of the Latest Practicable Date, (ii) 16% on purchase of equipment, including various automated machines for our spring bar production and testing facilities, and on hiring of additional personnel which we believe will help increase our costs efficiency and the stability of our product quality. We believe it is essential to expand our production capacity in anticipation of the continued growth of the main market segments that we participate and as we derive a substantial portion of our revenue from participating in bids for projects that require qualified suppliers to self-produce spring bars and other core components of the rail fastening system;

- approximately HK$103.2 million, representing approximately 15% of the net proceeds from the Global Offering, will be used for R&D and testing of new products, among which, (i) 5% will be used on the establishment of a research center, (ii) 8% on the R&D of rail fastening systems for high speed rail, heavy haul rail, traditional rail and metro series, and (iii) 2% on the R&D of new products for other projects which we believe is critical in ensuring we possess advanced technology and manufacturing know-how in our industry, as well as keep offering comprehensive and competitive product lines in the various types of railway fastening systems;

- approximately HK$103.2 million, representing approximately 15% of the net proceeds from the Global Offering, will be used for general domestic and overseas acquisitions that, among others, accommodate our business strategies, complement our technologies, strengthen our manufacturing capabilities as well as enhance our product portfolio;

- approximately HK$68.8 million, representing not more than 10% of the net proceeds from the Global Offering, will be used as deposits for future project bids to support the expected increase in project bids we are expected to be involved in due to the continued expansion of the market and our planned capacity expansion;

- approximately HK$27.5 million, representing not more than 4% of the net proceeds from the Global Offering, will be used to upgrade our information systems and automated production facilities as part of our effort to modernise our business process and increase our management and administration efficiency to support our expected increase in operation scale;

- approximately HK$103.2 million, representing not more than 15% of the net proceeds from the Global Offering, will be used to purchase additional raw materials in anticipation of increase in demand for our rail fastening system products; and

- approximately HK$68.8 million, representing not more than 10% of the net proceeds from the Global Offering, will be used to supplement working capital.

If the Offer Price is fixed at HK$3.74 per H Share, being the high-end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be increased by approximately HK$79.9 million. If the Offer Price is fixed at HK$3.00 per H Share, being the low-end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be reduced by approximately HK$79.9 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional shares will be approximately HK$109.2 million (assuming an Offer Price of HK$3.37 per H Share, being the mid-point of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purpose accordingly on a pro rata basis in the event that the Over-allotment Option is exercised. If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering. To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, they will be placed in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

As of the Latest Practicable Date, we have not identified any potential acquisition targets or entered into any definitive agreement with any party to acquire any business or entity.

HONG KONG UNDERWRITERS

BOCOM International Securities Limited
Guotai Junan Securities (Hong Kong) Limited
China Everbright Securities (HK) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

We are offering the Hong Kong Public Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our H Shares in issue and to be issued, and to certain other conditions described in the Hong Kong Underwriting Agreement (including BOCOM International Securities (for itself and on behalf of the Hong Kong Underwriters) and our Company agreeing to the Offer Price), the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional in accordance with its terms and not having been terminated in accordance with its terms or otherwise.

Grounds for termination

BOCOM International Securities (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor shall be entitled by notice (orally or in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time at or prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to our Company or the Global Offering (collectively, the "Relevant Jurisdictions"); or

(ii) any change, or any development involving a prospective change (whether or not permanent), or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, investment markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions or elsewhere; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at federal or state level or other competent authority), London, the PRC, Australia, New Zealand, the European Union or any member thereof, Japan or any Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

(iv) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or

(v) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(vi) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or

(vii) any proceedings of any third party being threatened or instigated against our Company; or

(viii) any change or development involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or

(ix) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(xi) the chairman, chief executive officer or chief financial officer of our Company vacating his or her office; or

(xii) an authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(xiii) a contravention by any member of our Group of the Listing Rules or applicable laws; or

(xiv) a prohibition on our Company for whatever reason from allotting or selling the H Shares (including the H Shares to be allotted and issued by our Company pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(xvi) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the H Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange, CSRC and/or the SFC; or

(xvii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of BOCOM International Securities and the Sole Sponsor (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the H Shares in the secondary market; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of BOCOM International Securities and the Sole Sponsor:

(i) that any statement contained in any of this prospectus and the Application Forms and/or in, any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus and the Application Forms, and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the

Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and not based on reasonable assumptions; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of this prospectus or the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Sole Sponsor, the Hong Kong Underwriters or the International Underwriters); or

(iv) that a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any other member of our Group or in respect of which our Company or any other member of our Group is liable prior to its stated maturity, which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or

(v) that a petition is presented for the winding-up or liquidation of our Company or any other member of our Group or our Company or any other member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any other member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any other member of our Group or anything analogous thereto occurs in respect of our Company or any other member of our Group, which in the sole opinion of BOCOM International Securities and the Sole Sponsor, may or is likely to be material in the context of the Global Offering; or

(vi) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or

(vii) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company or any other member of our Group; or

(viii) any breach of, or any event rendering untrue or incorrect or misleading in any respect, any of the warranties of the Hong Kong Underwriting Agreement; or

(ix) approval by the Listing Committee of the listing of, and permission to deal in, the H Shares to be issued or sold (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted (not including granting of such approval subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(x) our Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(xi) that any person (other than the Sole Sponsor) has withdrawn or is likely to withdraw its consent to being named in any of this prospectus or the Application Forms or to the issue of any of this prospectus or the Application Forms.

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, except pursuant to the Global Offering and the Over-Allotment Option, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), our Company has undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the BOCOM International Securities (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable, or any interest in any of the foregoing), or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any securities of such other member of our Group, as applicable, or any interest in any of the foregoing); or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), our Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and BOCOM International Securities (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) it will not, at any time during the First Six-Month Period,

(a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or

(c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or

(d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of our Company; and

(iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company will not, at any time within six months from the Listing Date, issue any Shares or securities convertible into equity securities (whether or not of a class already issued) of our Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of Shares or our Company's securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and to our Company that, they will not and will procure that the relevant registered holder(s) will not:

(a) in the period commencing on the date by reference to which disclosure of their shareholdings is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which they are shown by this prospectus to be the beneficial owners; and

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be our Controlling Shareholders.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of their shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they will:

(a) when they pledge or charge any Shares beneficially owned by them in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when they receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of matters referred to above by any of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, among others, our Controlling Shareholders and the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers for the International Offer Shares being offered pursuant to the International Offering.

As part of the International Offering, we and the Joint Global Coordinators have entered into cornerstone investor placing agreements with a number of cornerstone investors, details of which are set out in the section headed "Our Cornerstone Investors" in this prospectus.

Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by BOCOM International Securities on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 33,669,000 additional H Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Company agrees to pay BOCOM International Securities (on behalf of the Underwriters) an underwriting commission at the rate of 2.75% of the aggregate Offer Price payable for the Offer Shares (including the H Shares to be issued pursuant to the Over-allotment Option). In addition, the Sole Sponsor will receive a sponsor fee in the amount of HK$4.9 million. Furthermore, our Company agrees at our discretion to pay to BOCOM International Securities an incentive fee of up to 1.00% of the aggregate Offer Price payable for the Offer Shares.

The underwriting commissions, incentive fee, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and other professional fees, and printing and other expenses in relation to the Global Offering are estimated to amount to approximately HK$68.4 million in total (based on the Offer Price of HK$3.37 per H Share, being the mid-point of the indicative Offer Price range of HK$3.00 to HK$3.74 per H Share and assuming the Over-allotment Option is not exercised), and are payable by our Company.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Joint Global Coordinators and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the subsection headed "— Underwriting Arrangements and Expenses" in this section for further information.

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

MINIMUM PUBLIC FLOAT

Our Directors and our Company will ensure that there will be a minimum 25% of the total issued H Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

SOLE SPONSOR'S INDEPENDENCE

BOCOM International (Asia) Limited is considered to be an independent sponsor pursuant to Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members of their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 22,446,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described under the paragraph headed "— The Hong Kong Public Offering" in this section below; and

- the International Offering of 202,014,000 H Shares (subject to adjustment as mentioned below) outside the United States in reliance on Regulation S of the Securities Act as described under the paragraph headed "— The International Offering" in this section below.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the Securities Act.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to adjustment as described in the paragraph headed "— Pricing and Allocation" in this section.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK$3.74 per Offer Share and is expected to be not less than HK$3.00 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK$3.74 per Hong Kong Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK$3.74, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the paragraph headed "How to Apply for Hong Kong Public Offer Shares — Refund of Application Monies" in this prospectus for further details.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around the Price Determination Date.

The Offer Price is expected to be fixed by agreement between BOCOM International Securities (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Wednesday, December 14, 2016 and in any event, no later than 12:00 noon on Monday, December 19, 2016.

If, for any reason, our Company and BOCOM International Securities (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 12:00 noon on Monday, December 19, 2016, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, BOCOM International Securities (for itself and on behalf of the Underwriters) considers it appropriate and together with the consent of our Company, the indicative Offer Price range and/or the number of Hong Kong Public Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hbyc.com.cn** notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Allocation

The H Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of BOCOM International Securities.

Allocation of the Offer Shares pursuant to the International Offering will be determined by BOCOM International Securities and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell H Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Tuesday, December 20, 2016 on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hbyc.com.cn**.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC or by applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** service, will be made available through a variety of channels as described in the subsection headed "How to Apply for Hong Kong Public Offer Shares — Publication of Results" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering (including the H Shares which may be made available or issued pursuant to the exercise of the Over-allotment Option);

- the Offer Price having been duly agreed on the Price Determination Date;

- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by us on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hbyc.com.cn** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed "How to Apply for Hong Kong Public Offer Shares — Refund of Application Monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Tuesday, December 20, 2016 but will only become valid certificates of title at 8:00 a.m. on Wednesday, December 21, 2016, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the paragraph headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for termination" in this prospectus has not been exercised.

THE HONG KONG PUBLIC OFFERING

Number of H Shares initially offered

Our Company is initially offering 22,446,000 H Shares at the Offer Price, representing 10% of the Offer Shares initially available under the Global Offering. Subject to adjustment as mentioned below, the number of H Shares offered under the Hong Kong Public Offering will represent approximately 2.5% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed "— Conditions of the Global Offering" in this section.

Allocation

For allocation purposes only, the Hong Kong Public Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 11,223,000 Hong Kong Public Offer Shares and Pool B will comprise 11,223,000 Hong Kong Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 11,223,000 Hong Kong Public Offer Shares (being 50% of the initial number of Hong Kong Public Offer Shares).

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 67,338,000, 89,784,000 and 112,230,000 H Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as BOCOM International Securities deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B equally.

If the Hong Kong Public Offer Shares are not fully subscribed, BOCOM International Securities has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as BOCOM International Securities deems appropriate. In addition, BOCOM International Securities may reallocate International Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of BOCOM International Securities.

Applications

BOCOM International Securities (for ifself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to BOCOM International Securities so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The number of the Offer Shares to be initially offered for subscription by our Company under the International Offering will be 202,014,000 H Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the Shares with institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S of the Securities Act. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "— Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its International Offer Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by BOCOM International Securities on behalf of the International Underwriters at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to all of up to 33,669,000 H Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

STABILIZATION AND OVER-ALLOTMENT

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Guotai Junan Securities, as Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of H Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Offer Shares that may be over-allocated will not exceed the number of Offer Shares that may be sold under the Over-allotment Option, namely, 33,669,000 H Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the Offer Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Offer Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Offer Shares pursuant to the Over- allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Offer Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares; (v) selling or agreeing to sell any Offer Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Stabilizing action by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Specifically, prospective applicants for and investors in the H Shares should note that:

- Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the H Shares;

- there is no certainty regarding the extent to which and the time period for which Stabilizing Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by Stabilizing Manager may have an adverse impact on the market price of the H Shares;

- no stabilizing action can be taken to support the price of the H Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last business day immediately before the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;

- the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by taking of any stabilizing action; and

- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, Stabilizing Manager may over-allocate up to and not more than an aggregate of 33,669,000 additional H Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, December 21, 2016, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, December 21, 2016. The H Shares will be traded in board lots of 1,000 H Shares each and the stock code of our Company is 1596.

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, BOCOM International Securities and the Sole Sponsor, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, BOCOM International Securities and the Sole Sponsor may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, December 9, 2016 until 12:00 noon on Wednesday, December 14, 2016 from:

(i) any of the following addresses of the Hong Kong Underwriters:

	Address
BOCOM International Securities Limited	9th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong
Guotai Junan Securities (Hong Kong) Limited	27/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong
China Everbright Securities (HK) Limited	24th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong

(ii) any of the branches of the following receiving banks:

(a) Bank of Communications Co., Ltd. Hong Kong Branch

	Branch Name	**Address**
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Chai Wan Sub-Branch	G/F., 121–121A Wan Tsui Road, Chai Wan Cinema Building, Chai Wan
Kowloon	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Lam Tin Sub-Branch	Shop No.5 & 9, G/F., Kai Tin Towers, 51–67C Kai Tin Road, Lam Tin
New Territories	Tai Po Sub-Branch	Shop No.1, 2, 26 & 27, G/F., Wing Fai Plaza, 29–35 Ting Kok Road, Tai Po
	Fanling Sub-Branch	Shop No. 84A–84B, G/F., Flora Plaza, Fanling

(b) Standard Chartered Bank (Hong Kong) Limited

	Branch Name	**Address**
Hong Kong Island	Causeway Bay Branch	G/F to 2/F, Yee Wah Mansion, 38–40A Yee Wo Street, Causeway Bay
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No.6–12 Nam Ning Street, Aberdeen
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King’s Road, Quarry Bay
Kowloon	Telford Gardens Branch	Shop P9–12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, December 9, 2016 until 12:00 noon on Wednesday, December 14, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — Yichen Industrial Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving banks listed above, at the following times:

Friday, December 9, 2016	**—**	**9:00 a.m. to 5:00 p.m.**
Saturday, December 10, 2016	**—**	**9:00 a.m. to 1:00 p.m.**
Monday, December 12, 2016	**—**	**9:00 a.m. to 5:00 p.m.**
Tuesday, December 13, 2016	**—**	**9:00 a.m. to 5:00 p.m.**
Wednesday, December 14, 2016	**—**	**9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, December 14, 2016, the last application day or such later time as described in the subsection headed "— Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) undertake to execute all relevant documents and instruct and authorize our Company and/or BOCOM International Securities (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or our agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "Personal Collection" section in this prospectus to collect the H Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and BOCOM International Securities will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person;

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent;

(xx) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by you to have agreed with each Shareholder) to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association of our Company;

(xxi) agree with our Company, for itself and for the benefit of each Shareholder and each Director, Supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company, with each Shareholder);

(a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;

(b) that any award made in such arbitration shall be final and conclusive; and

(c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

(xxii) agree with our Company (for our Company itself and for the benefit of each Shareholder) that H shares in our Company are freely transferable by their holders; and

(xxiii) authorise our Company to enter into a contract on its behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria in the subsection headed "— Who can apply" in this section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, December 9, 2016 until 11:30 a.m. on Wednesday, December 14, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, December 14, 2016 or such later time under the "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the **White Form eIPO** Service Provider, will contribute HK$2.00 per each "Hebei Yichen Industrial Group Corporation Limited" **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of the "Source of Dong Jiang — Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System at **https://ip.ccass.com** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, BOCOM International Securities and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that our Company, our Directors and BOCOM International Securities will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the

Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each Shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association of our Company;

- agree with our Company, for itself and for the benefit of each Shareholder and each Director, Supervisor, manager and other senior officer of our Company (and so that our

Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**);

(a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;

(b) that any award made in such arbitration shall be final and conclusive; and

(c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with our Company (for our Company itself and for the benefit of each Shareholder) that H shares in our Company are freely transferable by their holders; and
- authorise our Company to enter into a contract on its behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number of 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, December 9, 2016	**—**	**9:00 a.m. to 8:30 p.m.[(1)]**
Saturday, December 10, 2016	**—**	**8:00 a.m. to 1:00 p.m.[(1)]**
Monday, December 12, 2016	**—**	**8:00 a.m. to 8:30 p.m.[(1)]**
Tuesday, December 13, 2016	**—**	**8:00 a.m. to 8:30 p.m.[(1)]**
Wednesday, December 14, 2016	**—**	**8:00 a.m.[(1)] to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, December 9, 2016 until 12:00 noon on Wednesday, December 14, 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, December 14, 2016, the last application day or such later time as described in the subsection headed "— Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Sole

Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, December 14, 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Global Offering — Pricing and Allocation".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, December 14, 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, December 14, 2016 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Tuesday, December 20, 2016 on our Company's website at **www.hbyc.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.hbyc.com.cn** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, December 20, 2016;

- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, December 20, 2016 to 12:00 midnight on Monday, December 26, 2016;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, December 20, 2016 to Friday, December 23, 2016;

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, December 20, 2016 to Thursday, December 22, 2016 at all the receiving bank's designated branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, BOCOM International Securities and the Sole Sponsor, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or BOCOM International Securities and the Sole Sponsor believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$3.74 per H Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, December 20, 2016.

14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per H Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Tuesday, December 20, 2016. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Wednesday, December 21, 2016 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from our H Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 20, 2016 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, December 20, 2016, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, December 20, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, December 20, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 20, 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from our H Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 20, 2016, or such other date as notified by our Company as the date of despatch/collection of H Share certificates/ e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, December 20, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) IF YOU APPLY VIA ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, December 20, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, December 20, 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 20, 2016 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, December 20, 2016. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, December 20, 2016.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

9 December 2016

The Directors
Hebei Yichen Industrial Group Corporation Limited

BOCOM International (Asia) Limited

Dear Sirs,

We report on the financial information of Hebei Yichen Industrial Group Corporation Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 December 2013, 2014, 2015 and 30 June 2016, the statements of financial position of the Company as at 31 December 2013, 2014, 2015 and 30 June 2016 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2013, 2014, 2015 and the six months ended at 30 June 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 9 December 2016 (the "Prospectus") in connection with the initial listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the People's Republic of China (the "PRC") on 9 April 2001 and was transformed into a joint stock company on 26 November 2015 with limited liability under the Company Laws of the PRC with registered capital of RMB336,690,000.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries and associate as set out in Note 1.1 of Section II below. All of these companies have substantially the same characteristics as a Hong Kong incorporated private company.

The financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises of the PRC as at and for each of the years ended 31 December 2013, 2014 and 2015 were audited by Shijiazhuang Wuzhou CPA (石家莊五洲會計師事務所). The statutory audited financial statements of the other companies comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC. The details of the statutory auditors of these companies are set out in Note 1.1 of Section II below.

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For the purpose of this report, the directors of the Company has prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing (the "ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the Group's results and cash flows for the Relevant Periods.

Review of Stub Period Comparative Financial Information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of section II below.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016 and for each of the years then ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 (the "Financial Information").

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	Note	2013	2014	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	202,286	169,165	117,046	112,315
Lease prepayment for land use rights	7	11,568	11,311	97,811	96,813
Intangible assets	8	282	260	177	133
Investments in an associate	10	26,355	32,525	40,113	42,858
Deferred income tax assets	11	13,871	18,677	14,670	16,664
Other receivables and prepayments Non-current portion	15(b)	9,269	35,113	8,469	13,470
		263,631	267,051	278,286	282,253
Current assets					
Inventories	12	172,859	165,679	137,459	120,226
Accounts receivable	13	500,037	636,711	753,375	883,569
Advances to suppliers	14	11,695	4,446	12,196	9,039
Other receivables and prepayments Current portion	15(a)	7,834	10,186	21,242	27,153
Restricted cash	16	36,948	48,619	78,746	72,912
Cash and cash equivalents	17	38,062	44,146	85,541	202,757
		767,435	909,787	1,088,559	1,315,656
Total assets		1,031,066	1,176,838	1,366,845	1,597,909

	Note	As at 31 December			As at 30 June
		2013	2014	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Capital and reserves attributable to equity holders					
Capital	18	84,570	84,570	336,690	336,690
Other reserves		35,085	42,285	396,720	396,720
Retained earnings		322,570	493,780	105,294	189,383
		442,225	620,635	838,704	922,793
Non-controlling interests		2,374	2,818	—	—
Total equity		444,599	623,453	838,704	922,793
LIABILITIES					
Non-current liabilities					
Bank borrowings	20(a)	—	—	—	20,000
Finance lease liabilities	6 (b)	12,987	3,884	—	—
Deferred income from government grants	21	6,804	6,571	6,338	6,222
		19,791	10,455	6,338	26,222
Current liabilities					
Accounts payable	22	163,171	178,007	189,076	264,648
Advances from customers		9,314	2,396	4,550	4,628
Other payables and accruals	23	44,746	81,164	54,771	46,283
Current income tax liabilities		17,103	53,223	351	798
Bank borrowings	20(a)	265,636	148,340	221,755	240,075
Other borrowings	20(b)	55,332	70,697	47,400	47,400
Dividends payable	31	—	—	—	45,062
Finance lease liabilities	6 (b)	11,374	9,103	3,900	—
		566,676	542,930	521,803	648,894
Total liabilities		586,467	553,385	528,141	675,116
Total equity and liabilities		1,031,066	1,176,838	1,366,845	1,597,909

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	Note	2013	2014	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	202,286	168,295	116,229	111,539
Lease prepayment for land use rights	7	11,568	11,311	97,811	96,813
Intangible assets	8	282	260	177	133
Investments in subsidiaries	1.1, 9	21,961	21,961	24,721	24,721
Investments in an associate	10	26,355	32,525	40,113	42,858
Deferred income tax assets	11	13,871	18,677	14,670	16,639
Other receivables and prepayments Non-current portion	15(b)	9,269	35,113	8,469	13,470
		285,592	288,142	302,190	306,173
Current assets					
Inventories	12	172,859	165,679	137,459	119,105
Accounts receivable	13	500,037	636,571	753,359	882,207
Advances to suppliers	14	11,695	4,446	11,496	6,386
Other receivables and prepayments Current Portion	15(a)	7,834	10,186	21,242	27,105
Restricted cash	16	36,948	48,619	78,746	72,912
Cash and cash equivalents	17	30,375	19,897	72,823	176,394
		759,748	885,398	1,075,125	1,284,109
Total assets		1,045,340	1,173,540	1,377,315	1,590,282
EQUITY					
Capital and reserves attributable to equity holders					
Capital	18	84,570	84,570	336,690	336,690
Other reserves	19	35,085	42,285	396,720	396,720
Retained earnings	19	320,818	488,698	98,456	180,610
Total equity		440,473	615,553	831,866	914,020

	Note	As at 31 December			As at 30 June
		2013	2014	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Bank borrowings	20(a)	—	—	—	20,000
Finance lease liabilities	6 (b)	12,987	3,884	—	—
Deferred income from government grants	21	6,804	6,571	6,338	6,222
		19,791	10,455	6,338	26,222
Current liabilities					
Accounts payable	22	181,490	183,032	206,873	265,790
Advances from customers		9,314	2,396	4,484	4,612
Other payables and accruals	23	45,044	80,861	54,699	47,101
Current income tax liabilities		16,886	53,103	—	—
Bank borrowings	20(a)	265,636	148,340	221,755	240,075
Other borrowings	20(b)	55,332	70,697	47,400	47,400
Dividends payable	31	—	—	—	45,062
Finance lease liabilities	6 (b)	11,374	9,103	3,900	—
		585,076	547,532	539,111	650,040
Total liabilities		604,867	557,987	545,449	676,262
Total equity and liabilities		1,045,340	1,173,540	1,377,315	1,590,282

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December			For the six months ended 30 June	
		2013	2014	2015	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	5	609,318	854,777	907,049	437,699	521,949
Cost of sales	25	(409,933)	(500,437)	(517,079)	(244,627)	(282,403)
Gross profit		199,385	354,340	389,970	193,072	239,546
Selling and distribution expenses	25	(38,722)	(41,364)	(50,525)	(22,452)	(23,812)
General and administrative expenses	25	(52,455)	(51,223)	(54,147)	(21,155)	(28,967)
Other gains, net	24	1,737	11,808	2,235	1,100	2,909
Operating profit		109,945	273,561	287,533	150,565	189,676
Finance income	27	1,323	500	1,137	698	1,165
Finance costs	27	(24,342)	(29,784)	(20,888)	(12,767)	(8,826)
Finance costs, net		(23,019)	(29,284)	(19,751)	(12,069)	(7,661)
Share of profits of an associate	10	2,345	6,170	7,588	2,440	2,745
Profit before income tax		89,271	250,447	275,370	140,936	184,760
Income tax expense	28	(21,935)	(61,593)	(47,359)	(34,702)	(27,609)
Profit for the year/period		67,336	188,854	228,011	106,234	157,151
Other comprehensive income		—	—	—	—	—
Profit and total comprehensive income for the year/period		67,336	188,854	228,011	106,234	157,151
Attributable to:						
Equity holders of the Company		67,171	188,410	228,069	106,059	157,151
Non-controlling interests		165	444	(58)	175	—
		67,336	188,854	228,011	106,234	157,151
Basic and diluted earnings per share for profit attributable to equity holders of the Company (RMB)	30	0.20	0.56	0.68	0.32	0.47

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Capital	Statutory surplus reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000 *(Note 18)*	*RMB'000* *(Note 19)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2013	84,570	27,691	272,863	385,124	—	385,124
Total comprehensive income for the year	—	—	67,171	67,171	165	67,336
Transactions with owners						
Dividends paid *(Note 31)*	—	—	(10,000)	(10,000)	—	(10,000)
Appropriation to surplus reserves	—	7,394	(7,394)	—	—	—
Disposal of interest in a subsidiary without losing control *(Note 34 (a))*	—	—	(70)	(70)	2,209	2,139
	—	7,394	(17,464)	(10,070)	2,209	(7,861)
Balance at 31 December 2013	84,570	35,085	322,570	442,225	2,374	444,599
Balance at 1 January 2014	84,570	35,085	322,570	442,225	2,374	444,599
Total comprehensive income for the year	—	—	188,410	188,410	444	188,854
Transactions with owners						
Dividends paid *(Note 31)*	—	—	(10,000)	(10,000)	—	(10,000)
Appropriation to surplus reserves	—	7,200	(7,200)	—	—	—
	—	7,200	(17,200)	(10,000)	—	(10,000)
Balance at 31 December 2014	84,570	42,285	493,780	620,635	2,818	623,453

	Attributable to equity holders of the Company						
	Capital	**Capital reserve**	**Statutory surplus reserve**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total**
	RMB'000 *(Note 18)*	*RMB'000* *(Note 19)*	*RMB'000* *(Note 19)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	84,570	—	42,285	493,780	620,635	2,818	623,453
Total comprehensive income for the period	—	—	—	228,069	228,069	(58)	228,011
Transactions with owners							
Dividends paid *(Note 31)*	—	—	—	(10,000)	(10,000)	—	(10,000)
Appropriation to statutory surplus reserves *(Note 19 (a))*	—	—	10,939	(10,939)	—	—	—
Appropriation to capital reserves due to transformation to a joint stock limited liability company *(Note 18)*	—	385,781	—	(385,781)	—	—	—
Transfer to capital due to transformation to a joint stock limited liability company *(Note 18)*	252,120	—	(42,285)	(209,835)	—	—	—
Purchase of non-controlling interests *(Note 1.1(iii), 34 (a))*	—	—	—	—	—	(2,760)	(2,760)
	252,120	385,781	(31,346)	(616,555)	(10,000)	(2,760)	(12,760)
Balance at 31 December 2015	336,690	385,781	10,939	105,294	838,704	—	838,704
Balance at 1 January 2016	336,690	385,781	10,939	105,294	838,704	—	838,704
Total comprehensive income for the period	—	—	—	157,151	157,151	—	157,151
Transactions with owners							
Dividends paid /declared *(Note 31)*	—	—	—	(73,062)	(73,062)	—	(73,062)
	—	—	—	84,089	84,089	—	84,089
Balance at 30 June 2016	336,690	385,781	10,939	189,383	922,793	—	922,793

	Attributable to equity holders of the Company					
	Capital	**Statutory surplus reserve**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total**
	RMB'000 *(Note 18)*	*RMB'000* *(Note 19)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	84,570	42,285	493,780	620,635	2,818	623,453
Total comprehensive income for the period	—	—	106,059	106,059	175	106,234
Transactions with owners						
Dividends paid *(Note 31)*	—	—	(10,000)	(10,000)	—	(10,000)
	—	—	96,059	96,059	175	96,234
Balance at 30 June 2015 (unaudited)	84,570	42,285	589,839	716,694	2,993	719,687

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the year ended 31 December			For the six months ended 30 June	
		2013	2014	2015	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from operating activities						
Cash (used in) /generated from operations	32(a)	(24,130)	180,135	222,772	84,310	157,382
Interest paid		(19,839)	(22,011)	(27,675)	(13,839)	(7,331)
Interest received		1,323	500	989	698	658
Income tax paid		(26,861)	(28,071)	(99,027)	(26,592)	(27,194)
Net cash (used in) /generated from operating activities		(69,507)	130,553	97,059	44,577	123,515
Cash flows from investing activities						
Purchase of property, plant and equipment		(28,106)	(14,319)	(16,065)	(10,528)	(3,996)
Purchase of intangible assets		(54)	(116)	(42)	(17)	(35)
Payments for acquisition of land use right		(3,608)	(19,935)	(68,293)	(520)	(4,885)
Net cash outflow in disposal of a subsidiary	1.1(i)	(9,500)	—	—	—	—
Capital injection on investment of an associate	1.1(i)	(14,510)	—	—	—	—
Proceeds from disposals of property, plant and equipment	32(b)	—	37,550	49,186	307	65
Increase of term deposits with initial term of over three months		—	—	(50,000)	—	—
Net cash (used in)/generated from investing activities		(55,778)	3,180	(85,214)	(10,758)	(8,851)
Cash flows from financing activities						
Listing cost paid		—	—	(7,450)	—	(5,636)
Proceeds from bank borrowings		420,808	358,970	330,355	207,100	226,136
Proceeds from other borrowings		23,700	15,650	48,350	950	—
Repayments of bank borrowings		(386,374)	(476,266)	(256,940)	(140,722)	(187,816)
Repayments of other borrowings		(8,590)	(3,520)	(62,439)	(20)	—
Dividends and related withholding tax paid		(10,000)	(10,000)	(10,000)	(10,000)	(28,000)
Proceeds from a sale and leaseback	6 (b)	28,570	—	—	—	—
Payments of financing lease fee		(8,002)	(12,537)	(9,566)	(5,264)	(2,132)
Proceeds from disposal of interest in a subsidiary without losing control	34 (a)	2,139	—	—	—	—
Increase of interest in a subsidiary	1.1(iii), 34 (a)	—	—	(2,760)	—	—
Net cash generated from/(used in) financing activities		62,251	(127,703)	29,550	52,044	2,552
Net (decrease) /increase in cash and cash equivalents		(63,034)	6,030	41,395	85,863	117,216
Cash and cash equivalents at 1 January		101,210	38,062	44,146	44,146	85,541
Exchange (losses)/gains on cash and cash equivalents		(114)	54	—	—	—
Cash and cash equivalents at 31 December/30 June	17	38,062	44,146	85,541	130,009	202,757

II. NOTES ON THE FINANCIAL INFORMATION OF THE GROUP

1 GENERAL INFORMATION

Hebei Yichen Industrial Group Corporation Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 9 April 2001. The address of the Company's registered office is No.1, Yichen North Street, Gao Cheng City, Hebei Province, the PRC.

The Company, together with its subsidiaries (collectively referred to as the "Group"), principally engaged in manufacturing and sale of rail fastening system products and welding materials.

In preparation for the listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Company was transformed into a joint stock company on 26 November 2015. The equity interest of the Company was transformed into share capital of RMB336,690,000 by issuance of 336,690,000 shares of RMB1 each to the existing shareholders of the Company pro rata based on their previous capital contribution to the Company.

Pursuant to a shareholders' resolution on 30 November 2015, these 336,690,000 shares shall be further sub-divided into 673,380,000 shares of RMB0.5 each. The sub-division will be completed upon the Listing.

1.1 List of the Group's subsidiaries and associate

During each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016,the Company has direct equity interests in the following major subsidiaries and associate:

Company name	Place and date of establishment/ incorporation	Paid-up capital	Attributable equity interest of the Group				Principal activities	Statutory auditor
			at 31 December			At 30 June		
			2013	2014	2015	2016		
Subsidiaries								
Directly held:								
Shijiazhuang City Gaocheng District Yichen Railway Engineering Equipment Co., Ltd (iii) 石家莊市藁城區翼辰鐵路工務器材有限公司	The PRC 31 March 1994	18,150	88.21%	88.21%	100%	100%	Trading of scrap steel	Shijiazhuang Wuzhou CPA

Company name	Place and date of establishment/ incorporation	Paid-up capital	Attributable equity interest of the Group				Principal activities	Statutory auditor
			at 31 December			At 30 June		
			2013	2014	2015	2016		
Shijiazhuang City Gaocheng District Yichen Corporate Management Service Co., Ltd (ii) 石家莊市藁城區翼辰企業管理服務有限公司	The PRC 6 May 2011	2,950	100%	100%	100%	100%	Production and sales of engineering plastics	Shijiazhuang Wuzhou CPA
Hebei Yichen Trading Co., Ltd 河北翼辰貿易有限公司 ...	The PRC 27 September 2013	3,000	100%	100%	100%	100%	Trading of rail fastening system products and rubbers	Shijiazhuang Wuzhou CPA
Associate								
Hebei Tieke Yichen New Material Technology Co., Ltd (i) 河北鐵科翼辰新材科技有限公司	The PRC 1 April 2013	49,000	49%	49%	49%	49%	Production and sales of rubbers	Beijing Xinghua CPAs LLP

Notes:

(i) In June 2015, Hebei Tieke Yichen New Material Technology Co., Ltd. ("Tieke Yichen", 河北鐵科翼辰新材科技有限公司) was renamed from Hebei Tieke Yichen Rubber Product Co., Ltd (河北鐵科翼辰橡膠製品有限公司) and the main business did not change.

Hebei Tieke Yichen Rubber Product Co., Ltd, formerly known as Gaocheng Yichen Rubber Product Co., Ltd (藁城市翼辰橡膠製品有限公司), was incorporated in February 2012 in Gaocheng District, Shijiazhuang, the PRC and was a wholly owned subsidiary of the Company. It's paid-in capital was RMB9,500,000 in cash.

In March 2013, Beijing Tieke Shougang Railway Technical Limited Company ("Beijing Tieke", 北京鐵科首鋼軌道技術股份有限公司) and the Company made additional capital injection of RMB24,990,000 and RMB14,510,000 respectively. After the capital injection, Beijing Tieke and the Company held 51% and 49% equity interest of Tieke Yichen respectively. Consequently, Tieke Yichen became an associate of the Company. There was a loss of less than RMB10,000 arising from the deemed disposal of Tieke Yichen.

(ii) Shijiazhuang City Gaocheng District Yichen Corporate Management Service Co., Ltd (石家莊市藁城區翼辰企業管理服務有限公司), is renamed from Gaocheng Yichen Engineering Plastics Co., Ltd (藁城市翼辰工程塑料有限公司) In June 2015. After the rename, its main business scope is enterprise management, property management, and other relevant services.

(iii) In June 2015, the Group acquired approximately 11.79% equity interest in Shijiazhuang City Gaocheng District Yichen Railway Engineering Equipment Co., Ltd (石家莊市藁城區翼辰鐵路工務器材有限公司) from Mr. Zhang Ligang (張立剛) for a consideration of RMB2,760,000.

The English names of certain companies represent the best efforts by management of the Group in translating their Chinese names as they do not have official English names.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The Financial Information has been prepared under the historical cost convention.

Standards and interpretations that are effective as the end of the Relevant Periods have been adopted and applied by the Group consistently throughout the Relevant Periods.

The preparation of the Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

New standards and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group.

- IFRS 15 "Revenue from Contracts with Customers", establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 is effective for an entity's first annual financial statements under IFRS for a period beginning on or after 1 January 2018, with earlier application permitted.

  The Group does not plan to early adopt IFRS 15. The management does not expect significant impact on the financial performance and position of the Group resulted from the effectiveness of IFRS 15 for periods beginning on or after 1 January 2018.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on financial statements position for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the reporting entity adopting IFRS 15 'Revenue from contracts with customers' at the same time.

The Group is a lessee of various premise, these leases are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2.21 with the Group's future operating lease commitment, which is not reflected in the consolidated statements of financial position, set out in note 33(b). IFRS 16 provides new provisions for the accounting treatment of leases for operating lessees and generally no longer allow them to recognise leases outside of their statements of financial position. Instead almost all leases must be recognised in the form of an asset (for the right-of-use) and a lease liability (for the payment obligation). The new standard will therefore result in an increase in assets and liabilities in the statement of financial position. In the statement of comprehensive income, depreciation on the right-of-use asset and interest expense on the lease liability will be recognised instead of an operating lease expense. The Group does not plan to early adopt IFRS 16. Based on the Group's undiscounted operating lease commitment of RMB2,330,000 as at 30 June 2016, as set out in note 33(b), the management expects IFRS 16 will not have significant impact on the financial position and financial performance of the Group.

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

  The management is in the process of assessing the impact of IFRS 9. Measurement of impairment loss on accounts receivable based on an expected credit losses model requires the use of historical data as well as forward looking information and may have an impact to the Group's Financial Information. It is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review. Other than the adoption of an expected credit losses impairment model and disclosure changes, adoption of IFRS 9 is currently not expected to have a material impact on the Financial Information of the Group. The Group does not plan to early adopt IFRS 9.

- Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendment were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

  The adoption of the amendment to IFRS 10 and IAS 28 is not expected to have a material impact on the Financial Information of the Group and the Group does not plan to early adopt this amendment.

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The Group applies the acquisition method to account for business combinations except for business combinations under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Associate

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In both the Company's and Consolidated statements of financial position, investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of losses of associates" in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, which are the executive directors in the Company's Board of Directors. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the ''functional currency''). The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the "other gains — net" section of statement of comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values overall their estimated useful lives as follows:

Buildings	10-20 years
Machinery	5-10 years
Vehicles	5 years
Electronic and communication equipment	3-5 years
Furniture, office equipment and others	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains, net" in the statement of comprehensive income.

2.7 Land use rights

Land use rights represent prepayment for operating leases and are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.8 Intangible assets

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 5 years.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group's financial assets primarily comprise loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise ''accounts receivable", receivables within "other receivables and prepayments", "restricted cash" and ''cash and cash equivalents'' in statements of financial position. Accounts receivable are amounts due from customers for products sold or services performed in the ordinary course of business.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are subsequently carried at amortized cost using effective interest method.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(d) Impairment of financial assets

Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

2.11 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

The Group only assumed financial liabilities classified as "other financial liabilities" during the Relevant Periods. Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the other financial liabilities using the effective interest method.

The Group's other financial liabilities mainly comprise accounts payable, bank borrowings, other borrowings, and other payables and accruals in the consolidated statements of financial position. Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Capital

Registered and paid up capital are classified as equity during the Relevant Periods. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The Company was transformed into a joint stock company on 26 November 2015 (Note 1).

2.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense and finance charges in respect of finance lease.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at statements of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax liabilities are recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by statements of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are recognised as employee benefit expense when they are due.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceilings. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2.18 Provision

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received, or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The revenue recognition policies applied by the Group for each of these activities are as follows:

(a) Products

The Group manufactures and sells rail fastening system products and welding wires to its customers. Sales of products are recognised when the significant risks and rewards of ownership of the products have been passed to the buyers and the amount of revenue can be measured reliably.

2.20 Interest income

Revenue is recognised as interest income on an accrual basis, using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The Group conducted a sales and leaseback transaction during the Relevant Period and the leaseback resulted in a finance lease. Difference between the sales proceeds and the carrying amount of the sales and leaseback assets is deferred and amortized over the lease term.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Group's directors focus on minimizing potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group has limited international sales transactions and foreign currency balance of cash and cash equivalents and accounts receivables was immaterial, foreign exchange risk is not significant.

(ii) Interest rate risk

The Group has no financial assets or financial liabilities measured at fair value and therefore was not subjected to fair value interest rate risk. The Group's borrowings, including bank borrowings and other borrowings, are all fixed rates.

At 31 December 2013, 2014, 2015 and 30 June 2015 and 2016, if interest rates of borrowings had increased/decreased by 5%(approximately 30 basis points) with all other variables held constant, the Group's profit after tax for the relevant periods would have decreased/increased by approximately RMB786,750, RMB993,000, RMB784,550, RMB405,750 and RMB311,950, respectively.

(b) Credit risk

As at 31 December 2013, 2014 and 2015 and 30 June 2016 majority of the Group's restricted cash and cash and cash equivalents are held in reputable local joint-stock commercial banks or state-owned banks, which management believes are of high credit quality. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The Group has assessed the credit quality of customers, taking into account their financial position, past experience and other factors before entering into trading arrangements. Normally, consideration for the Group's products need to be settled on delivery of the products. However, a majority of the Group's customers will liaise with the Group to defer settlement of the amounts due to the Group. The Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of accounts and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and other receivables falls within the recorded allowances. The directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial information and that the credit quality of accounts receivables and note receivables not impaired is satisfactory.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and short-term bank borrowings.

As at 31 December 2013, 2014 and 2015 and 30 June 2016 the Group has net current assets of approximately RMB200,759,000, RMB366,857,000, RMB566,756,000 and RMB666,762,000 respectively. Management regularly monitors the Group's current and expected liquidity requirements to ensure that it maintains sufficient cash and cash equivalents and has available funding to meet its capital commitments and working capital requirements.

The tables below analyse the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at statements of financial position date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Group					
At 31 December 2013					
Bank borrowings	271,588	—	—	—	271,588
Other borrowings	61,972	—	—	—	61,972
Accounts payable	163,171	—	—	—	163,171
Other payables and accruals	39,131	—	—	—	39,131
At 31 December 2014					
Bank borrowings	151,896	—	—	—	151,896
Other borrowings	79,181	—	—	—	79,181
Accounts payable	178,007	—	—	—	178,007
Other payables and accruals	67,544	—	—	—	67,544
At 31 December 2015					
Bank borrowings	225,662	—	—	—	225,662
Other borrowings	48,986	—	—	—	48,986
Accounts payable	189,076	—	—	—	189,076
Other payables and accruals	50,502	—	—	—	50,502
At 30 June 2016					
Bank borrowings	245,130	20,724	—	—	265,854
Other borrowings	47,681	—	—	—	47,681
Accounts payable	264,648	—	—	—	264,648
Other payables and accruals	42,483	—	—	—	42,483

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Company					
At 31 December 2013					
Bank borrowings	271,588	—	—	—	271,588
Other borrowings	61,972	—	—	—	61,972
Accounts payable	181,490	—	—	—	181,490
Other payables and accruals	39,447	—	—	—	39,447
At 31 December 2014					
Bank borrowings	151,896	—	—	—	151,896
Other borrowings	79,181	—	—	—	79,181
Accounts payable	183,032	—	—	—	183,032
Other payables and accruals	67,321	—	—	—	67,321
At 31 December 2015					
Bank borrowings	225,662	—	—	—	225,662
Other borrowings	48,986	—	—	—	48,986
Accounts payable	206,873	—	—	—	206,873
Other payables and accruals	50,454	—	—	—	50,454
At 30 June 2016					
Bank borrowings	245,130	20,724	—	—	265,854
Other borrowings	47,681	—	—	—	47,681
Accounts payable	265,790	—	—	—	265,790
Other payables and accruals	43,758	—	—	—	43,758

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current bank borrowings, other borrowings and current and non-current finance lease liabilities as shown in the consolidated statements of financial position) less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the consolidated statements of financial position plus net debt.

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings	345,329	232,024	273,055	307,475
Less: cash and cash equivalents *(Note 17)*	38,062	44,146	85,541	202,757
Net debt	307,267	187,878	187,514	104,718
Total equity	444,599	623,453	838,704	922,793
Total capital	751,866	811,331	1,026,218	1,027,511
Gearing ratio	41%	23%	18%	10%

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities, including cash and cash equivalents, restricted cash, accounts receivables, other receivables and prepayments, accounts payables, other payables and accruals and current borrowings, approximate their fair values. The fair value of financial liabilities and finance lease liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments / obligations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Depreciation and amortization

The Group's management determines the estimated useful lives and related depreciation/amortization charges for the property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortization charges where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment for property and equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amount to the recoverable amount in accordance with the accounting policy for impairment of property and equipment as described. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade and other receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(d) Income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. This determination requires significant judgment regarding the realizability of deferred tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker, in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's chief operating decision maker reviews internal management reports on monthly basis, at a minimum.

Management has determined the reporting segments based on these reports.

The Group considers the business from a product perspective:

- Rail fastening system products: manufacturing and sales of railway related products
- Welding material products: manufacturing and sales of welding materials

Management defines segment results based on gross profit. Segment assets and liabilities are not regularly reported to the chief operating decision maker and therefore information of reportable segment assets and liabilities is not presented. Information about reportable segments and reconciliations of reportable segment results are as follows:

For the year ended 31 December 2013	Rail fastening system products	Welding materials	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	530,292	64,961	14,065	609,318
Inter-segment revenue	—	—	—	—
Revenue from external customers	530,292	64,961	14,065	609,318
Total cost of sales	348,341	50,210	11,382	409,933
Segment gross profit	181,951	14,751	2,683	199,385
Other profit & loss disclosure:				
Depreciation and amortization	13,861	3,009	4,372	21,242
Provisions for impairment of receivables	7,902	5,005	3,128	16,035
Finance costs, net	—	—	23,019	23,019

For the year ended 31 December 2014	Rail fastening system products	Welding materials	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	771,175	73,867	9,735	854,777
Inter-segment revenue	—	—	—	—
Revenue from external customers	771,175	73,867	9,735	854,777
Total cost of sales	436,445	56,484	7,508	500,437
Segment gross profit	334,730	17,383	2,227	354,340
Other profit & loss disclosure:				
Depreciation and amortization	11,196	3,035	6,929	21,160
Provisions for impairment of receivables	10,856	2,526	503	13,885
Finance costs, net	—	—	29,284	29,284

For the year ended 31 December 2015	Rail fastening system products	Welding materials	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	828,382	71,866	6,801	907,049
Inter-segment revenue	—	—	—	—
Revenue from external customers	828,382	71,866	6,801	907,049
Total cost of sales	459,723	52,202	5,154	517,079
Segment gross profit	368,659	19,664	1,647	389,970
Other profit & loss disclosure:				
Depreciation and amortization	11,457	2,971	5,716	20,144
Provisions for impairment of receivables	7,359	6,166	740	14,265
Finance costs, net	—	—	19,751	19,751

For the six months ended 30 June 2015 (unaudited)	Rail fastening system products	Welding materials	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	394,784	39,353	3,562	437,699
Inter-segment revenue	—	—	—	—
Revenue from external customers	394,784	39,353	3,562	437,699
Total cost of sales	213,039	28,895	2,693	244,627
Segment gross profit	181,745	10,458	869	193,072
Other profit & loss disclosure:				
Depreciation and amortization	5,851	1,596	3,631	11,078
Provisions for impairment of receivables	2,353	927	480	3,760
Finance costs, net	—	—	12,069	12,069

For the six months ended 30 June 2016	**Rail fastening system products**	**Welding materials**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	486,182	33,209	2,558	521,949
Inter-segment revenue	—	—	—	—
Revenue from external customers	486,182	33,209	2,558	521,949
Total cost of sales	253,804	26,096	2,503	282,403
Segment gross profit	232,378	7,113	55	239,546
Other profit & loss disclosure:				
Depreciation and amortization	5,614	1,333	2,632	9,579
Provisions for impairment of receivables	7,122	428	308	7,858
Finance costs, net	—	—	7,661	7,661

The revenue from external parties reported to the Group's chief operating decision maker is measured in a manner consistent with that in the statement of comprehensive income. Reconciliations of segment results to profit for the years are as follows:

	For the year ended 31 December			**For the six months ended 30 June**	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Segment gross profit	199,385	354,340	389,970	193,072	239,546
Selling and distribution expenses, general and administrative expenses and finance costs, net	(114,196)	(121,871)	(124,423)	(55,676)	(60,440)
Other gains, net	1,737	11,808	2,235	1,100	2,909
Share of profits of associate, net	2,345	6,170	7,588	2,440	2,745
Profit before income tax	89,271	250,447	275,370	140,936	184,760
Income tax expense	(21,935)	(61,593)	(47,359)	(34,702)	(27,609)
Profit for the year/period	67,336	188,854	228,011	106,234	157,151

For the years ended at 31 December 2013, 2014 and 2015, and the six-months periods ended at 30 June 2015 and 30 June 2016 over 95% of the Group's revenue are generated in China.

6 PROPERTY, PLANT AND EQUIPMENT

	Group						
	Buildings	Machinery	Vehicles	Electronic and communication equipment	Furniture, office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount at 1 January 2013	73,750	109,865	138	2,127	224	8,835	194,939
Additions	2,923	12,066	3,985	1,059	3,379	4,694	28,106
Transfers upon completion	13,335	—	—	—	—	(13,335)	—
Depreciation	(4,357)	(14,986)	(558)	(794)	(64)	—	(20,759)
Net book amount at 31 December 2013	85,651	106,945	3,565	2,392	3,539	194	202,286
At 31 December 2013							
Cost	108,252	176,937	4,493	6,394	4,597	194	300,867
Accumulated depreciation	(22,601)	(69,992)	(928)	(4,002)	(1,058)	—	(98,581)
Net book amount	85,651	106,945	3,565	2,392	3,539	194	202,286
Net book amount at 1 January 2014	85,651	106,945	3,565	2,392	3,539	194	202,286
Additions	270	10,324	43	225	—	3,457	14,319
Transfers upon completion	—	(26,339)	—	(336)	—	—	(26,675)
Depreciation	(5,100)	(12,819)	(775)	(946)	(1,125)	—	(20,765)
Net book amount at 31 December 2014	80,821	78,111	2,833	1,335	2,414	3,651	169,165
At 31 December 2014							
Cost	108,522	152,614	4,536	6,031	4,597	3,651	279,951
Accumulated depreciation	(27,701)	(74,503)	(1,703)	(4,696)	(2,183)	—	(110,786)
Net book amount	80,821	78,111	2,833	1,335	2,414	3,651	169,165
Net book amount at 1 January 2015	80,821	78,111	2,833	1,335	2,414	3,651	169,165
Additions	3,803	7,397	1,792	395	12	2,666	16,065
Transfers upon completion	5,912	—	—	284	—	(6,196)	—
Disposals *(Note 34 (a)(iii))*	(40,702)	(5,832)	—	(367)	(1,666)	—	(48,567)
Depreciation	(4,374)	(12,905)	(1,013)	(651)	(674)	—	(19,617)
Net book amount at 31 December 2015	45,460	66,771	3,612	996	86	121	117,046
At 31 December 2015							
Cost	62,387	146,711	6,328	5,739	1,252	121	222,538
Accumulated depreciation	(16,927)	(79,940)	(2,716)	(4,743)	(1,166)	—	(105,492)
Net book amount	45,460	66,771	3,612	996	86	121	117,046

	Group						
	Buildings	Machinery	Vehicles	Electronic and communication equipment	Furniture, office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount at 1 January 2016	45,460	66,771	3,612	996	86	121	117,046
Additions	14	1,204	1,586	535	584	73	3,996
Transfers upon completion	73	—	—	—	—	(73)	—
Disposals	—	(201)	(24)	—	—	—	(225)
Depreciation	(1,478)	(6,017)	(642)	(294)	(71)	—	(8,502)
Net book amount at 30 June 2016	44,069	61,757	4,532	1,237	599	121	112,315
At 30 June 2016							
Cost	62,474	147,629	7,426	6,274	1,836	121	225,760
Accumulated depreciation	(18,405)	(85,872)	(2,894)	(5,037)	(1,237)	—	(113,445)
Net book amount	44,069	61,757	4,532	1,237	599	121	112,315
Net book amount at 1 January 2015	80,821	78,111	2,833	1,335	2,414	3,651	169,165
Additions	651	5,973	1,472	18	—	2,414	10,528
Transfers upon completion	5,092	—	—	—	—	(5,092)	—
Disposals *(Note 34 (a))*	—	(235)	—	—	—	—	(235)
Depreciation	(2,629)	(6,797)	(488)	(413)	(562)	—	(10,889)
Net book amount at 30 June 2015 (unaudited)	83,935	77,052	3,817	940	1,852	973	168,569
At 30 June 2015 (unaudited)							
Cost	114,265	158,333	6,008	6,048	4,597	973	290,224
Accumulated depreciation	(30,330)	(81,281)	(2,191)	(5,108)	(2,745)	—	(121,655)
Net book amount	83,935	77,052	3,817	940	1,852	973	168,569

Note:

(i) Buildings with the net book value of RMB36,287,000, RMB38,550,000, RMB34,626,000 and RMB33,559,000 were pledged as collateral under borrowing agreements at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively (Note 20).

	Company						
	Buildings	Machinery	Vehicles	Electronic and communication equipment	Furniture and office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount at 1 January 2013	73,750	108,555	138	2,127	212	8,835	193,617
Additions	2,923	13,329	3,985	1,059	3,389	4,694	29,379
Transfers upon completion	13,335	—	—	—	—	(13,335)	—
Depreciation	(4,357)	(14,939)	(558)	(794)	(62)	—	(20,710)
Net book amount at 31 December 2013	85,651	106,945	3,565	2,392	3,539	194	202,286
At 31 December 2013							
Cost	108,252	176,937	4,493	6,390	4,597	194	300,863
Accumulated depreciation	(22,601)	(69,992)	(928)	(3,998)	(1,058)	—	(98,577)
Net book amount	85,651	106,945	3,565	2,392	3,539	194	202,286
Net book amount at 1 January 2014	85,651	106,945	3,565	2,392	3,539	194	202,286
Additions	270	9,529	43	225	—	3,313	13,380
Disposals *(Note 34 (a)(ii))*	—	(26,339)	—	(336)	—	—	(26,675)
Depreciation	(5,100)	(12,750)	(775)	(946)	(1,125)	—	(20,696)
Net book amount at 31 December 2014	80,821	77,385	2,833	1,335	2,414	3,507	168,295
At 31 December 2014							
Cost	108,522	160,127	4,536	6,279	4,597	3,507	287,568
Accumulated depreciation	(27,701)	(82,742)	(1,703)	(4,944)	(2,183)	—	(119,273)
Net book amount	80,821	77,385	2,833	1,335	2,414	3,507	168,295
Net book amount at 1 January 2015	80,821	77,385	2,833	1,335	2,414	3,507	168,295
Additions	3,803	7,397	1,792	395	12	2,642	16,041
Transfers upon completion	5,744	—	—	284	—	(6,028)	—
Disposals *(Note 34 (a)(iii))*	(40,702)	(5,832)	—	(367)	(1,666)	—	(48,567)
Depreciation	(4,374)	(12,828)	(1,013)	(651)	(674)	—	(19,540)
Net book amount at 31 December 2015	45,292	66,122	3,612	996	86	121	116,229
At 31 December 2015							
Cost	62,219	145,917	6,328	5,735	1,252	121	221,572
Accumulated depreciation	(16,927)	(79,795)	(2,716)	(4,739)	(1,166)	—	(105,343)
Net book amount	45,292	66,122	3,612	996	86	121	116,229

	Company						
	Buildings	Machinery	Vehicles	Electronic and communication equipment	Furniture and office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount at 1 January 2016	45,292	66,122	3,612	996	86	121	116,229
Additions	14	1,204	1,586	535	584	73	3,996
Transfers upon completion	73	—	—	—	—	(73)	—
Disposals	—	(201)	(24)	—	—	—	(225)
Depreciation	(1,473)	(5,981)	(642)	(294)	(71)	—	(8,461)
Net book amount at 30 June 2016	43,906	61,144	4,532	1,237	599	121	111,539
At 30 June 2016							
Cost	62,306	146,835	7,426	6,270	1,836	121	224,794
Accumulated depreciation	(18,400)	(85,691)	(2,894)	(5,033)	(1,237)	—	(113,255)
Net book amount	43,906	61,144	4,532	1,237	599	121	111,539
Net book amount at 1 January 2015	80,821	77,385	2,833	1,335	2,414	3,507	168,295
Additions	651	5,973	1,472	18	—	2,390	10,504
Transfers upon completion	5,092	—	—	—	—	(5,092)	—
Disposals *(Note 34 (a))*	—	(235)	—	—	—	—	(235)
Depreciation	(2,629)	(6,760)	(488)	(413)	(562)	—	(10,852)
Net book amount at 30 June 2015 (unaudited)	83,935	76,363	3,817	940	1,852	805	167,712
At 30 June 2015 (unaudited)							
Cost	114,265	157,538	6,008	6,044	4,597	805	289,257
Accumulated depreciation	(30,330)	(81,175)	(2,191)	(5,104)	(2,745)	—	(121,545)
Net book amount	83,935	76,363	3,817	940	1,852	805	167,712

Note:

(i) Buildings with the net book value of RMB36,287,000, RMB38,550,000, RMB34,626,000 and RMB33,559,000 were pledged as collateral under borrowing agreements at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively (Note 20).

(a) Depreciation on property, plant and equipment of the Group is analysed as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of sales	15,112	15,049	14,661	7,689	6,864
General and administrative expenses	5,647	5,716	4,956	3,200	1,638
Total *(Note 25)*	20,759	20,765	19,617	10,889	8,502

(b) Machinery includes the following amounts where the group is a lessee under a finance lease:

	Group and Company				
	As at 31 December			As at 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost — capitalised finance leases	49,476	49,476	49,476	49,476	—
Accumulated depreciation	(17,108)	(21,703)	(28,009)	(24,791)	—
Net book amount	32,368	27,773	21,467	24,685	—

(i) On 25 June 2013, The Group signed a sale and leaseback agreement with Far Eastern Leasing Co., Ltd with maturity 36 months. According to the agreements, some machinery with the net book value of RMB34,707,000 was sold and lease back with consideration of RMB30,393,000, including cash received RMB28,570,000 and RMB1,823,000 as security deposit. The lease period was 36 months, the monthly payment of financial lease liability are ranging from RMB653,000 to RMB1,187,000.

After the lease period, the Group will repurchase the machinery with consideration of RMB2,000.

As 30 June 2016, the sale and leaseback agreement has been fulfilled.

At the end of the year 2013, 2014 and 2015 and 30 June 2016, the finance lease liabilities were RMB24,361,000, RMB12,987,000, RMB3,900,000 and Nil respectively. There is no contingent rent and restriction imposed by lease arrangement.

	Group and Company					
	Minimum lease payments	Present values of minimum lease payments	Minimum lease payments	Present values of minimum lease payments	Minimum lease payments	Present values of minimum lease payments
	2013	2013	2014	2014	2015	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	12,537	11,374	9,568	9,103	3,961	3,900
In the second year	9,599	9,103	3,961	3,884	—	—
In the third year	3,984	3,884	—	—	—	—
Total	26,120	24,361	13,529	12,987	3,961	3,900
Less: amount repayable within one year	(12,537)	(11,374)	(9,568)	(9,103)	(3,961)	(3,900)
Long-term portion	13,583	12,987	3,961	3,884	—	—

7 LEASE PREPAYMENT FOR LAND USE RIGHTS

	Group and Company				
	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost					
At 1 January	12,878	12,878	12,878	12,878	99,780
Additions (i)	—	—	86,902	—	—
At 31 December	12,878	12,878	99,780	12,878	99,780
Accumulated amortization					
At 1 January	(1,015)	(1,310)	(1,567)	(1,567)	(1,969)
Amortization *(Note 25)*	(295)	(257)	(402)	(129)	(998)
At 31 December	(1,310)	(1,567)	(1,969)	(1,696)	(2,967)
Net book amount	11,568	11,311	97,811	11,182	96,813

As at 30 June 2016, Lease prepayment for land use rights with net book value of RMB10,924,000, (As at 31 December 2015: RMB11,053,000; As at 31 December 2014: RMB11,311,000; as at 31 December 2013: RMB11,568,000) were pledged as securities for bank borrowings (Note 20).

The Group's and Company's land use rights are held for periods of 50 years.

Amortization on land use rights of the Group is analysed as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
General and administrative expenses	295	257	402	129	998

(i) On 13 November 2015, the Company entered into agreements with the Gaocheng Land Bureau (石家莊市藁城區國土資源局), pursuant to which the Gaocheng Land Bureau agreed to sell to the Company the land use rights of three parcels of land ("Yichen Economic Zone Lands") in Gaocheng, Hebei Province, for a term of 50 years. As at 31 December 2015, the Company has obtained the land use rights certificate and then recognised lease prepayment for land use rights of the Yichen Economic Zone Lands, with the cost of RMB86,902,000.

8 INTANGIBLE ASSETS

	Group and Company
	Computer software
	RMB'000
Net book amount at 1 January 2013	416
Additions	54
Amortization *(Note 25)*	(188)
Net book amount at 31 December 2013	282
At 31 December 2013	
Cost	470
Accumulated amortization	(188)
Net book amount	282
Net book amount at 1 January 2014	282
Additions	116
Amortization *(Note 25)*	(138)
Net book amount at 31 December 2014	260
At 31 December 2014	
Cost	586
Accumulated amortization	(326)
Net book amount	260

	Group and Company
	Computer software
	RMB'000
Net book amount at 1 January 2015	260
Additions	42
Amortization *(Note 25)*	(125)
Net book amount at 31 December 2015	177
At 31 December 2015	
Cost	628
Accumulated amortization	(451)
Net book amount	177
Net book amount at 1 January 2016	177
Additions	35
Amortization *(Note 25)*	(79)
Net book amount at 30 June 2016	133
At 30 June 2016	
Cost	663
Accumulated amortization	(530)
Net book amount	133
(Unaudited)	
Net book amount at 1 January 2015	260
Additions	17
Amortization *(Note 25)*	(60)
Net book amount at 30 June 2015	217
At 30 June 2015	
Cost	603
Accumulated amortization	(386)
Net book amount	217

Amortization of intangible assets of the Group is analysed as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
General and administrative expenses *(Note 25)*	188	138	125	60	79

9 INVESTMENTS IN SUBSIDIARIES

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investments, at cost	21,961	21,961	24,721	24,721

The details of subsidiaries of the Company were set out in Note 1.1.

10 INVESTMENTS IN ASSOCIATE

	Group and Company				
	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
At 1 January	—	26,355	32,525	32,525	40,113
Transfer from subsidiary *(Note 1.1(i))*	9,500	—	—	—	—
Additional investments *(Note 1.1(i))*	14,510	—	—	—	—
Share of profits for the year/period	2,345	6,170	7,588	2,440	2,745
At 31 December/30 June	26,355	32,525	40,113	34,965	42,858

Set out below is the associate of the group as at 30 June 2016, which, in the opinion of the directors, is material to the group. The associate as listed below is held directly by the group; the country of registration is also its principal place of business.

Nature of investment in associate as at 31 December 2013, 2014, 2015 and 30 June 2016

Name of entity	Place of business/country of incorporation	% of ownership interest	Measurement method
Tieke Yichen	China	49%	Equity

As at 30 June 2016 the carrying amount of the Group's interest was RMB42,858,000 (31 December 2015: RMB40,113,000;31 December 2014: RMB32,525,000; 31 December 2013: RMB26,355,000). Tieke Yichen is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the group's interest in the associate.

Notes:

Summarized financial information for associate:

The information below reflects the amounts presented in the financial statements of the associate after alignment with accounting policies of the Group.

(i) Summarized statements of financial position of material associate

	Tieke Yichen			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Cash and cash equivalents	5,397	8,388	15,079	11,857
Accounts receivable	31,627	13,969	3,253	20,511
Inventories	26,144	28,510	37,912	40,892
Other current assets	3,498	1,596	13,856	12,066
	66,666	52,463	70,100	85,326
Non-current assets	5,542	39,800	38,300	34,150
Current liabilities				
Other current liabilities	18,422	25,886	26,287	31,761
Non-current liabilities				
Other non-current liabilities	—	—	250	250
Net assets	53,786	66,377	81,863	87,465

Reconciliation of above summarized financial information presented to carrying amounts of the Group's share of interests in the associate:

	For the year ended 31 December			For the six months ended 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening net assets	9,500	53,786	66,377	81,863
Profit and total comprehensive income	4,786	12,591	15,486	5,602
Capital injection *(Note 1.1 (i))*	39,500	—	—	—
Closing net assets	53,786	66,377	81,863	87,465
Group's share in %	49%	49%	49%	49%
Carrying amount	26,355	32,525	40,113	42,858

(ii) Summarized statements of comprehensive income

	Tieke Yichen				
	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	53,297	164,227	171,549	71,489	73,921
Cost of sales	(43,678)	(140,421)	(141,459)	(60,239)	(58,999)
Other expenses	(3,235)	(7,656)	(8,980)	(3,954)	(7,264)
Profit before income tax	6,384	16,150	21,110	7,296	7,658
Income tax expense	(1,598)	(3,559)	(5,624)	(2,317)	(2,056)
Profit for the year/period	4,786	12,591	15,486	4,979	5,602
Other comprehensive income	—	—	—	—	—
Total comprehensive income	4,786	12,591	15,486	4,979	5,602

11 DEFERRED INCOME TAX ASSETS

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
— to be recovered after more than 12 months	11,885	15,876	12,131	13,421
— to be recovered within 12 months	1,986	2,801	2,539	3,243
	13,871	18,677	14,670	16,664

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
— to be recovered after more than 12 months	11,885	15,876	12,131	13,396
— to be recovered within 12 months	1,986	2,801	2,539	3,243
	13,871	18,677	14,670	16,639

The movement in deferred income tax assets of the Group and the Company is as follows:

	Group and Company			
Deferred income tax assets	**Provisions for impairment losses**	**Accrued expenses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	5,965	1,223	1,759	8,947
Credited to statement of comprehensive income *(Note 28)*	4,009	704	211	4,924
At 31 December 2013	9,974	1,927	1,970	13,871
Credited to statement of comprehensive income *(Note 28)*	3,471	816	519	4,806
At 31 December 2014	13,445	2,743	2,489	18,677
Credited/(charged) to statement of comprehensive income *(Note 28)*	(3,239)	(262)	(506)	(4,007)
At 31 December 2015	10,206	2,481	1,983	14,670

	Group			
Deferred income tax assets	**Provisions for impairment losses**	**Accrued expenses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	10,206	2,481	1,983	14,670
Credited/(charged) to statement of comprehensive income *(Note 28)*	1,205	820	(31)	1,994
At 30 June 2016	11,411	3,301	1,952	16,664
At 1 January 2015	13,445	2,743	2,489	18,677
Credited/(charged) to statement of comprehensive income *(Note 28)*	941	(343)	(119)	479
At 30 June 2015 (unaudited)	14,386	2,400	2,370	19,156

Deferred income tax assets	Company			
	Provisions for impairment losses	Accrued expenses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	10,206	2,481	1,983	14,670
Credited/(charged) to statement of comprehensive income *(Note 28)*	1,180	820	(31)	1,969
At 30 June 2016	11,386	3,301	1,952	16,639
At 1 January 2015	13,445	2,743	2,489	18,677
Credited/(charged) to statement of comprehensive income *(Note 28)*	941	(343)	(119)	479
At 30 June 2015 (unaudited)	14,386	2,400	2,370	19,156

12 INVENTORIES

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	28,621	31,485	15,657	23,406
Work in progress	23,661	31,827	42,672	35,783
Finished goods	120,577	102,367	79,130	61,037
	172,859	165,679	137,459	120,226

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	28,621	31,485	15,657	23,306
Work in progress	23,661	31,827	42,672	35,783
Finished goods	120,577	102,367	79,130	60,016
	172,859	165,679	137,459	119,105

The cost of inventories recognised as an expense and included in cost of sales for each of the years ended 31 December 2013, 2014 and 2015 and the six-months period ended 30 June 2015 and 30 June 2016 amounted to RMB298,760,000, RMB380,067,000, RMB401,559,000, RMB185,115,000 and RMB230,368,000, respectively.

13 ACCOUNTS RECEIVABLE

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, gross *(note (a))*	521,236	667,834	803,817	952,842
Less: provision for impairment	(36,554)	(49,935)	(63,470)	(71,020)
	484,682	617,899	740,347	881,822
Notes receivable *(note (b))*	15,355	18,812	13,028	1,747
	500,037	636,711	753,375	883,569

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, gross *(note (a))*	521,236	667,834	803,801	951,380
Less: provision for impairment	(36,554)	(49,935)	(63,470)	(70,920)
	484,682	617,899	740,331	880,460
Notes receivable *(note (b))*	15,355	18,672	13,028	1,747
	500,037	636,571	753,359	882,207

Notes:

(a) The ageing analysis of trade receivables past due but not impaired as follows:

	Group			
	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	396,453	501,504	652,560	737,310
1 to 2 years	77,618	109,674	70,339	132,746
2 to 3 years	27,138	28,104	39,696	37,799
Over 3 years	11,840	21,290	26,522	30,286
	513,049	660,572	789,116	938,141

	Company			
	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	396,483	501,504	652,543	733,607
1 to 2 years	77,618	109,674	70,339	134,986
2 to 3 years	27,138	28,104	39,696	37,799
Over 3 years	11,810	21,290	26,522	30,287
	513,049	660,572	789,100	936,679

The individually impaired receivables mainly relate to some welding products customers, which are under litigation with the Company. It was assessed that all of the receivables may not to be recovered and the Company had made full provision for these receivables. No credit terms are specified in sales contracts signed with these customers. The ageing of these impaired receivables is as follows:

	Group and Company			
	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	569	—	7,439	663
1 to 2 years	4,722	569	—	6,776
2 to 3 years	2,851	4,522	569	569
Over 3 years	45	2,171	6,693	6,693
	8,187	7,262	14,701	14,701

As at 31 December 2013, 2014, 2015 and 30 June 2016 movement on the provision for impairment of trade receivables is as follows:

	Group	Company
	RMB'000	*RMB'000*
As at 1 January 2013	23,652	23,652
Provision for impairment	12,902	12,902
As at 31 December 2013	36,554	36,554
Provision for impairment	13,381	13,381
As at 31 December 2014	49,935	49,935
Provision for impairment	13,535	13,535
As at 31 December 2015	63,470	63,470
As at 1 January 2015	49,935	49,935
Provision for impairment	3,284	3,284
As at 30 June 2015 (unaudited)	53,218	53,219
As at 1 January 2016	63,470	63,470
Provision for impairment	7,550	7,450
As at 30 June 2016	71,020	70,920

(b) Substantially all notes receivable are bank acceptance notes with average maturity periods of within six months.

(c) Substantially all accounts receivable are denominated in RMB and their carrying amounts approximate to fair values.

(d) As at 30 June 2016, the Company factored receivables of RMB128,926,000 (31 December 2015: RMB89,013,000; 31 December 2014: RMB107,865,000; 31 December 2013: RMB269,315,000) (the "Factored Receivables") to banks for cash under receivables purchase agreements. As the Company still retained the risks associated with the default and delay in payment by the customers, the financial asset derecognition conditions as stipulated in IAS 39 have not been fulfilled. Accordingly, the proceeds from the factoring of trade receivables have been accounted for as the Group's liabilities and included in "bank advances for factored receivables" in Note 20(a).

(e) The creation and release of provision for impaired receivables have been included in 'General and administrative expenses' in the statements of comprehensive income (Note 25).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

14 ADVANCES TO SUPPLIERS

In the ordinary course of business, the Group and the Company are required to make advance payments to certain suppliers according to the terms of respective agreements. The advance payments made to these parties are unsecured, non-interest bearing and will be settled or utilized in accordance with the terms of relevant agreements.

15 OTHER RECEIVABLES AND PREPAYMENTS

(a) Current portion

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits for biddings and contracts	7,681	9,689	10,648	12,073
Prepayments to intermediaries for listing	—	—	8,324	14,560
Others	3,495	4,343	6,846	5,404
	11,176	14,032	25,818	32,037
Less: provision for impairment	(3,342)	(3,846)	(4,576)	(4,884)
	7,834	10,186	21,242	27,153

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits for biddings and contracts	7,681	9,689	10,648	12,073
Prepayments to intermediaries for listing	—	—	8,324	14,560
Others	3,495	4,343	6,846	5,356
	11,176	14,032	25,818	31,989
Less: provision for impairment	(3,342)	(3,846)	(4,576)	(4,884)
	7,834	10,186	21,242	27,105

(b) Non-current Portion

	Group and Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment for acquisition of land use rights	3,608	23,543	4,934	9,819
Prepayment for equipment	2,138	6,183	2,371	2,851
Prepayment for construction	2,612	3,657	—	800
Others	911	1,730	1,164	—
	9,269	35,113	8,469	13,470

16 RESTRICTED CASH

	Group and Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged deposits *(i)*	36,948	48,619	28,746	22,912
Term deposits with initial term of over three months *(ii)*	—	—	50,000	50,000
	36,948	48,619	78,746	72,912

Notes:

(i) Pledged deposits include letters of credit, cash deposit for collateral and bank acceptance notes.

(ii) As at 30 June 2016 and 31 December 2015, term deposits with initial term of over three months of RMB50,000,000 was pledged to Minsheng Royal Fund Management Co., Ltd (民生加銀資產管理有限公司) for borrowings. The deposit interest rate is 2.5% per annum.

17 CASH AND CASH EQUIVALENTS

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	38,062	44,146	85,541	202,757

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	30,375	19,897	72,823	176,394

At 31 December 2013, 2014 and 2015 and 30 June 2016 over 95% of the Group's cash and cash equivalents and all of the Company's cash and cash equivalents are denominated in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

18 CAPITAL

	RMB'000
Registered, issued and fully paid:	
As at 31 December 2013 and 31 December 2014	84,570
Addition *(Note 19)*	252,120
At 31 December 2015	336,690
At 30 June 2016	336,690

Pursuant to shareholders' resolutions dated 17 November 2015, the then shareholders of the Company approved the conversion of the Company from a limited liability company into a joint stock limited liability company and the adoption of the Company's present name, Hebei Yichen Industrial Group Corporation Limited (河北翼辰實業集團股份有限公司). Pursuant to the founding members agreement dated 18 November 2015 entered into by all the then shareholders of the Company, the share capital of the Company immediately upon the conversion was RMB336,690,000 divided into 336,690,000 shares of RMB1 each, and all the then shareholders of the Company were allotted and issued such number of shares corresponding to the proportion of their respective equity interest in the Company prior to the conversion. The subscription price for these initial shares was based on the net asset value of the Company as at 31 July 2015. The retained earnings as at 31 July 2015 was transferred to the capital and the capital reserve respectively (Note 19).

On 30 November 2015, the then shareholders of the Company resolved that the share capital of the Company shall be further sub-divided from 336,690,000 shares of RMB1 each to 673,380,000 shares of RMB0.5 each. The sub-division will be completed upon the Listing.

19 RESERVES

Movements in reserves of the Company are set out below:

	Capital reserve	Statutory surplus reserve	Retained earnings	Total
	RMB'000	*RMB'000* *(note (a))*	*RMB'000*	*RMB'000*
At 1 January 2013	—	27,691	264,272	291,963
Profit for the year	—	—	73,940	73,940
Appropriation to statutory surplus reserve	—	7,394	(7,394)	—
Dividends paid *(Note 31)*	—	—	(10,000)	(10,000)
At 31 December 2013	—	35,085	320,818	355,903
Profit for the year	—	—	185,080	185,080
Appropriation to statutory surplus reserve	—	7,200	(7,200)	—
Dividends paid *(Note 31)*	—	—	(10,000)	(10,000)
At 31 December 2014	—	42,285	488,698	530,983
Profit for the year	—	—	226,313	226,313
Transfer to capital *(Note 18)*	—	(42,285)	(209,835)	(252,120)
Appropriation to statutory surplus reserve	—	10,939	(10,939)	—
Appropriation to capital reserve *(Note 18)*	385,781	—	(385,781)	—
Dividends paid *(Note 31)*	—	—	(10,000)	(10,000)
At 31 December 2015	385,781	10,939	98,456	495,176
Profit for the period	—	—	155,216	155,216
Appropriation to statutory surplus reserve	—	—	—	—
Dividends paid / declared	—	—	(73,062)	(73,062)
At 30 June 2016	385,781	10,939	180,610	577,330
At 1 January 2015	—	42,285	488,698	530,983
Profit for the period	—	—	104,718	104,718
Appropriation to statutory surplus reserve	—	—	—	—
Dividends paid	—	—	(10,000)	(10,000)
At 30 June 2015 (unaudited)	—	42,285	583,416	625,701

Notes:

(a) **Statutory surplus reserve**

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up capital. Such reserve can be used to reduce any losses incurred and to increase capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

As disclosed in Note 18, the retained earnings as at 31 July 2015 was transferred to the capital and the capital reserve. The statutory surplus reserve as at 31 July 2015 was transferred to capital. The statutory surplus reserve as at 31 December 2015 represents appropriation from retained earnings from 1 August to 31 December 2015.

20 BORROWINGS

(a) Bank borrowings

	Group and Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-Current				
Bank borrowings *(Note v)*	—	—	—	20,000
Current				
Bank borrowings				
— other bank loans *(Note i)*	71,000	54,500	105,000	80,000
— entrusted loan *(Note ii)*	13,400	13,400	—	13,400
— bank advance for factored receivables *(Note iii)*	181,236	80,440	66,755	96,675
— unsecured bank borrowings *(Note iv)*	—	—	50,000	50,000
	265,636	148,340	221,755	240,075
Total bank borrowings	265,636	148,340	221,755	260,075

	Group and Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	265,636	148,340	221,755	240,075
1 year to 2 years	—	—	—	20,000
Total bank borrowings	265,636	148,340	221,755	260,075
Weighted average annual interest rates				
Bank borrowings	6.28%	6.40%	5.95%	5.13%

	Group and Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Currency denomination				
RMB	265,636	148,340	221,755	260,075

Notes:

(i) As at 30 June 2016, secured bank borrowings of RMB35,000,000 (31 December 2015: RMB55,000,000) are: (1) secured by lease prepayment for land use rights and buildings of the Company; (2) guaranteed by 9 individuals, 5 of whom are the shareholders of the Company, they are Zhang Haijun, Zhang Xiaosuo, Zhang Suoqun, Zhang Xiaogeng and their respective spouses, and Zhang Junxia. As at December 2014, bank borrowings of RMB44,500,000 (31 December 2013: RMB44,500,000) are secured by lease prepayment for land use rights and buildings of the Company.

As at 30 June 2016, bank borrowing of RMB45,000,000 is secured by lease prepayment for land use rights and buildings of the Company. As at 31 December 2015, bank borrowings of RMB50,000,000 (31 December 2014: RMB Nil; 31 December 2013: 20,000,000) are guaranteed by Zhang Haijun, the chairman of the Board of the Company, and secured by lease prepayment for land use rights and buildings of the Company.

As at 30 June 2016, secured bank borrowings of RMB Nil; (31 December 2015: RMB Nil; 31 December 2014: RMB10,000,000; 31 December 2013: 6,500,000) are guaranteed by Zhang Haijun, the chairman of the Board of the Company, and secured by his personal house.

(ii) As at 30 June 2016 the Company had entrusted loan of RMB13,400,000; (31 December 2015: RMB Nil;31 December 2014: RMB13,400,000; 31 December 2013: RMB13,400,000) from Gaocheng City Lianzhou Town Management Service Station (藁城市廉州鎮經濟管理服務站) and interest rate is fixed at 7.2% with maturity of 12 months for 2013, 2014, 2015 and the interest rate is fixed at 5.22% for 2016.

(iii) As at 30 June 2016, bank advance for factored receivables of RMB96,675,000; (31 December 2015: RMB66,755,000;31 December 2014: Nil; 31 December 2013: Nil) are guaranteed by 9 individuals, 5 of whom are the shareholders of the Company, they are Zhang Haijun, Zhang Xiaosuo, Zhang Suoqun, Zhang Xiaogeng and their respective spouses, and Zhang Junxia.

(iv) As at 30 June 2016, short term bank borrowings of RMB50,000,000; (31 December 2015: RMB50,000,000;31 December 2014: Nil; 31 December 2013: Nil) were unsecured and bear interest rate of 4.85% per annum.

(v) As at 30 June 2016, secured long-term bank borrowings of RMB20,000,000; (31,December 2015: Nil; 31,December 2014: RMB Nil; 31 December 2013: RMB Nil) are: (1) secured by lease prepayment for land use rights and buildings of the Company; (2) are guaranteed by 9 individuals, 5 of whom are the shareholders of the Company. They are Zhang Haijun, Zhang Xiaosuo, Zhang Suoqun, Zhang Xiaogeng and their respective spouses, and Zhang Junxia. The interests rate is 4.75% for the six months ended 30 June 2016.

(b) Other borrowings

	Group and Company			
	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans from shareholders/ key management *(i)*	50,974	66,619	—	—
Other private borrowings *(i)*	4,358	4,078	—	—
Borrowings from other party *(ii)*	—	—	47,400	47,400
	55,332	70,697	47,400	47,400

Notes:

(i) Loans from shareholders/key management and other private borrowings include the loans from shareholders/key management and other individuals, and interests payable.

Loans from shareholders/key management and other individuals are unsecured, payable on demand with interest rate of 12% per annum (Note 34).

Up to 31 December 2015, the Group repaid all the shareholders / key management's borrowings and other private borrowings.

(ii) As at 30 June 2016, borrowings of RMB47,400,000 (31 December 2015: 47,400,000；31 December 2014: Nil；31 December 2013: Nil) were obtained from the Minsheng Royal Fund Management Co., Ltd. The interest rate on borrowings is 5.40% per annum and this borrowing is secured by a deposit receipt of RMB50,000,000 (Note 16).

21 DEFERRED INCOME FROM GOVERNMENT GRANTS

Deferred income from government grants mainly include cash subsidy from local government to compensate for purchases of land use rights.

Movements of deferred income from government grants for each of the years ended 31 December 2013, 2014 and 2015 and the period ended as 30 June 2015 and 2016 are as follows:

	Group and Company
	RMB'000
At 1 January 2013	7,037
Additions	—
Amortization	(233)
At 31 December 2013	6,804
Additions	—
Amortization	(233)
At 31 December 2014	6,571
Additions	—
Amortization	(233)
At 31 December 2015	6,338
Additions	—
Amortization	(116)
At 30 June 2016	6,222
At 1 January 2015	6,571
Additions	—
Amortization	(116)
At 30 June 2015 (unaudited)	6,455

22 ACCOUNTS PAYABLE

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables to associate and other related party	23,168	18,830	5,536	20,821
Trade payables to third-parties	115,752	114,494	169,382	212,055
Notes payable	24,251	44,683	14,158	31,772
	163,171	178,007	189,076	264,648

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables to subsidiaries	28,481	22,765	32,224	10,040
Trade payables to associate and other related party	23,168	18,830	5,536	20,821
Trade payables to third-parties	105,590	96,754	154,955	203,157
Notes payable	24,251	44,683	14,158	31,772
	181,490	183,032	206,873	265,790

Aging analysis of trade payables is as follows:

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	125,641	117,787	163,365	216,474
1 year to 2 years	7,326	9,912	6,989	12,026
2 years to 3 years	4,881	2,203	1,912	1,657
Over 3 years	1,072	3,422	2,652	2,719
	138,920	133,324	174,918	232,876

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	144,127	123,030	181,366	217,731
1 year to 2 years	7,159	9,852	6,972	12,059
2 years to 3 years	4,881	2,045	1,873	1,587
Over 3 years	1,072	3,422	2,504	2,641
	157,239	138,349	192,715	234,018

23 OTHER PAYABLES AND ACCRUALS

	Group			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and other employee benefits	5,615	13,620	4,269	3,800
Car rental fee	1,800	1,798	—	—
Royalty fee *(note (a))*	7,710	10,973	16,477	21,946
Freight	2,906	2,724	7,927	6,708
Other taxes *(note (b))*	26,415	51,781	25,794	12,110
Others	300	268	304	1,719
	44,746	81,164	54,771	46,283

	Company			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and other employee benefits	5,597	13,540	4,245	3,343
Car rental fee	1,800	1,798	—	—
Royalty fee *(note (a))*	7,710	10,973	16,477	21,946
Freight	2,906	2,724	7,927	6,708
Other taxes *(note (b))*	26,731	51,758	25,746	11,780
Others	300	68	304	3,324
	45,044	80,861	54,699	47,101

Notes:

(a) The Group signed agreements with Beijing Tieke in 2012, according to the agreements, the Group pays royalty fee to Beijing Tieke per year at 2.5% of the revenue of certain products.

(b) These include payables of value-added tax, business tax and other taxes.

24 OTHER GAINS, NET

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Amortization of deferred income *(Note 21)*	233	233	233	116	116
Income related to government grants *(Note (i))*	1,131	442	1,206	802	2,500
Gain/(loss) on disposal of property, plant and equipment *(Note 32 (b))*	—	10,875	619	72	(160)
Others	373	258	177	110	453
	1,737	11,808	2,235	1,100	2,909

Note (i): Income related to government grants respects to the cash subsidy for well-known trademark, energy conservation and emissions reduction or other subsidies from local government.

25 EXPENSE BY NATURE

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Raw materials used	400,680	370,023	389,167	205,109	205,386
Changes in finished goods and work-in-progress	(101,920)	10,044	12,392	(19,994)	24,982
Employee benefit costs *(Note 26)*	63,838	63,876	63,623	30,730	31,139
Transportation and warehouse expenses	28,496	22,755	27,361	12,220	11,543
Depreciation on property, plant and equipment *(Note 6)*	20,759	20,765	19,617	10,889	8,502
Amortization on					
— land use rights *(Note 7)*	295	257	402	129	998
— intangible assets *(Note 8)*	188	138	125	60	79
Provision for impairment of receivables	16,035	13,885	14,265	3,760	7,858
Royalty fee	2,818	9,903	10,566	3,626	5,468
Utilities	44,664	49,868	44,305	24,163	19,252
Operating lease expenses	302	258	756	221	530
Office and travel expenses	5,989	4,579	5,835	2,551	2,967
Sales tax and levies	5,292	12,418	12,751	7,380	8,362
Car rental fee	2,910	2,984	2,227	900	—
Service fees and charges	1,584	2,967	2,474	819	1,298
Product examination costs	614	1,084	1,367	878	544
Listing expenses	—	—	1,131	—	1,481
Audit fee	5	5	9	9	8
Others	8,561	7,215	13,378	4,784	4,785
Total cost of sales, selling and distribution expenses, and general and administrative expenses	501,110	593,024	621,751	288,234	335,182

26 EMPLOYEE BENEFIT COSTS

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Wages and salaries	55,551	53,472	52,202	24,931	23,406
Pension scheme and other social security costs	6,590	8,112	9,045	4,371	6,454
Others	1,697	2,292	2,376	1,428	1,279
	63,838	63,876	63,623	30,730	31,139

(a) Directors and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2013 is set out below:

	Fees	Salaries	Discretionary bonus	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Director					
Zhang Haijun (張海軍)	153	—	—	—	153
Zhang Guanjun (張冠軍)	144	—	—	—	144
Zhang Xiaogeng (張小更)	138	—	—	—	138
Wu Jinyu (吳金玉)	100	—	—	—	100
Zhang Ligang (張立剛)	137	—	—	—	137
Zhang Chao (張超)	—	52	—	—	52
Supervisor					
Zhang Xiaosuo (張小鎖)	154	—	—	—	154
Liu Yongfei (劉永廢)	102	—	—	—	102
Yang Lisong (楊力松)	32	—	—	—	32
Zhou Encheng (周恩成)	—	25	—	—	25
Liu Jiao (劉姣)	—	27	—	—	27
	960	104	—	—	1,064

The remuneration of each director and supervisor for the year ended 31 December 2014 is set out below:

	Fees	Salaries	Discretionary bonus	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Director					
Zhang Haijun (張海軍)	148	—	—	—	148
Zhang Guanjun (張冠軍)(1) ...	140	—	—	—	140
Zhang Xiaogeng (張小更)	138	—	—	—	138
Wu Jinyu (吳金玉)	121	—	—	—	121
Zhang Ligang (張立剛)	155	—	—	—	155
Zhang Chao (張超)	—	57	—	—	57
Supervisor					
Zhang Xiaosuo (張小鎖)	163	—	—	—	163
Liu Yongfei (劉永廢)(2)	65	—	—	—	65
Yang Lisong (楊力松)	36	—	—	—	36
Zhou Encheng(周恩成)	—	25	—	—	25
Liu Jiao (劉姣)	—	34	—	—	34
	966	116	—	—	1,082

Notes:

(1) Resigned in December 2014.

(2) Resigned in April 2014.

The remuneration of each director and supervisor for the year ended 31 December 2015 is set out below:

	Fees	Salaries	Discretionary bonus	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Director					
Zhang Haijun (張海軍)	171	—	—	—	171
Zhang Chao (張超)(1)	77	—	—	—	77
Fan Xiulan (樊秀蘭) (1)	68	—	—	—	68
Zhang Lihuan (張力歡) (1)	86	—	—	—	86
Wu Jinyu (吳金玉)	133	—	—	—	133
Zhang Ligang (張立剛)	150	—	—	—	150
Zhang Xiaogeng (張小更) (2) ..	—	86	—	—	86
Independent non-executive Director					
Jip Ki Chi (葉奇志)(3)	—	—	—	—	—
Wang Qi (王琦)(3)	—	—	—	—	—
Zhang Liguo (張立國)(3)	—	—	—	—	—
Supervisor					
Zhang Xiaosuo (張小鎖)	142	—	—	—	142
Zhou Encheng (周恩成)(1)	63	—	—	—	63
Liu Jiao (劉姣)(3)	56	—	—	—	56
Yang Lisong (楊力松)(2)	—	12	—	—	12
Zhou Congcong (周叢叢)(4) ...	—	14	—	—	14
	946	112	—	—	1,058

Notes:

(1) Appointed in July 2015.

(2) Resigned in July 2015.

(3) Appointed in November 2015.

(4) Appointed in July 2015 and resigned in November 2015.

The remuneration of each director and supervisor for the six months ended 30 June 2015 (unaudited) is set out below:

	Fees	Salaries	Discretionary bonus	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Director					
Zhang Haijun (張海軍)	72	—	—	—	72
Wu Jinyu (吳金玉)	56	—	—	—	56
Zhang Ligang (張立剛)	67	—	—	—	67
Zhang Xiaogeng (張小更)	68	—	—	—	68
Zhang Chaos (張超)	—	27	—	—	27
Supervisor					
Zhang Xiaosuo (張小鎖)	62	—	—	—	62
Yang Lisong (楊力松)	14	—	—	—	14
Zhou Encheng (周恩成)	—	16	—	—	16
Liu Jiao (劉姣)	—	19	—	—	19
	339	62	—	—	401

The remuneration of each director and supervisor for the six months ended 30 June 2016 is set out below:

	Fees	Salaries	Discretionary bonus	Other benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Director					
Zhang Haijun (張海軍)	153	—	—	—	153
Zhang Chao (張超)	68	—	—	—	68
Fan Xiulan (樊秀蘭)	91	—	—	—	91
Zhang Lihuan (張力歡)	61	—	—	—	61
Wu Jinyu (吳金玉)	84	—	—	—	84
Zhang Ligang (張立剛)	91	—	—	—	91
Independent non-executive Director					
Jip Ki Chi (葉奇志)	—	—	—	—	—
Wang Qi (王琦)	—	—	—	—	—
Zhang Liguo (張立國)	—	—	—	—	—
Supervisor					
Zhang Xiaosuo (張小鎖)	106	—	—	—	106
Zhou Encheng (周恩成)	59	—	—	—	59
Liu Jiao (劉姣)	35	—	—	—	35
	748	—	—	—	748

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2015 and 2016 include 3, 2, 2, 2 and 2 directors and supervisors respectively whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2, 3, 3, 3 and 3 individuals are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and allowances	472	607	631	260	283

The emoluments of the remaining individuals fell within the following bands:

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	Number of individuals			*Number of individuals*	
Emolument band (in HK dollar)					
HK$ Nil — HK$1,000,000 ...	2	3	3	3	3

27 FINANCE COSTS, NET

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance income					
Interest on bank deposits	1,323	500	1,137	698	1,165
Finance costs					
Interest expense on bank borrowings	(14,829)	(17,269)	(13,450)	(6,329)	(7,333)
Interest expense on financial lease	(861)	(1,162)	(409)	(451)	(217)
Interest expense on shareholders/key management' loans *(Note 20(b))*	(5,395)	(8,689)	(4,655)	(4,284)	—
Interest expense on other private loans	(753)	(524)	(363)	(216)	—
Bank charges and others	(2,504)	(2,140)	(2,011)	(1,487)	(1,276)
	(24,342)	(29,784)	(20,888)	(12,767)	(8,826)
Finance costs, net	(23,019)	(29,284)	(19,751)	(12,069)	(7,661)

28 INCOME TAX EXPENSE

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current income tax	26,859	66,399	43,352	35,181	29,603
Deferred income tax *(Note 11)*	(4,924)	(4,806)	4,007	(479)	(1,994)
	21,935	61,593	47,359	34,702	27,609

Provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% for each of the years ended 2013, 2014 and for the six months ended 30 June and 15% for the year 2015 and the six months ended 30 June 2016 on the assessable income of respective Group entities in accordance with relevant PRC enterprise income tax rules and regulations.

As at 29 September 2015, the Company was certified as "High Tech. Enterprise" of Hebei province (河北省高新技術企業), valid for three years (from year 2015 to year 2017), and as at 29 February 2016, the Company has completed the preferential income tax filling, thus, during the three years, the Company can enjoy the preferential income tax rate of 15%.

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory income tax rate in the PRC is as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before income tax	89,271	250,447	275,370	140,936	184,760
Tax calculated at the statutory tax rate (2013, 2014 and for the six months ended 30 June 2015: 25%, 2015 and for the six months ended 30 June 2016: 15%)	22,318	62,612	41,306	35,234	27,714
Income not subject to tax	(586)	(1,543)	(1,138)	(610)	(412)
Expenses not deductible for tax purposes	203	524	151	78	40
Re-measurement of deferred tax — change in the Company's tax rate	—	—	6,814	—	—
Others	—	—	226	—	267
Tax charge	21,935	61,593	47,359	34,702	27,609

29 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial information of the Company to the extent of a profit of RMB73,940,000, RMB185,080,000, RMB226,313,000, RMB104,718,000 and RMB155,216,000 for each of the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016, respectively.

30 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. The basic earnings per share for each of the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2015 and 2016 are calculated based on the profit attributable to the equity holders of the Company and on the assumption that the shares issued upon the Company's transformation to a joint-stock company on 26 November 2015 of 336,690,000 shares were issued throughout the Relevant Periods.

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit attributable to equity holders of the Company	67,171	188,410	228,069	106,059	157,151
Weighted average number of ordinary shares in issue (thousands)	336,690	336,690	336,690	336,690	336,690
Basic earnings per share (RMB per share)	0.20	0.56	0.68	0.32	0.47

During the Relevant Periods, there were no potential dilutive ordinary shares. Diluted earnings per share were equal to basic earnings per share.

The earnings per share as presented above has not taken into account the proposed share sub-division pursuant to a shareholders' resolution passed on 30 November 2015 whereby the share capital of the Company shall be sub-divided from 336,690,000 shares of RMB1 each to 673,380,000 shares of RMB0.5 each upon the Listing. The proposed share sub-division has not become effective as of the date of this report (Note 18).

31 DIVIDENDS

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Dividends paid/declared *(i)* ...	10,000	10,000	10,000	10,000	73,062

(i) On 4 February 2016, the board of directors has resolved to declare an annual dividend of RMB73,061,730 to its existing shareholders. The annual dividend has not been recognised as a liability as at 31 December 2015. During the six months period ended 30 June 2016, RMB28,000,000 (including dividends and related withholding tax) has been paid.

32 CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash (used in) /generated from operations:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before income tax	89,271	250,447	275,370	140,936	184,760
Adjustments for:					
Share of profits of associate	(2,345)	(6,170)	(7,588)	(2,440)	(2,745)
(Gain)/loss on disposal of property, plant and equipment and intangible assets *(Note (b))*	—	(10,875)	(619)	(72)	160
Depreciation on property, plant and equipment	20,759	20,765	19,617	10,889	8,502
Amortization of					
— land use rights	295	257	402	129	998
— intangible assets	188	138	125	60	79
Provision for impairment of receivables	16,035	13,885	14,265	3,760	7,858
Finance costs, net	23,019	29,284	19,751	12,069	7,661
Amortization of deferred income	(233)	(233)	(233)	(116)	(116)
	146,989	297,498	321,090	165,215	207,157
Changes in working capital:					
— increase in trade receivable	(64,669)	(150,055)	(130,199)	(137,798)	(137,744)
— (increase) /decrease in advances to suppliers, other receivables and prepayments	(5,927)	4,897	(11,212)	(13,362)	3,173
— (increase)/decrease in inventories	(105,856)	7,180	28,220	(8,825)	17,233
— increase/(decrease) in accounts payable	3,179	14,836	11,069	(20,316)	75,572
— (decrease)/increase in advance from customers, other payables and accruals	(25,315)	17,450	(16,069)	80,461	(13,843)
— decrease/(increase) in restricted cash	27,469	(11,671)	19,873	18,935	5,834
	(171,119)	(117,363)	(98,318)	(80,905)	(49,775)
Net cash (used in)/generated from operations	(24,130)	180,135	222,772	84,310	157,382

(b) Proceeds from disposals of property, plant and equipment comprise:

	For the year ended 31 December			For the six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net book amount *(Note 6)*	—	26,675	48,567	235	225
Gain/(loss) on disposals *(Note 24)*	—	10,875	619	72	(160)
Cash proceeds	—	37,550	49,186	307	65

33 COMMITMENTS

(a) Capital commitments

The Group and the Company have the following capital commitments not provided for as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively.

	Group and Company			
	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment and lease prepayments for land use rights				
— contracted but not yet incurred ..	4,041	877	1,356	1,351

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group and Company			
	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	2,795	3,169	1,060	1,060
1 to 5 years	5,672	3,836	2,120	1,270
Over 5 years	8,282	7,323	—	—
	16,749	14,328	3,180	2,330

34 RELATED PARTY TRANSACTIONS

The Company does not have any ultimate controlling party. The general information and other related information of the subsidiaries and associate is set out in Note 1.1.

During the Relevant Periods, the principal related parties (other than Tieke Yichen) that had transactions with the Group are listed below:

	Relationship with the Group
Longji Enterprises Management Co., Ltd (Longji Management) (石家莊市藁城區隆基企業管理有限公司)	Other related parties
Xingtai Runhai Railway Sleeper Co., Ltd (Xingtai Runhai) (邢臺潤海鐵路軌枕有限公司)	Other related parties
Shanxi Deyang Runhai Railway Sleeper Co., Ltd (Deyang Runhai) (山西德陽潤海鐵路軌枕有限公司)	Other related parties
TieLong DaoCha Company Limited (Tielong Daocha) (石家莊市鐵龍道岔有限公司)	Other related parties

In addition to the information disclosed elsewhere in the Financial Information, the following transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016.

(a) Significant transactions with related parties:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of goods and materials to					
— Tieke Yichen	10,504	6,256	6,448	2,788	2,486
— Xingtai Runhai and Deyang Runhai *(i)*	1,308	—	—	—	—
— Tielong Daocha *(iv)*	523	38	135	116	—
Purchases of goods and materials from					
— Tieke Yichen	21,081	72,628	86,278	33,962	43,280
— Tielong Daocha *(iv)*	581	75	43	—	13
Sale of property, plant and equipment to					
— Tieke Yichen *(ii)*	—	37,550	307	307	—
— Longji Management *(iii)*	—	—	49,186	—	—
Interest for loans from shareholders and key managements *(Note 27)*	5,395	8,689	4,655	4,284	—
Rental income from					
— Tieke Yichen	753	1,506	878	413	—
Expense for renting office and other services from					
— Longji Management	—	—	1,678	—	1,669
— Tieke Yichen	—	79	414	—	—
Expense for renting cars from shareholders and key managements	1,800	1,798	1,124	900	—
Expense for renting office from shareholder	240	258	457	216	180
Key management compensations	557	590	549	256	322
Capital injection from minority shareholder	2,139	—	—	—	—
Purchase of minority interests from a shareholder	—	—	2,760	—	—

(i) Xingtai Runhai and Deyang Runhai are two companies that were controlled by Zhang Ligang, one of the shareholders and directors of Company.

(ii) In 2014, property, plant and equipment with the net book value of RMB26,675,000 were sold to Tieke Yichen with consideration of RMB37,550,000 (excluding tax), which is based on the fair value of the disposed property, plant and equipment as at the disposal date.

(iii) In July 2015, property, plant and equipment with the net book value of RMB48,333,000 were sold to Longji Management with consideration of RMB52,658,000. Longji Management was established on 8 June 2013 under the laws of the PRC by 4 individuals. They are the spouses of Mr. Zhang Haijun (張海軍), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), respectively and Ms. Zhang Junxia (張軍霞), one of the shareholder of the Company. After the transaction, the Company entered rental and other services agreements with Longji Management on 30 November 2015.

(iv) Tielong Daocha, which was established on 18 May 2009 under the laws of the PRC, by Zhang Suoqun (張鎖群), one of the shareholders of the Company. Its scope of business includes manufacture and sale of railway turnout, railway parts, heat treatment equipment and mechanical equipment.

(b) Significant balances with related parties are listed below. Except for loans from shareholders/key management which terms are disclosed in Note 20(b), all other balances were unsecured, interest free and repayment on demand:

	As at 31 December			As at 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Accounts receivable from				
— Tieke Yichen	3,355	6,493	2,865	482
— Tielong Daocha	619	584	264	264
Liabilities				
Accounts payable to				
— Tieke Yichen	23,168	18,830	3,834	20,821
— Tielong Daocha	581	405	—	13
— Longji Management	—	—	1,702	—
Prepayment to				
— Longji Management	—	—	—	393
Loans from shareholders/ key management *(Note 20(b))*	50,974	66,619	—	—
Car rental fee payable to shareholders/key management *(Note 23)*	1,800	1,798	—	—
Office rental fee payable to one shareholder	240	—	191	180

35 SUBSEQUENT EVENTS

(a) No significant subsequent events occurred.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2016 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of Global Offering as if it had taken place on June 30, 2016 and based on the consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of June 30, 2016 or at any future date.

	Consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidate net tangible assets attributable to shareholders of the Company(4)	Unaudited pro forma adjusted consolidated net tangible assets per share	
		(in Thousands of RMB)		*(RMB)(3)*	*(HK$)(5)*
Based on the Offer Price of HK$3.00 per share	922,660	540,672	1,463,332	1.63	1.83
Based on the Offer Price of HK$3.74per share	922,660	682,814	1,605,474	1.79	2.01

Notes:

(1) The consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the consolidated net assets attributable to shareholders of the Company as of June 30, 2016 of RMB922,793,000 with an adjustment for the intangible assets as of June 30, 2016 of RMB133,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$3.00 and HK$3.74 per share, being the lower end and higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and based on the assumption that the Over-allotment Option will not be exercised.

(3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustments as described in note 2 above and on the basis that 897,840,000 shares are in issue, assuming the share sub-division and the Global Offering had been completed on June 30, 2016 and the Over-allotment Option had not been exercised.

(4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2016.

(5) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of RMB0.8891 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vise versa, at that rate.

The following is the text of a report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hebei Yichen Industrial Group Corporation Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hebei Yichen Industrial Group Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as of June 30, 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated December 9, 2016, in connection with the proposed initial public offering of the H shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in the notes on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at June 30, 2016 as if the proposed initial public offering had taken place at June 30, 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the six months ended June 30, 2016, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are solely responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at June 30, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, December 9, 2016

This appendix contains a summary of the laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

TAXATION

A. Taxation in the PRC

Taxes Applicable to Joint Stock Limited Companies

Enterprise Income Tax

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) which was enacted on March 16, 2007 and became effective on January 1, 2008, and the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), which was enacted on December 6, 2007 and became effective on January 1, 2008, a uniform income tax rate of 25% is applied towards PRC enterprises, foreign investment enterprises and foreign enterprises which have set up production and operation facilities in the PRC. The enterprise income tax on important high-tech enterprises that are necessary to be supported by the state shall be levied at the reduced tax rate of 15%.

According to Announcement on Issuing the Measures for the Handling of Matters concerning Preferential Enterprise Income Tax Policies (關於發佈《企業所得稅優惠政策事項辦理辦法》的公告), which was promulgated and became effective on November 12, 2015 by State Administration of Taxation, enterprises shall independently judge whether they are eligible for enjoying the relevant preferential tax policies. The enterprises that enjoy enterprise income tax preferences shall undergo the recordation formalities with the tax authorities in accordance with the provisions of these Measures, and properly keep and retain the materials for future reference. Where an enterprises enjoys tax reduction or exemption on a regular basis, it shall undergo the recordation formalities at the beginning year of the period for tax reduction or exemption. Where an enterprise's eligibility for enjoying the preferential policies has not changed during the period for tax reduction or exemption, it is no longer required to undergo the recordation formalities. An enterprise shall undergo the recordation formalities each year for all other preferences it enjoys.

Value-added Tax

According to the Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》) which is promulgated on December 13, 1993 and became effective on January 1, 1994 and was later amended on November 10, 2008 and was in effect since January 1, 2009 and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated on December 25, 1993 and was amended on October 28, 2011 and became effective since November 1, 2011, institutions and individuals selling goods or providing processing, repairing or replacement services or importing goods within the PRC shall pay Value-added Tax ("**VAT**"). The tax rate of 13% shall be levied on general taxpayers selling or importing grain, edible vegetable oil, tap water, heating supply, air-conditioning, hot water, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertilizer, pesticide, farming machines, films for agricultural use and other goods specified by the State Council. The rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed by the State Council. The rate of 17% shall be levied on taxpayers selling or importing goods other than the items mentioned above, and on taxpayers providing processing, repair or replacement services. The rate applicable to goods sold or taxable services provided by small-scale taxpayers is 3%. A small-scale taxpayer is defined as a taxpayer engaged in the manufacturing of goods or the supply of taxable services, or primarily dealing in the manufacturing of goods or supply of taxable services while concurrently engaged in the wholesale or retail of goods as secondary operations, and has annual taxable sales (hereinafter referred to as "taxable sales") of less than RMB0.5 million; or as a taxpayer engaged in the wholesale or retail of goods and having annual taxable sales of less than RMB0.8 million. Individuals whose annual taxable sales volumes exceeds the standards of small-scaled taxpayers shall be taxed as small-scaled taxpayers; non-enterprise organizations or enterprises without frequent occurrence of taxable acts may choose to be taxed as small-scaled taxpayers.

In addition, China has launched Business Tax to Value-added Tax Pilot Program ("**B2V**") (營改增) from 2012 and the B2V has been expanded to nationwide in 2013. Currently the VAT taxable services include but not limited to transportation, postal, telecommunication and certain modern services (e.g. R&D and technological services, information technology services, cultural innovation services, logistics services, lease of corporeal movables, attestation and consulting services, etc). The general VAT rate ranges from 6% to 17%, except as otherwise provided in the Provisional Regulations of the People's Republic of China on Value-added Tax and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax.

Business Tax

According to the Provisional Regulations of the People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and was later amended on November 10, 2008 and became effective on January 1, 2009, and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例實施細則》), which became effective on January 1, 2009 and was later amended on October 28, 2011 and became effective on November 1, 2011, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The latest amendments of the regulations and rules mentioned above supplemented the regulatory system in the following aspects:

- The withholding agent of the business tax should be: (1) the domestic agents of foreign entities or individuals, who provide taxable services, transferring intangible assets or selling real estate within the territory of the PRC but have no business institutions in the PRC; or (2) the assignee of the assets or the purchaser of the services in case there is no domestic agent.

- The column specifying the taxable services and business is deleted from the appendix of the regulations, which enables MOF and SAT to define the scope of taxable business and services.

- The preferential policies approved by the State Council before the effectiveness of the abovementioned amendments on January 1, 2009 could still be applied.

Urban Construction and Maintenance Tax

The PRC Provisional Regulations on Urban Construction and Maintenance Tax (《中華人民共和國城市維護建設稅暫行條例》) and the Notice of the State Council on Extending the Urban Construction and Maintenance Tax and Educational Surcharges from Chinese to Foreign-Invested Enterprises and Citizens (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which became effective respectively on January 1, 1985 and November 8, 2011, impose the urban construction and maintenance tax on entities and individuals based on the amount of consumption tax, value-added tax or business tax which they are required to pay at the rate of 1%, 5% or 7%, depending on the geographic location of the taxpayer.

Stamp Tax

According to the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》), which was brought into effect on October 1, 1988 and was amended on January 8, 2011, and the Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) which was in effect since October 1, 1988, institutions and individuals executing or receiving taxable documents within the PRC shall pay stamp tax. The list of taxable documents includes reselling contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents that resemble contracts in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by MOF.

Pursuant to the Provisional Regulations of People's Republic of China on Stamp Duty and the detailed rules for its implementation, the PRC stamp duty imposed on the transfer of shares of the listed companies of the PRC shall not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC. As stipulated in the regulations, PRC stamp duty shall only be imposed on documents which are executed or received within the PRC and legally binding in the PRC and protected under the PRC law.

Taxes Applicable to Shareholders of Companies

Dividend-related Tax

Individual investors

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》), which became effective on January 1, 1994 and was amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007 and June 30, 2011, and its implementation rules for the receipt of dividends paid by the PRC companies, an individual is ordinarily subject to a PRC individual income tax levied at a flat rate of 20%. For a foreign individual shareholder who is not a PRC resident, pursuant to the Circular on the Individual Income Tax Matters after the Repeal of No. Guo Shui Fa [1993] 045 Circular (No. Guo Shui Han [2011]348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) issued by SAT on June 28, 2011, the receipt of dividends on our H Shares is subject to a withholding tax ranging between 5% to 20% (usually 10%), depending on the applicable tax treaty between the PRC and the jurisdiction in which the foreign national resides. For foreign residents whose jurisdictions have not entered a tax treaty with the PRC, the tax rate on dividends is 20%.

Enterprises

Under the Enterprise Income Tax Law of the People's Republic of China and its implementation rules, non-resident enterprises having no office or premises inside the PRC or whose income has no actual connection to its office or premises inside the PRC are subject to enterprise income tax at the rate of 10% on their income derived from the PRC. Under the Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas Non-resident Enterprise Shareholders of H Shares from Chinese Resident Enterprises (No. Guo Shui Han [2008]897 (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by SAT on November 6, 2008, enterprise income tax at a flat rate of 10% is levied on dividends on H shares received by any overseas enterprise shareholders that are non-PRC residents. The Response to Questions on Enterprise Income Tax over Dividend of B-Shares and Other Shares Received by Non-resident Enterprises (No. Guo Shui Han [2009]394) (《關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》(國稅函[2009]394號)) issued by SAT on July 24, 2009, further provides that any PRC resident enterprise issues A-shares, B-shares or overseas shares publicly on stock exchanges within or outside the PRC, such as our H Shares, must withhold enterprise income tax at the rate of 10% from dividends distributed by them to non-resident enterprises.

Tax Treaties and the Arrangement

Investors who are not PRC residents, but either reside in countries which have entered into double taxation treaties with the PRC or reside in Hong Kong SAR or Macau SAR, may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the "**Arrangement**") on August 21, 2006. According to the Arrangement, the withholding tax rate on dividends paid by a PRC company to a Hong Kong resident is 5% providing such Hong Kong resident directly holds more than 25% of the equity interests in the PRC company, and is 10% if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Tax Relating to Share Transfer

Individual Investors

Under the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. Under the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (Cai Shui Zi [1998] No. 61) (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》(財稅字[1998]61號)) issued by MOF and SAT on March 30, 1998, since January 1, 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. As of the Latest Practicable Date, no legislation has expressly provided that individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, such as our H Shares, and in practice the taxation administrations do not collect individual income tax on such income.

Enterprises

Under the Enterprise Income Tax Law and its implementation rules, non-resident enterprises are generally subject to enterprise income tax at the rate of 10% with respect to their income derived from sale of shares of PRC companies. As of the Latest Practicable Date, no legislation has expressly provided that enterprise income tax shall be collected from non-Chinese resident enterprises on their income derived by them from sale of the shares in PRC companies listed on overseas stock exchanges, such as our H Shares. However, the possibility cannot be entirely excluded that taxation administrations will collect enterprise income tax on such income in practice.

Taxation Policy of Shanghai-Hong Kong Stock Connect

On October 31, 2014, MOF, SAT and China Securities Regulatory Commission (the "**CSRC**") jointly issued the "Circular on the Relevant Taxation Policy regarding the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong" (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (hereinafter referred to as "**Shanghai-Hong Kong Stock Connect Taxation Policy**"), which clarified the relevant taxation policy under Shanghai-Hong Kong Stock Connect.

Pursuant to the "Shanghai-Hong Kong Stock Connect Taxation Policy", individual income tax will be temporarily exempted for the transfer spread income derived from investment by mainland individual investors in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect from November 17, 2014 to November 16, 2017. Business tax will be temporarily exempted in accordance with the current policy for the spread income derived from dealing in stocks listed on the Hong Kong Stock Exchange by mainland individual investors through Shanghai-Hong Kong Stock Connect. For dividends obtained by mainland individual investors or mainland securities investment funds from investment in H Shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by H-stock companies at the tax rate of 20%; for dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H stocks listed on the Hong Kong Stock Exchange through Shanghai- Hong Kong Stock Connect, individual income tax is withheld by China Securities Depository and Clearing Company Limited at the tax rate of 20%. Individual investors who have paid withholding tax overseas may apply for tax credit to the competent tax authority of China Securities Depository and Clearing Company Limited by producing a tax credit document.

Pursuant to the "Shanghai-Hong Kong Stock Connect Taxation Policy", enterprise income tax will be levied according to law on the transfer spread income (included in total income) derived from investment by mainland corporate investors in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect. Business tax will be levied or exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Hong Kong Stock Exchange by investors of mainland entities through Shanghai-Hong Kong Stock Connect. Enterprise income tax will be levied according to law on dividend income (included in total income) obtained by mainland corporate investors from investing in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises that hold H stocks for at least 12 consecutive months. For dividend income obtained by mainland corporate investors, H-Share companies will not withhold dividend income tax for mainland corporate investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate investors, when declaring and paying enterprise income tax themselves, may apply for tax credits according to law in respect of dividend income tax which has been withheld and paid by non-H Share companies listed on the Hong Kong Stock Exchange.

Pursuant to the "Shanghai-Hong Kong Stock Connect Taxation Policy", mainland investors who transfer stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect shall pay stamp duty in accordance with the current tax laws of Hong Kong. China Securities Depository and Clearing Company Limited and Hong Kong Securities Clearing Company Limited may collect the abovementioned stamp duty on each other's behalf.

Tax Treaties

Overseas investors that reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to exemption from any income tax imposed by the PRC tax authorities on their income derived from sale of the shares in PRC-resident companies depending on the specific provisions as set forth in the applicable tax treaties. The PRC currently has treaties for the avoidance of double taxation with a number of jurisdictions, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States (the treaty with the United States does not contain an exemption from any PRC tax imposed on gains derived from the sale of shares in a PRC resident enterprise). The PRC also has an arrangement for the avoidance of double taxation with Hong Kong.

Additional PRC Tax Considerations

Estate Duty

No liability for estate duty under PRC laws will arise for non-PRC nationals holding H Shares.

PRC Laws and Regulations Concerning Foreign Exchange Control

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Administration Rules**"), which was amended by the State Council of the PRC on August 1, 2008 and became effective on August 5, 2008. Under the Foreign Exchange Administration Rules, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the State Administration of Foreign Exchange (the "**SAFE**") for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities of the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

The Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), which was promulgated by the SAFE on December 26, 2014 and became effective on the same day, stipulates that:

1. SAFE and its branches with foreign exchange authorities supervise, manage and inspect, among other things, the business registration, account opening and use, cross-border payments and capital exchange involved in the overseas listing of domestic companies.

2. A domestic company shall conduct overseas listing registration with Foreign Exchange Bureaus at the place of its incorporation with the overseas listing registration form, supporting documents for the CSRC's approval of overseas listing, announcement relating to completion of overseas offering and the relevant supplementary materials within 15 working days after the completion of the offering of its overseas listing shares.

3. A domestic company may repatriate the proceeds from offshore listing to its designated domestic account or retain such proceeds at its designated overseas account. The use of such proceeds shall be consistent with the content of the prospectus or other public disclosure documents such as documents for issuance of corporate bonds, circulars to shareholders and resolutions of shareholders' meetings. Proceeds raised from issuance of convertible bonds and intended to be remitted to its domestic account shall be remitted to its specific domestic account for foreign debts, and the company shall complete relevant procedures in accordance with relevant regulations on foreign debts administration; proceeds raised from issuance of other types of securities by a domestic company and intended to be remitted to its domestic account shall be remitted to its special domestic account for offshore listing (foreign exchange) or payment account (RMB).

4. A domestic company may use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to repurchase overseas shares. Where the domestic company chooses to remit funds out of the PRC to repurchase overseas shares, it should complete the remittance with deposit bank through domestic account for offshore listing (foreign exchange) or payment account (RMB), by presenting the certificate of overseas listing registration obtained following the registration of the repurchase related information (including change procedures) at the local Foreign Exchange Bureaus (if fail to register the repurchase related information, it is required to conduct the registration within 20 working days before the proposed repurchase and obtain relevant registration certificate) and statements or supporting materials of the repurchase. Upon completion of the repurchase, any surplus in the funds remitted overseas for such repurchase shall be transferred back to its designated domestic account or domestic company's domestic account for offshore listing (foreign exchange) or payment account (RMB).

5. A domestic shareholder may, in accordance with applicable regulations, use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to increase his/her overseas shares of a domestic company. Where the domestic shareholder chooses to remit funds out of the PRC to increase his/her shareholding, he/she should, by presenting his/her overseas shareholding registration certificate and statements or supporting materials of the shareholding increase, complete the transfer with deposit bank through domestic shareholder's domestic account for offshore holding. Upon completion of the shareholding increase, any surplus in the funds remitted overseas for such increase shall be transferred back to the designated account.

6. A domestic shareholder's income raised from reduction or transaction of overseas shares of a domestic company or raised from the shares delisted from overseas stock exchange on the capital account may be deposited at the shareholder's overseas account or remitted to the domestic account for offshore shareholding. Where the domestic shareholder chooses to remit the income to its domestic account, the domestic shareholders may, by presenting the overseas shareholding registration certificate, complete the transfer or settlement procedures with the bank.

The Notice of the SAFE on Further Simplifying and Improving the Foreign Exchange Administration Policies in Relation to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which was promulgated by the SAFE on February 13, 2015 and became effective on June 1, 2015, cancels two circumstances that require administrative approval, i.e., foreign exchange registration approval under domestic and overseas direct investments shall be verified and handled directly by banks under the indirect supervision of the SAFE and its branch offices through banks instead. Banks and their branches shall directly conduct investment foreign exchange registration and the related services as guided by the local foreign exchange bureau and perform their auditing, statistical monitoring and reporting duties subject to their authorities.

B. Hong Kong Taxation

Tax on Dividends

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains derive from or arise from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations, 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers), unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arises in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay its duly ad valorem duty, the unpaid duty will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times of the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006.

This Appendix sets out summaries of certain aspects of the PRC laws and regulations which are relevant to our Group's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III — Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

THE PRC LEGAL SYSTEM

Under the Constitutional Law of the People's Republic of China (《中華人民共和國憲法》) and the Law of Organization of the People's Courts (《中華人民共和國人民法院組織法》), the judicial system in PRC is made up of the Supreme People's Courts, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the superior people's courts. The basic people's courts are organized into civil, criminal, and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's courts apply the two-tier trail system. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or orders given at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgment or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment or order, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the People's Republic of China (《中華人民共和國民事訴訟法》) ("**the PRC Civil Procedure Law**"), which was adopted on April 9, 1991 and was amended on October 28, 2007, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed to conduct a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any cases.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgment, order or award. The time limits imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

On December 29, 1993, the Standing Committee of the NPC adopted the Company Law of the People's Republic of China (《中華人民共和國公司法》) ("**the PRC Company Law**") which came into effect on July 1, 1994. It was amended four times respectively on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. The latest revised Company Law came into effect on March 1, 2014.

The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (the "**Special Regulations**") was passed by the State Council on July 4, 1994, which was promulgated and implemented on August 4, 1994. The Special Regulations formulated provisions concerning the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions of the Companies Seeking Overseas Listing (the "**Mandatory Provisions**"), which was promulgated by the former Securities Commission and the former State Commission for Restructuring the Economic System on August 27, 1994, with the "Circular Regarding Comments on the Amendments to Articles of Association of Companies Listed in Hong Kong'' ("**Circular Regarding Comments on the Amendments**"), which was jointly issued by the Overseas-Listing Department of the China Securities Regulatory Commission and the Production System Department of the former State Commission for Restructuring the Economic System, prescribe provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions.

General

"Company" is a legal person incorporated in the PRC under the Company Law with independent properties. The liability of the company is limited to its total assets, and the liability of its shareholders is limited to the extent of the capital contributions subscribed or the shares subscribed respectively by them. Company is divided into two different categories: limited liability companies and joint stock limited liability companies.

Company must conduct its business in accordance with law and business ethics. A company may invest in other limited liability companies or joint stock limited companies. The liabilities of the company to such invested companies are only limited to the capital contributions paid or shares subscribed. Unless provided otherwise by laws, a company shall not be the capital contributor bearing joint and several liabilities associated with the debts of the invested enterprises.

Incorporation

A joint stock limited liability company may be incorporated by promotion or subscription. Incorporation by promotion refers to the incorporation in which the entire share capital to be issued by the company is subscribed by the promoters. If the company is established through public subscription, parts of the shares to be issued by the company must be subscribed by its promoters while the remaining shares must be offered for subscription by the public or by specified persons.

A joint stock limited liability company may be incorporated by a minimum of two but not more than two hundred promoters. At least half of the promoters must have residence in the PRC. The entire registered capital of joint stock limited liability, which is incorporated by promotions, must be subscribed for by its promoters. Until the registered capital subscribed by the promoters is paid, no stock can be offered to others for subscription.

While incorporating a company by promotion, the promoters shall subscribe, in writing, for the full amount of shares required in the articles of association and make capital contributions as per the articles of association. In the case of making capital contributions in non-monetary properties, the promoters shall go through the procedures for the transfer of property rights according to laws. If any of the promoters fails to make capital contributions as mentioned above, he/she shall bear the liabilities for breach of promoter's agreement. After the full capital contributions required in the articles of association are fully subscribed, the promoters shall elect the board of directors and board of supervisors. The board of directors shall file an application for registration with the company registration authority with the articles of association and any other documents required by laws or administrative regulations.

Once a limited liability company transfers to a joint stock limited liability company, the conversion paid-up capital shall not exceed the company's net asset value.

A joint stock limited liability company is formally established and obtains the status of a juridical person after the approval of registration has been given and a business license has been issued by the relevant administration bureau for industry and commerce.

A joint stock limited liability company's promoter shall bear the following liabilities:

(i) Joint and several liability for all the debts and expenses incurred in the act of incorporation, if the company cannot be incorporated;

(ii) Joint and several liability for refunding the subscription monies paid by the subscribers with bank deposit interest calculated for the same period of time, if the company cannot be incorporated; and

(iii) The liability to pay compensation to the company, if the interests of the company are impaired due to the fault committed by the promoters in the process of the incorporation of the company.

Share capital

The promoter of a joint stock limited liability company may make capital contribution in currencies, or in kind or by way of injection of assets, intellectual property rights or land use rights based on their appraised value, and may also convert lawfully transferred non-monetary assets into capital contribution with a monetary value, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any over-valuation or under-valuation, subject to any provisions of the law or administrative regulations on valuation.

A joint stock limited liability company may issue registered or bearer share certificates. However, shares issued to promoters or enterprises shall be in the form of registered shares and shall be registered under the name of such promoter or enterprises and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated with RMB and subscribed for in foreign currency. Shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H Shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H Shares, to retain not more than 15% of the aggregate number of H Shares proposed to be issued besides the amount of underwritten shares. The share offering price may be equal to or greater than the par value, but may not be less than the par value.

Increase in share capital

According to the Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank *pari passu* with one another. Shares of the same class in the same offer shall be issued on the same conditions and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares. When a joint stock limited liability company is issuing new shares, resolutions shall be passed by shareholders' general meeting, approving the class and number of the new shares, the issue price of the new shares, the issue and cease date of the new share, and the class and amount of new shares to be issued to existing shareholders; and a resolution made at a general meeting on increasing the capital shall be adopted by shareholders representing 2/3 or more of the voting rights of the shareholders in presence. When a joint stock limited company launches a public issue of new shares with the approval of the securities regulatory authorities under the State Council, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issuance of the company has been paid up, the change must be recorded with the company registration authorities and an announcement must be made. When a joint stock limited liability company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with provisions on the payment of subscription amounts in relation to the incorporation of the company.

Besides the Company Law's provision that the issue of new shares shall be approved by a shareholders' general meeting, the Securities Law also stipulates companies issuing initial public offer (IPO) of its stock shall: (i) have an integrated organization structure and be well-operated; (ii) be competent of continuous profitability and be in good financial status; (iii) have no record of false financial statement in the previous three years or any other major legal irregularity; and (iv) meet other State Council-approved requirement prescribed by the securities regulatory authority under the State Council.

Reduction of share capital

According to the Company Law, if a joint stock limited liability company plans to reduce its registered capital, such plan shall be approved by the general meeting of the joint stock limited liability company; and the approved plan shall be adopted by more than 2/3 of shareholders with voting rights of all the shareholders in presence.

A joint stock limited liability company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law: (i) the joint stock limited liability company shall prepare balance sheet and property list; (ii) the reduction plan be approved through shareholders' general meeting; (iii) the joint stock limited liability company shall inform its creditors of the reduction within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed; (iv) the creditors of the company may require the company to pay its debts or provide guarantees covering the debts within the statutory prescribed time; and (v) the company must amend the registration with relevant administration bureau for industry and commence after the reduction of registered capital.

Repurchase of shares

A company may not purchase its own shares other than for one of the following purposes: (i) to reduce its registered capital; (ii) to merge with other companies that hold its shares; (iii) to grant shares to its employees as incentives; (iv) to repurchase shares from its shareholders who disagree with the merger or demerger plans in shareholders' general meeting; and (v) to other purposes permitted by law and administrative regulations.

The company's purchase of its own shares on the ground set out in items (i) to (iii) above shall be approved by the general meeting. After repurchasing its shares pursuant to the aforesaid provisions, the company shall, under the circumstance as mentioned in item (i), write them off within ten days after the purchase; or under either circumstance as mentioned in item (ii) or (iv), transfer them or write them off within six months.

The shares purchased by the company according to item (iii) above shall not exceed 5% of the total number of issued shares of the company. Such purchase shall be financed by funds appropriated from the company's profit after taxation, and the shares so purchased shall be transferred to the employees of the company within one year.

The Mandatory Provisions specifies that the company may, according to procedures specified in the articles of association and upon approval of relevant competent authorities, repurchase its issued shares for the aforesaid purposes through general offer to the shareholders or through transaction in the stock exchange, or by agreements outside the stock exchange.

No company may accept its stocks as a pledge.

Transfer of shares

Shares held by shareholders may be transferred in accordance with relevant laws and regulations.

Shareholders may only transfer their shares on stock exchanges established in accordance with laws or through other ways as required by the State Council. Registered shares may be transferred after the shareholders sign on the back of the share certificates or in other manners specified by the laws or administrative regulations. After the transfer, the company shall add the name of the transferee and its address into the shareholders register. The transfer of bearer's share certificate shall become effective upon the delivery of the share certificate.

According to the Company Law, under the restriction of relevant provisions concerning amendments of listed companies' register of shareholders, no changes of registration in the share register provided above shall be made during a period of 20 days prior to the convening of the shareholders' general meeting or five days prior to the record day of dividend distributions.

According to the Special Provisions, no changes resulted from share transfer shall be made to the register of shareholders within 30 days prior to a general meeting of the company is held, or within five days prior to the benchmark date of the distribution of dividends.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue must not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in the company and any changes of such shareholdings. During their tenure, they shall transfer no more than 25% of the total shares they hold in the company each year. They must not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor shall they transfer their shares within six months from the date of their resignation. The articles of association may add other restrictive provisions in respect of the transfer of company's shares held by the directors, supervisors and the senior management of the company.

Shareholders

Shareholders' rights and duties are stipulated by the company's articles of association, which is binding on all the shareholders. Under the Company Law and the Mandatory Provisions, shareholders' rights include:

(i) to attend or to authorize others to attend a shareholders' general meeting and exercise voting rights on the basis of the number of the shares held by such shareholder;

(ii) to transfer the shares held by such shareholder subject to the applicable laws, regulations and the company's articles of association;

(iii) to bring an action in the people's court to rescind the resolution when any law or administrative regulation or any legal right or interest of any shareholder is violated by a resolution passed by the shareholders' general meeting or the board of directors;

(iv) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;

(v) to receive dividends in respect of the number of shares held;

(vi) to receive residual properties of the company in proportion to their shareholdings upon the termination or liquidation of the company; and

(vii) any other shareholders' rights provided for in the articles of association.

Shareholders' obligations and responsibilities include: abide the articles of association, pay subscription funds as the shares subscribed, bear liability for the company to the extent of the shares subscribed, not to injure any of the interests of the company or of other shareholders of the company by abusing the shareholder's rights, or to injure the interests of any creditor of the company by abusing the independent status of legal person or the shareholder's limited liabilities, and any other obligations of shareholders as specified in the articles of association.

Shareholders' general meetings

The shareholders' general meeting is the authority organ of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting mainly exercises the following powers:

(i) to decide company's operation policies and investment plans;

(ii) to elect or remove the directors and supervisors (who are not staff representatives) and to decide on matters relating to the remuneration of directors and supervisors;

(iii) to examine and approve reports of the board of directors;

(iv) to examine and approve reports of the supervisory board or supervisor;

(v) to examine and approve the company's annual financial budget and final accounts;

(vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of bonds by the company;

(ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;

(x) to amend the company's articles of association; and

(xi) other powers as provided for in the articles of association.

Shareholders' general meetings are required to be held once a year. An extraordinary shareholders' general meeting is required to be held within two months under the following circumstances:

(i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;

(ii) the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in share capital;

(iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;

(iv) whenever the board of directors deems necessary;

(v) when the supervisory board so requests; or

(vi) other circumstances as provided for in the articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In case the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall preside over the meeting. When the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. In case the supervisory board fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for over 90 days consecutively may unilaterally convene and preside over such meeting.

Subject to the Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. Notice of the issuance of bearer's share shall be announced 30 thirty days before the meeting.

Subject to the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the shareholders 45 days in advance, and the matters to be considered at the meeting shall be specified. Subject to the Special Regulations and the Mandatory Provisions, the confirmation letter of the shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting. Moreover, subject to the Special Regulations, shareholders holding more than 5% of the company's shares may put forward a new proposal in writing for discussion at the shareholder's annual meeting, and if the proposal falls within the purview of the meeting, it shall be placed on the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to amendments to the articles of association, increases or decrease registered capital, merger, division, dissolution of a company or, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting.

If the Company Law and the articles of association require that the transfer or acquisition of significant assets or providing external guarantees by company must be approved through the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters.

The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. According to the accumulative voting system, each share shall be entitled to equal voting rights to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may combine their voting rights when casting a vote.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuing of shares of any class, warranties or other similar securities, and bonds or debentures, the liquidation of the company and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

A shareholder may entrust a representative to attend a general meeting on his behalf. The representative shall present a letter of authorization issued by the shareholder to the company and shall exercise his voting rights within the authorized scope. The Company Law does not specify the number of shareholders attending the general meeting. However, the Special Provisions and Mandatory Provisions specify that a company may hold a general meeting if it receives replies from shareholders concerning the mentioned general meeting 20 days prior to the date of the meeting, and the number of voting shares represented by such shareholders amounts to more than 50% of the company's total voting shares. Where the number of voting shares represented by such attending shareholders does not reach 50% of the company's total voting shares, the company shall, within five days from the deadline for reply, notify the shareholders again of the issues to be considered, the time and place of the meeting in the form of public announcements. The company may then convene a general meeting after such announcements have been made. The Mandatory Provisions specifies that a class general meeting shall be held if the rights of classified shareholders are changed or abolished. Holders of domestic shares and overseas listed foreign shares are deemed as different classes of shareholders.

The decisions about the matters discussed at general meeting shall be recorded. The presider of the meeting and the directors in presence shall affix their signatures to the minutes, which shall be preserved together with the book of signatures of the shareholders in presence as well as the power of attorney thereof.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or by other ways. The term of a director shall be stipulated in the articles of association, but the term of office must not last for more than three years. A director may serve consecutive terms through re-election. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until the new director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board of directors exercises the following powers:

(i) to convene the shareholders' general meetings and report its work on the shareholders' general meetings;

(ii) to implement the resolutions passed in general meetings;

(iii) to decide the company's business plans and investment proposals;

(iv) to formulate the company's proposed annual financial budget and final accounts;

(v) to formulate the company's profit distribution proposals and for recovery of losses;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;

(vii) to prepare plans for the merger, division, dissolution of the company or change of the company form;

(viii) to decide on the company's internal management structure;

(ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;

(x) to formulate the company's basic management system; and

(xi) to exercise any other power under the articles of association.

The Mandatory Provisions specifies that the board of directors shall also be responsible for the amendments of articles of association of the company.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory board. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association, and as a result of which the company suffers serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the Company Law and the Mandatory Provisions, the following people may not serve as a director of a company:

(i) without civil capacity or with restricted civil capacity;

(ii) who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, less than five years have elapsed since the date of completion of the sentence; or have been deprived of their political rights due to criminal offense, less than five years have elapsed since the date of the completion of implementation of this deprivation;

(iii) who were the former directors, factory managers or managers of a company or enterprise which has become bankrupt and has been liquidated and were personally liable for the bankruptcy of such company or enterprise, less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) who were the legal representatives of a company or enterprise which had its business license revoked due to violation of the law and were personally liable, if less than three years have elapsed since the date of the revocation of the business license;

(v) who have a relatively large amount of debts due and outstanding; and

(vi) other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The election, appointment or engagement of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. If one of these restrictions becomes applicable to a director during his term of office, such director shall be released of his duties by the company.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is not performing his duties, the vice chairman shall perform the duties instead. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall perform the duties.

Supervisors

A company shall have a supervisory board composed of no less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third of the supervisors. Directors and members of the senior management may not act as supervisors. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise.

The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of all the supervisors. According to the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong, the chairman of the supervisory board shall be elected with approval of more than two-thirds of all the supervisors. The chairman of the supervisory board shall convene and preside over supervisory board meetings. In the event that the chairman of the supervisory board is incapable of performing or not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. In the event that the vice chairman of the supervisory board is incapable of performing or not performing his/her duties, a supervisor nominated by more than half of supervisors shall convene and preside over supervisory board meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory board exercises the following powers:

(i) to review the company's financial position;

(ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolution;

(iii) to require correction of the behaviors, which are harmful to the company's interests, of directors or senior executives;

(iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under the Company Law;

(v) to submit proposals to the shareholders' general meetings;

(vi) to bring actions against directors and members of senior executives; and

(vii) to exercise any other authority stipulated in the articles of association.

The aforesaid circumstances causing disqualification of directors shall also apply to the supervisors of a company.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory board or (when there is no supervisory board) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist in their work at the company's expense.

Manager and Senior Executives

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall reports to the board of directors and may exercise his/her powers:

(i) to supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;

(ii) to organize and implement the annual business plans and investment proposals of the company;

(iii) to formulate proposals for the establishment of the company's internal management organs;

(iv) to formulate the fundamental management system of the company;

(v) to formulate the company's specific rules and regulations;

(vi) to recommend the appointment or dismissal of any deputy manager and any financial officer;

(vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and

(viii)to exercise any other authority granted by the board or the articles of association.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at meetings of the board.

According to the Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of directors of a listed company and other personnel as stipulated in the articles of association.

The aforesaid circumstances causing disqualification as directors of a company shall also apply to the managers and other senior management of a company.

Duties of Directors, Supervisors, General Managers and Other Senior Management

Directors, supervisors, managers and senior management of a company are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties honestly and diligently. Directors, supervisors, managers and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

(i) embezzling company funds;

(ii) depositing company funds into accounts under their own names or the names of other individuals;

(iii) lending company funds to others or providing guarantees in favor of others against company property in violation of the articles of association or without prior approval of the shareholders' meeting, the general meeting or the board of directors;

(iv) entering into contracts or transactions with the company in violation of the articles of association or without prior approval of the shareholders' meeting, the general meeting or board of directors;

(v) using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or operating on behalf of others' businesses similar to that of the company without prior approval of the shareholders' meeting or the general meeting;

(vi) embezzling commissions belong to company from third-party deals;

(vii) unauthorized divulgence of confidential information of the company; and

(viii) any other acts in violation of their fiduciary duty towards the company.

Income obtained by directors or senior management in violation of the foregoing provisions shall be reverted to the company.

Directors, supervisors or senior management who contravene any law, regulation or the company's articles of association in the performance of their duties resulting in any loss to the company shall be liable to the company for compensation.

Where the attendance of a director, supervisor or member of senior management is requested by the general meeting, such director, supervisor or member of senior management shall attend the meeting as requested and answer enquiries from shareholders.

Directors and senior management should furnish with all truthful facts and information to the supervisory board or the supervisors (for companies with limited liability that do not have a supervisory board) without impeding the discharge of duties by the supervisory board or the supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other members of senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the requirements of the financial departments of the State Council. At the end of each financial year, a company shall prepare a financial and accounting report which shall be audited by an accounting firm in accordance with the laws.

The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the requirements of the financial departments of the State Council. The financial and accounting report of a limited liability company shall be delivered to all the shareholders within the period stipulated in the company's articles of association. A joint stock limited liability company shall deposit its financial and accounting report at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. A joint stock limited liability company issuing its shares in public must publish its financial and accounting report.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, with the approval of the shareholders' meeting or the general meeting by way of resolution, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association. Profit distributed to shareholders by the shareholders' meeting or general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory commons reserve fund in violation of the foregoing provisions must be returned to the company. Company shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company in issue and other income as required by the financial departments of the State Council to be treated as the capital reserve fund shall be accounted for as capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened under the name of an individual.

Appointment and Dismissal of Auditors

Pursuant to the Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' meeting, general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the shareholders' meeting, general meeting or the board of directors conducts a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm. The company shall not refuse, withhold or falsify information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. The auditor's term of office shall commence from the end of the annual general meeting to the end of the next annual general meeting.

Where the company dismisses or suspends the engagement of the accounting firm providing auditing services for it, according to the Special Provisions, the company shall give a notice to the accounting firm in advance, and the accounting firm shall have the right to state its opinions at the general meeting. The company's appointment, dismissal or disengagement of the accounting firm shall be decided at the general meeting and shall be filed with CSRC.

Profit Distribution

According to the Company Law, the company shall not distribute profits before making up for losses and drawing statutory common reserve. The Special Provisions specifies that the dividends and other allocations paid by the company to holders of overseas listed foreign shares shall be declared and stated in RMB and paid in foreign currency.

According to the Mandatory Provisions, the company shall appoint receiving agents on behalf of holders of the overseas-listed foreign invested shares to receive dividends and other distributions payable in respect of their overseas-listed foreign invested shares.

Amendment to the Articles of Association

Amendment to the articles of association shall follow procedures specified in laws, regulations and the articles of association. According to the Mandatory Provisions, if any amendment to provision set out in the articles of association involves any content of Mandatory Provisions, the amendment shall be subject to approval by the CSRC and the company's approval department authorized by the State Council and filed with the State Administration of Industry and Commerce or any of its local bureaus for registration. If the amendment to the articles of association needs to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolution and Liquidation

According to the Company Law, a company may be dissolved under one of the following circumstances:

(i) The term of business operation as prescribed by the articles of association expires or any of the situations for dissolution prescribed in the company's articles of association occurs;

(ii) The general meeting decides to dissolve the company;

(iii) It is necessary to be dissolved due to merger or split-up of the company;

(iv) The business license is canceled, or it is ordered to close down or to be dissolved according to laws; or

(v) If the company has any serious difficulty in its operations or management that cannot be resolved through other means, so that the interests of the shareholders will face heavy loss if the company continues to exist and the difficulty cannot be solved by any other means, the shareholders who hold 10% or more of the voting rights of all the shareholders of the company may request the people's court to dissolve the company, in response to which the people's court dissolves the company.

In the event of item (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two-thirds of voting rights in the case of a limited liability company, and more than two-thirds of voting rights held by shareholders attending a general meeting in the case of a joint stock limited liability company.

If the company is dissolved in the circumstances described in items (i), (ii), (iv) or (v) above, a liquidation committee shall be established within 15 days for liquidation after the occurrence of an event of dissolution.

Members of the liquidation committee of a joint stock limited liability company shall be composed of its directors or the person appointed by the shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court, requesting the court to appoint relevant personnel to form a liquidation committee. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

(i) to dispose of the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) to notify creditors or issue public notices;

(iii) to deal with the company's outstanding businesses related to liquidation;

(iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;

(v) to claim credits and to pay off debts;

(vi) to dispose of the remaining assets of the company after its debts have been paid off; and

(vii) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and publish notices in the newspapers within 60 days. A creditor shall declare his/her claim with the liquidation committee within 30 days after receiving notification or within 45 days of the public notice if he does not receive any notification. A creditor shall state all matters relevant to his/her rights in making his/her claim and provide evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any settlement with creditors during the period of claim.

Upon disposal of the company's property and preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit it to the shareholders' meeting, general meeting or people's court for endorsement.

The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion of capital contribution (in the case of a limited liability company) or of shares (in the case of a joint stock limited liability company). The company shall continue to exist during the liquidation period, but can only engage in operating activities that are related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon disposal of the company's property and preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy immediately.

After declaration of bankruptcy, the liquidation committee shall hand over all matters related to the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, general meeting or a people's court for confirmation. After the confirmation, the report shall be submitted to the companies' registration authority to apply for cancelation of the company, and an announcement of its termination shall be published.

None of the members from the liquidation committee shall take advantage of his/her position to take any bribe or any other illegal proceeds, nor may they misappropriate any of the company's property. If any member of the liquidation committee causes any loss to the company or to creditors by intention or due to gross negligence, he/she shall compensate the losses.

Overseas Listing

According to the Special Provisions, the overseas listing of the company's shares shall be subject to the approval of CSRC and follow procedures specified by the State Council.

Regulatory Guideline in relation to Offshore Issuance of Shares by Companies Limited by Shares and Documents and Approval Procedure for Application for Listing, which was promulgated by the CSRC on December 20, 2012 and became effective on January 1, 2013, requires that limited companies established in accordance with the PRC Company Law shall proactively submit an application to the CSRC for issuance and listing of shares outside China in compliance of the listing conditions of the overseas listing places. The CSRC will accept, review and make an administrative approval for application for administrative permission submitted by a company. The company may submit a preliminary application for stock issuance and listing to overseas securities regulatory authority or stock exchange, upon receipt of the acceptance notice; and may submit a formal application for stock issuance and listing to overseas securities regulatory authority or stock exchanges upon receipt of the approval document for administrative licensing from CSRC. The approval from the CSRC is valid for 12 months from the issuance date.

Loss of H share certificates

The Special Regulations and the Mandatory Provisions provide that in the case of loss of share certificates by the shareholders of overseas listed foreign invested shares, an application for the issue of replacement certificates may be handled in accordance with the laws or rules of the stock exchanges or other relevant regulations of the place where the original copy of the register of shareholders of overseas listed foreign invested shares is kept.

Suspension and termination of listing

The Securities Law provides that when a company is in one of the following circumstances, the stock exchange shall decide to suspend the listing and trading of its shares:

(i) the listing conditions are no longer fulfilled because of the change of the company in the total share capital, equity distribution, etc.;

(ii) the company fails to disclose its financial status as required, or there are falsehoods in the financial and accounting reports that may mislead investors;

(iii) the company has committed a major breach of the law;

(iv) the company has suffered continuous losses in the most recent three years; or

(v) other circumstances stipulated by the listing rules of the relevant stock exchange.

In the event that the conditions for listing are not satisfied within the stipulated period by the relevant stock exchange as described in (i) hereinabove, or the company has refused to rectify the situation in the case described in (ii) hereinabove, or the company fails to resume profitability in the next subsequent year in the case described in (iv) hereinabove, or the company is dissolved or declared bankrupt, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

The Company Law provides that the securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt. In such events, the Securities Law would regard this as "other circumstances as required by the listing rules of the relevant stock exchanges."

Merger and Split-up

The merger or split-up of the company shall be approved by votes representing more than two-thirds of voting rights held by the shareholders present at the meeting.

To carry out a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company. If an absorption merger is adopted, the company being absorbed shall be dissolved. If two companies merge to establish a new company, the two companies being merged shall be dissolved.

Laws, Regulations and Regulatory System on Securities

Since 1992, China has promulgated multiple regulations related to stock issuance, transaction and information disclosure. In October 1992, the State Council set up the Securities Commission of the State Council and CSRC. The Securities Committee is responsible for co-coordinating the drafting of relevant securities laws and regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory body of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and had its functions inherited by CSRC.

On December 25, 1995, the State Council promulgated Regulations of the State Council on Domestic Listing of Foreign-oriented Stocks by Share-holding Companies, which mainly specifies distributions including issuance, subscription, trading, dividend declaration of domestically listed foreign-oriented stocks, and information disclosure of share-holding companies with domestically listed foreign-oriented stocks.

On December 29, 1998, the Standing Committee of the National People's Congress promulgated Securities Law of the People's Republic of China, which became effective on July 1, 1999, it is the first national securities law of China. This fundamental law comprehensively regulates the activities on China's stock market. The Securities Law of the People's Republic of China underwent four revisions respectively on August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014. The Securities Law of the People's Republic of China shall apply to the issuance and trading of stocks, corporate bonds, as well as any other securities as lawfully recognized by the State Council in China, and it shall regulate the issuance and trading of stocks, acquisition of listed companies, duties and responsibilities of stock exchanges, securities companies and securities regulatory authorities of the State Council.

Regulatory Guidelines in Relation to the Document Submission and Review Procedure for Stocks Issuance and Overseas Listing by Joint Stock Companies promulgated by CSRC on December 20, 2012 specifies issues such as documents to be submitted and approval procedures for companies to apply for overseas listing.

If there is no such provision in the present Law, the provisions of the Company Law and other relevant laws and administrative regulations shall apply.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (the "**Arbitration Law**") was passed by the Standing Committee of the NPC on August 31, 1994, and became effective on September 1, 1995 and was amended on August 27, 2009. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law before the promulgation by the PRC Arbitration Association of arbitration regulations. When the parties agree to use arbitration as the method for dispute resolution, the people's court will refuse to hear the case.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of a PRC arbitration panel against a party who or whose property is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") adopted on June 10, 1958, pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention is effective for the PRC on April 22, 1987.

The New York Convention provides that all arbitral awards made in a state, which is a party to the New York Convention, shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes considered under PRC laws to have arisen from contractual mercantile legal relations.

In June 1999, Arrangement of the Supreme People's Court on Mutual Enforcement of Arbitration Awards between the Mainland and Hong Kong was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement was made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

Judicial judgment and its enforcement

Under the Arrangement of the Supreme People's Court between the Courts of the Mainland and the Hong Kong on Mutual Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdiction as Agreed to by the Parties Concerned, which was issued by the Supreme People's court on July 3, 2008 and became effective on August 1, 2008, defined with payment amount and enforcement power, made between mainland court and Hong Kong court in civil and commercial case with written jurisdiction agreement, the parties concerned shall apply to mainland people's court or Hong Kong court for recognition and enforcement based on this arrangement, in the case of final judgment. "Choice of court agreement in written" in this arrangement refers to a written agreement defining the exclusive jurisdiction of either the mainland people's court or Hong Kong in order to revolve dispute with particular legal relation occurred or likely to occur by the parties concerned since effective date of this arrangement. Accordingly, the parties concerned may apply to the courts in mainland or Hong Kong to recognize and enforce the final judgment made by the courts in Hong Kong or the Mainland that meet certain conditions under this arrangement.

HONG KONG LAWS AND REGULATIONS

(a) Summary of Material Differences between Hong Kong and PRC Company Law

Companies incorporated in Hong Kong shall comply with the Company Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, common law and equity law applicable in Hong Kong. Our Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the companies law regime in Hong Kong as applicable to a company incorporated in Hong Kong and that in the PRC as applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not an exhaustive comparison.

(i). Corporate existence

Under the Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions restricting the transfer of its shares, e.g. pre-emptive provisions. A public company's articles of association ought not to contain such restrictive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. There is no minimum monetary contribution restriction on a Hong Kong company under Hong Kong law.

(ii). Share capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares to increase its share capital. The PRC Company Law does not provide for authorized share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the PRC law, a company, which is authorized by the relevant securities administration authority to list its shares on a stock exchange, must have a registered capital of no less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that may be valued in currency and may be lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii). Restrictions on shareholding and transfer of shares

Under the PRC law, the domestic shares in the share capital of a joint stock limited liability company which are denominated and subscribed for in RMB may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares issued by a joint stock limited liability company which are denominated in RMB and subscribed for in a currency other than RMB, expect as otherwise permitted under the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (《合格境內機構投資者境外證券投資管理試行辦法》), may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25%

of the total shares they held in the company. The shares held by its directors, supervisors and managers in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the person mentioned above has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

(iv). Financial assistance for acquisition of shares

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under the company law in Hong Kong.

(v). Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company, or (iv) there are provisions in the articles of association relating to the variation of those rights, apply those provisions instead.

Our Company (as required by the Listing Rules and the Mandatory Provisions) has adopted provisions protecting class rights in a similar manner to those found in Hong Kong law in the Articles of Association. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided, however, that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, in a once every 12-month period, and pursuant to a Shareholders' special resolution, no more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders' special resolution; and (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC.

(vi). Directors

The PRC Company Law, unlike the company law in Hong Kong, does not require its directors to declare their interests relating to the material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise, which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office. All the provisions mentioned above have been incorporated in the Articles of Association, a summary of which is set out in Appendix V.

(vii). Supervisory Committee

Under the PRC Company Law, the board of directors and managers of a joint stock limited company are subject to the supervision and inspection of the supervisory committee, but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honesty in the way he/she considers to be in the best interests of the company and to exercise with care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii).Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their duties to the company, especially if such directors control a majority of votes at a general meeting, which effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, which violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior executive of the company violates the law, administrative regulation or articles of association of the company and thus infringe the shareholder's interest.

The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior executives in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

(ix). Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that when the company encounters any serious difficulty in operations or management and the interests of the shareholders will face serious loss if the company continues to exist, and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issued shares of the company may plead the people's court to dissolve the company.

The Mandatory Provisions, however, provides that the controlling shareholders may not exercise their voting rights to relieve a director or supervisor of his/her duty to act honestly for the best interests of the company, or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

(x). Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given no less than 20 days before the meeting and notice of an extraordinary general meeting must be given no less than 15 days before the meeting, or, in case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, a written notice must be given to all shareholders 45 days ahead of the meeting, and shareholders who wish to attend the meeting shall reply in writing 20 days before the day of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively. The notice period for an annual general meeting is 21 days.

(xi). Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall notify its shareholders by public announcement within five days and the shareholders' general meeting may be held thereafter.

(xii). Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of no less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii). Financial disclosure

A company is required under the PRC Company Law to make it available for shareholders to inspect its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting.

A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv). Information on directors and shareholders

The PRC Company Law gives the shareholders of a company the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information relating to shareholders and directors, which is similar as the rights of shareholders of Hong Kong companies under Hong Kong law.

(xv). Receiving agent

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while it is two years under the PRC law.

The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi). Corporate reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Part 13 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

(xvii). Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts.

The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre ("HKIAC") or the China International Economic and Trade Arbitration Commission ("CIETAC") at the claimant's choice.

(xviii). Mandatory deductions

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declaring any dividends after taxation. The company may not be required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

(xix). Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Articles of Association set out remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) which are in compliance with the Mandatory Provisions.

(xx). Dividends

Pursuant to the relevant PRC laws and regulations, the company shall withhold, and pay to the relevant tax authorities, any tax payable under the PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

*(xxi). **Fiduciary duties***

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards the company and are not permitted to engage in any activities which compete with or damage the interests of the company.

*(xxii). **Closure of register of shareholders***

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(b) Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

(i) Compliance adviser

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountant's report

An accountant's report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

(iii) Process agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("foreign shares") which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total number of issued shares of the company, having an expected market capitalization at the time of listing of not less than HK$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK$10,000,000,000.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase its own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide data on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of our Company.

(vii) Mandatory provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory board of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V.

(viii) Redeemable shares

Our Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to (1) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of our Company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of our Company and its Shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing Shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of our company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Council, the shareholders of domestic invested shares of our Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(x) Supervisors

Our Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year.

The remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their close associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and our Shareholders as a whole and advise Shareholders on how to vote.

(xi) Amendment to the Articles of Association

Our Company shall not permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules and the Mandatory Provisions or the PRC Company Law.

(xii) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares, if applicable);
- a copy of the latest annual return filed with the administration for industry and commerce or other competent PRC authority; and
- for Shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in H Share certificates

Our Company is required to ensure that all of its listing documents and H Share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with our Company and each shareholder of our Company that the H Shares are freely transferable by the holder thereof; and

- authorizes our Company to enter into a contract on his behalf with each Director, Supervisors, manager and officer of our Company whereby each such Director, Supervisor, manager and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xvi) Contract between the Company and its Directors, officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Buy-backs and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to our Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- the award of the arbitral body is final and shall be binding on the parties thereto;

- the agreement to arbitrate is made by the Director or offer with the Company on its own behalf and on behalf of each shareholder; and

- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award. The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

(xvii) ***Subsequent listing***

Our Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xviii) ***English translation***

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Company's listing.

(c) Other Legal and Regulatory Provisions

Upon our Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Buy-backs and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to our Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

(e) PRC Legal Matter

Jingtian & Gongcheng, our legal adviser on PRC law, have sent to us a legal opinion confirming that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This letter is available for inspection as referred to in "Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection." Any person wishing to have detailed advice on PRC law and the laws of any jurisdictions is recommended to seek independent legal advice.

This Appendix contains the principal provisions of the Articles of Association, which was adopted by the Company on November 30, 2015.

Directors

The Board of Directors is accountable to the shareholders' general meeting. The Board shall carry out its duties in compliance with laws, regulations, other regulatory documents, the Articles of Association and resolutions passed by the shareholders' general meeting.

Power to allot and issue shares

No provisions in the Article of Association empowers the Board to allot or issue shares. In order to allot or issue shares, the Board shall prepare a proposal to be approved by shareholders in general meeting via special resolution.

Power to dispose our Company's or its subsidiaries' assets

Under the circumstance that the aggregate value of the fixed assets to be disposed and the fixed assets which have been disposed within 4 months prior to the aforementioned disposal, exceeds 33% of the value of the fixed assets as shown in the latest balance sheet audited by the shareholders' general meeting, the board shall only dispose the fixed assets via the permission of shareholders' general meeting. However, the validity of transactions relating to the disposal of fixed assets shall not be affected by the breach of the aforesaid requirements.

Compensation or payments for loss of office

The provisions in the contracts of emoluments, which entered into by our Company and Directors or Supervisors, provide compensation or other payments to Directors or Supervisors for loss of office or for retirement under the circumstance that our Company is acquired, and such compensation or payments has obtained prior consents of the shareholders general meeting. Acquisition of our Company means:

(I) An offer made to all shareholders of our Company.

(II) An offer is made so that the offeror will become the controlling shareholder of our Company. The definition of "controlling shareholder" is same as Article 7.6 of the Article of Association.

If relevant Directors or Supervisors do not comply with this provision, any compensation or payments they received shall belong to those who have sold their shares as a result of the offer. All the expenses resulting from the violation should be undertook by those Directors or Supervisors *pro rata* and cannot be deducted from the compensation or payments they received.

Loans to Directors, Supervisors or Executives

Our Company is prohibited from directly or indirectly making any loan or guarantee of the loan to the Directors, Supervisors, general manager and other executives of our Company or its parent company, or to people relating to them.

The following transactions are not subject to the foregoing prohibition:

(I) A loan or a guarantee of a loan by our Company to its subsidiary;

(II) A loan or a guarantee of a loan or any other funds by our Company to any of its Directors, Supervisors, general manager and other executives to meet expenditure incurred by them for the purposes of our Company or for the purpose of enabling them to perform properly, in accordance with their duties stipulated in the employment contract approved by the shareholders' general meeting;

(III) If the daily business scope of our Company includes providing loans or guarantee, our Company may make a loan to or provide a guarantee in connection with a loan to any of its Directors, Supervisors, general manager and other executives or people related to them on normal commercial terms.

A loan made by our Company in breach of the above provisions shall be forthwith repaid by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by our Company in breach of the above prohibitions shall be unenforceable against our Company, unless:

(I) The lender did not know about the relevant circumstances at the time he or she provided loans to the Directors, Supervisors, general managers or other executives of our Company or its parent company;

(II) The collateral provided by our Company has been lawfully disposed by the lender to a *bona fide* purchaser.

The aforesaid guarantee includes a personal guarantee or property provided to secure the performance of obligations by the obligor.

Providing financial assistance to purchase the shares of our Company or of its subsidiaries

Pursuant to the Articles of Association:

(I) Neither our Company nor any of its subsidiaries shall at any time or in any manner provides financial assistance to the person who acquires or is proposing to acquire shares of our Company. Such person includes anyone who has directly or indirectly assumed an obligation as a result of purchasing our Company's shares.

(II) Neither our Company nor any of its subsidiaries shall at any time or in any manner provides financial assistance to the person mentioned in the foregoing paragraph for the purpose of reducing or discharging his liabilities.

The following transactions are not prohibited in Article 5.1 of the Article of Association:

(I) The purpose of our Company to provide financial assistance is honestly for our Company's interests, and the main purpose of the financial assistance is not to purchase our Company's shares, or the financial assistance is part of our Company's project;

(II) Lawfully distribution of our Company's assets as dividends;

(III) Distribution of dividends by way of shares;

(IV) Reduction of registered capital, repurchase of shares or adjustment of the equity structure in compliance with the Articles of Association;

(V) The loan is made within the scope of our Company's business and is for its daily business, providing the net assets of our Company does not reduce or even though it results in reduction of the net assets, the financial assistance is out of distributable profits; and

(VI) The loan is for the employees' share project, providing the net assets of our Company does not reduce or even though it results in reduction of the net assets, the financial assistance is out of distributable profits.

For the purpose of the foresaid provisions;

"**Financial assistance**" includes, but is not limited to:

(I) Gifts;

(II) Guarantee (including the guarantor undertaking responsibilities or providing deposits to guarantee the obligor's compliance with his duties), compensation (not including the compliance resulted from our Company's own mistake), release or waiver of rights;

(III) Loans, contracts which require our Company to perform prior than other parties, and contracts for the change of contracting parties or the assignments of rights arising under such loan or contracts;

(IV) Financial assistance given by our Company in any other manners under the circumstances of insolvency, none net assets or material reduction of net assets.

"**Incurring an obligation**" includes incurring a liability by making an agreement or arrangement (whether enforceable or not, and whether made on its own account or with any other persons) or by changing one's financial position through any other ways.

Disclosure of interests in the contracts entered into by our Company and the right to vote on such contracts

If a Director, Supervisor, general manager or other executive of our Company is, directly or indirectly, of material interests in a contract, transaction, arrangement, or proposed contract, transaction or arrangement, with our Company other than the employment contract, he shall disclose the nature and extent of his interest to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board under normal circumstances.

A Director shall not vote on any board resolution approving the contract, transaction, arrangement or any other proposal in which he/she or any of his/her close associates (as defined in the Listing Rules) is materially interested. The relevant Director shall not be counted for the purpose of determining whether a quorum is satisfied for the meeting. (This restriction is inapplicable under the circumstance approved by the Listing Rules or the Stock Exchange.)

Unless the interested Director, Supervisor, general manager or other executives of our Company discloses his/her interests to the Board in accordance with the Articles of Association and the contract, transaction or arrangement is approved by the Board at the meeting, in which any interested executives is not counted in the quorum and refrains from voting, our Company shall a have the right to cancel the contract, transaction or arrangement, except the opposite party is in good faith and does not know that the performance made by the relevant executives violates their obligations.

The Director, Supervisor, general manager or other executive of our Company is deemed to be interested in the contract, transaction or arrangement, if he/she has any close associates who is interested in such contract, transaction or arrangement.

If a Director, Supervisor, general manager or other executive of our Company sends a written notice to our Company stating that, because of the reason stated in the notice, he/she is interested in the contracts, transactions or arrangements which may subsequently be entered into by our Company for the first time, he/she is deemed to have made a disclosure, within the scope of the written notice, in accordance with the relevant provisions in the Article of Association.

Such resolution shall be passed by more than half of the votes from the Directors who have no affiliation relationship in the resolution.

If the number of Directors who have no affiliation relationship attending the Board meeting is less than three, the Board shall promptly refer such resolution to shareholders' general meeting.

Remuneration

Our Company shall, with the prior approval of shareholders in general meeting, enter into a written contract with each Directors and Supervisors concerning emoluments in respect of their services. It includes:

(I) Emoluments in respect of their services as Director, Supervisor or Executive of our Company;

(II) Emoluments in respect of their services as Director, Supervisor or Executive of the subsidiary of our Company;

(III) Emoluments otherwise in connection with services for the management of our Company or of its subsidiaries;

(IV) Payments by way of compensation for loss of office, or in connection with their retirement.

Except under a contract mentioned above, no proceedings shall be brought by a Director or Supervisor against our Company for his/her interest in the abovementioned matters.

Appointment, Dismissal and Resignation

None of the following person shall serve as a Director, Supervisor, general manager or other executive of our Company:

(I) Anyone who has no civil capacity or has limited civil capacity;

(II) Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of the conviction and is within five years of the expiry date of the sentence;

(III) Anyone who has served as director, factory manager or manager of a company or enterprise that was bankrupted and liquidated as a result of improper management, and was personally liable for the bankruptcy of that company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of that company or enterprise;

(IV) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked due to violation of the law, and was personally liable and is within three years of the date on which the business license of our Company or enterprise was revoked;

(V) Anyone who has a large amount of debt, which was not duly paid;

(VI) Anyone who is under criminal investigation by a judicial organization for violating the law and result of the investigation is still pending;

(VII) Anyone who cannot serve as executives according to the law or administrative rules;

(VIII) Anyone who is not a natural person;

(IX) Anyone who is banned from entering into securities market by China Securities Regulatory Commission, and the punishment has not expired;

(X) Anyone who judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;

(XI) Other circumstances as provided by laws and administrative regulations, or regulations of the competent authorities.

Appointment of Director, Supervisor, or Executive violated above provisions shall be deemed invalid.

If any circumstance mentioned above appears during the Director, Supervisor or Executive's term of office, our Company shall dismiss his/her position.

The validity of the performance of the Directors, Supervisors, general manager and other executives on behalf of our Company to *bona fide* third parties shall not be affected by any irregularities in their office, election or qualifications.

Our Company established the Board of Directors which consists of nine directors, among which three of them are independent directors and one is the chairman of the Board.

Directors shall be elected by shareholders at Shareholders' general meeting, and their terms of office shall be three years. Directors are eligible for re-election upon expiry of their terms of office.

Written notice concerning proposed nomination of director candidate and indication of the candidate's intention to accept the nomination shall be sent to our Company no later than seven days prior to the date of the general meeting.

Duties

Each of the Directors, Supervisors, general manager and other executives shall carry out his/her duties with good faith and shall not put himself/herself in a position where his/her own benefits may conflict with his/her obligations to our Company. The principal includes but not limited to the following obligations:

(I) To perform honestly in the best interest of our Company;

(II) To exercise one's rights within the scope of authority;

(III) To exercise the discretion vested in him personally without being manipulated by others and not transferring discretionary powers to other persons, unless to the extent permitted by laws or administrative regulations or with the informed consent of Shareholders given in a Shareholders' general meeting;

(IV) To treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;

(V) Not to enter into any contract, transaction or arrangement with our Company unless in line with the Articles of Association or otherwise approved by Shareholders at the Shareholders' general meeting on an informed basis;

(VI) Not to use properties of our Company in any manner for his/her own benefit without consent of general meeting on an informed basis;

(VII) Not to exploit his/her position to accept bribes or other illegal income, or to embezzle our Company's properties;

(VIII) Not to exploit his/her position to seek the business opportunities, which should have belonged to our Company, for himself/herself or for others, unless agreed by the Shareholders' general meeting;

(IX) Not to accept commissions in connection with transactions of our Company;

(X) To abide by the Articles of Association, faithfully execute official duties and protect interest of our Company, and not to exploit his/her position and authority in our Company for his/her own benefits;

(XI) Not to compete with our Company in any manner unless agreed by the Shareholders' general meeting on an informed basis;

(XII) Not to embezzle the assets of our Company;

(XIII) Not to lend our Company's assets or to provide guarantee with our Company's property to others, unless agreed by the Shareholders' general meeting or by the Board of Directors and does not violate the Article of Association;

(XIV) Not to open accounts in his/her own name or other names for deposit of the assets of our Company;

(XV) To keep such confidential information acquired by him/her during his/her tenure in respect of our Company, unless otherwise permitted by the shareholders' general meeting on an informed basis; not to use such information unless for the interests of our Company; however, disclosure of such information to courts or other governmental authorities is permitted:

1. Disclosure is required by laws;

2. Disclosure is required by public interests;

3. Disclosure is required by the interests of the relevant Directors, Supervisors, general managers or other executives.

Revenues obtained in violation of such provision by the people mentioned above should belong to our Company; if the violation results in losses to our Company, the person who is obligated should undertake the liability of damages.

Each of the Directors, Supervisors, general manager and other executives of our Company may not ask the following people or institutions ("**related person**") to do acts that the Directors, Supervisors and executives are prohibited to do:

(I) Spouses or minor children of the Directors, Supervisors, general manager and other executives of our Company;

(II) Trustees of the Directors, Supervisors, general manager and other executives of our Company or the persons referred to in items (I) above;

(III) Partners of the Directors, Supervisors, general manager and other executives of our Company or person referred to in items (I) and (II) above;

(IV) Our Company under *de facto* control by the Directors, Supervisors, general manager and other executives individually or jointly with the persons or other Directors, Supervisors and executives referred to in items (I), (II) or (III) above;

(V) The Directors, Supervisors, general manager and other executives of the controlled company referred to in item (IV) above.

The good faith obligation owed by the Directors, Supervisors, general manager and other executives of our Company may not necessarily terminate upon the expiration of their terms of office; their obligations to keep the trade secrets of our Company in confidence shall survive upon the expiration of their terms of office. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Liabilities of Directors, Supervisors, general manager and other executives of our Company arising from violation of specific duties may be released by the Shareholders at the Shareholders' general meeting on an informed basis, provided that the circumstances required by Article 7.5 of the Articles of Association.

Apart from the obligations as required by the related laws, administrative regulations or the listing rules of the stock exchange where the Shares of our Company are listed, the Directors, Supervisors, general manager and other executives of our Company shall assume the following obligations to each of the Shareholders when exercising their authorities endowed by our Company:

(I) They may not cause our Company to operate beyond the scope of business indicated on the business license;

(II) They shall act honestly in the best interests of our Company;

(III) They may not deprive our Company of the properties in any manner, including, but not limited to, opportunities beneficial to our Company;

(IV) They may not deprive the Shareholders of personal rights and interests, including, but not limited to, the distribution right and voting right, except for restructuring of our Company submitted to the Shareholders' general meeting for approval pursuant to the provisions of the Articles of Association.

MODIFICATION OF THE ARTICLES OF ASSOCIATION

Our Company may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and the Articles of Association.

Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorized by the State Council before taking into effect. If the amendment involves the registration, the lawfully prescribed procedures for registration change shall be carried out.

SPECIAL VOTING PROCEDURES OF CLASSIFIED SHAREHOLDERS

Any Shareholder who holds different classes of Shares is a classified Shareholder. Any plan of our Company to change or abolish the rights of a classified Shareholder is subject to the approval of the Shareholders' general meeting by a special resolution and the approval of a separate general meeting as convened by the affected classified Shareholder in accordance with the Articles of Association.

The rights of a classified Shareholder shall be viewed as changed or abolished under any of the following circumstances:

(I) Increase or decrease the classified Shares, or increase or decrease the number of classified Shares with equal or more voting or distribution rights and other privileges than this type of classified Shares;

(II) Convert all or part of the classified Shares into other types or convert all or part of another type of Shares into this type of classified Shares or grant such conversion right;

(III) Remove or reduce the right to dividends generated or rights to cumulative dividends attached to classified Shares;

(IV) Reduce or remove the right attached to classified Shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;

(V) Increase, cancel or reduce share conversion rights, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of our Company attached to classified Shares;

(VI) Remove or reduce rights to receive payment by our Company in specified currencies attached to classified Shares;

(VII) Create new class of Shares having voting or distribution rights, or other privileges equal or superior to those of the classified Shares;

(VIII) Impose restrictions on the transfer or the ownership of the classified Shares or increase such restrictions;

(IX) Issue subscription or conversion rights for this or other classified Shares;

(X) Increase the rights and privileges of other types of Shares;

(XI) The reorganization plan of our Company may constitute assumption of responsibilities by different classes of Shareholders disproportionately during the reorganization;

(XII) Amend or abolish clauses stipulated in this Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at general meeting originally, shall nevertheless have the right to vote at the class meetings in respect of matters concerning items (II) to (VIII), (XI) to (XII) above, but interested Shareholders shall not be entitled to vote at class meetings.

Resolution of a class meeting shall be passed by votes of more than two thirds of Shareholders attending the relevant meeting with voting rights in accordance with the Article 9.4 of Articles of Association.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the classified Shareholders in the share register of the matters to be considered at the meeting and the date and place of the class meeting. A Shareholder who intends to attend the class meeting shall deliver his/her written reply concerning attendance at the class meeting to our Company 20 days before the date of the class meeting.

If the number of Shares carrying voting rights at the class meeting represented by the Shareholders who intend to attend the class meeting is more than half of the aggregate Shares of such class carrying voting rights at the meeting, our Company may hold the class meeting; if not, our Company shall, within five days, notify the Shareholders of such class again by public notice of the matters to be considered at the meeting and the date and place for the class meeting. Our Company may then convene the class meeting after publication of such notice.

Notice of class meetings needs only to be served on Shareholders who are entitled to vote at the meetings. Class meetings shall be conducted in procedures as similar as possible to those of Shareholders' general meetings. The provisions of the Articles of Association relating to the procedure for conducting Shareholders' general meeting shall apply to any class meeting.

Except for holders of other classes of Shares, holders of domestic Shares and overseas listed foreign Shares are deemed to be Shareholders of different classes.

The special procedures for voting by classified Shareholders shall not apply under the following circumstances:

(I) Upon the approval by a special resolution at the Shareholders' general meeting (subject to unconditional mandate or terms and conditions stipulated in the resolution), our Company either separately or concurrently recognizes, allocates or issues Domestic Shares and overseas-listed foreign Shares every 12 months, and the number of Shares of each class to be recognized, allocated or issued shall not account for more than 20% of the outstanding Shares of such class;

(II) These shares are part of the plan to issue Domestic Shares and overseas-listed foreign Shares upon the establishment of our Company and the relevant plan is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council;

(III) Upon the approval by the securities regulatory authorities of the State Council, the unlisted Shares held by the Shareholders become listed for trading on an overseas stock exchange.

ADOPTION OF SPECIAL RESOLUTIONS REQUIRES MAJORITY VOTE

Resolutions of the Shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

Adoption of an ordinary resolution at general meeting shall be subject to approval by a simple majority of votes represented by the Shareholders (including their proxies) attending the meeting.

Adoption of a special resolution at general meeting shall be subject to approval by more than two thirds of votes represented by the Shareholders (including their proxies) attending the meeting.

VOTING RIGHTS

When voting at a general meeting, a Shareholder (including a proxy) may exercise voting rights in accordance with the number of Shares with voting power, which is held with one share representing one vote.

In the event that the number of dissenting votes equals the number of supporting votes, whether on a show of hands or on a poll, the chairman of the meeting shall have a casting vote.

GENERAL MEETINGS

General meeting is divided into annual general meeting and extraordinary general meeting. General meeting is called by the Board. The annual general meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

ACCOUNTING AND AUDITS

Financial and accounting policies

Our Company shall develop its financial accounting policies pursuant to PRC laws, administrative regulations, as well as the PRC accounting standards developed by the competent department in charge of finance under the State Council.

The Board of our Company shall submit the financial reports of our Company, as required by the applicable laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual Shareholders' general meeting.

Our Company shall make its financial reports available for inspection by the Shareholders 20 days before the annual general meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report referred to in this chapter.

Our Company shall send the aforesaid reports to each of the holders of overseas listed foreign shares by postage-prepaid mail at least 21 days before the annual general meeting is convened and the recipient's address shall be the address as shown in the share register.

The financial statements of our Company shall, in addition to complying with PRC accounting standards, rules and regulations, be prepared in accordance with either international accounting standards or that of the overseas area in which our Company's Shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When our Company is to distribute its after-tax profits of the relevant financial year, the lower after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by our Company shall be prepared in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas area in which our Company's Shares are listed.

Our Company shall not keep any accounting books other than those specified by law.

Appointment and Dismissal of Accountants

Our Company shall appoint an accounting firm with independent qualifications that satisfies the requirements of the state to be responsible for auditing its annual report and reviewing its other financial reports.

The first accounting firm of our Company may be appointed through the inaugural meeting of our Company before the first annual Shareholders' general meeting and the accounting firm so appointed shall hold office until the conclusion of the first annual general meeting.

The Shareholders in general meeting may, by ordinary resolution, remove an accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between the firm and our Company, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accounting firm or the manner in which such firm is to be remunerated shall be determined by general meeting. The remuneration of an accounting firm appointed by the Board shall be determined by the Board.

Our Company's appointment, removal and non-reappointment of an accounting firm shall be resolved by the Shareholders' general meeting, the resolution of which shall be filed with the securities regulatory agency of the State Council.

If our Company intends to remove or not to re-appoint an accounting firm, it shall notify the accounting firm in advance and the accounting firm shall have the right to make a statement at the Shareholders' general meeting. An accounting firm resigning on its own initiative shall make a declaration at the general meeting as to whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or any such later date as may be specified in the notice. Such notice shall contain the following statements:

1. A statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of Shareholders or creditors of our Company; or

2. A statement of any circumstances that should be disclosed.

Our Company shall, within 14 days after its receipt of the written notice referred to in the preceding paragraph, send a copy of the notice to the relevant competent authorities. If the notice contains a statement referred to in the two items of the preceding paragraph, a copy thereof shall be deposited at our Company for inspection by Shareholders, and such copy shall also be delivered to holders of overseas listed foreign shares by the manner as stipulated in the Articles of Association or by postage-prepaid mail with recipients' addresses as shown in the share register.

If the notice of resignation of the accounting firm contains a statement referring to or stating any circumstances mentioned above, the accounting firm may request the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances referred to in the said notice.

NOTIFICATION AND AGENDA OF GENERAL MEETINGS

The general meeting is the organ of power in our Company and its functions and powers shall be exercised in accordance with the law.

The Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

(I) The number of directors is less than that prescribed by PRC Company Law or less than two-thirds of the number prescribed in the Articles of Association;

(II) The losses of our Company amount to one-third of its aggregate share capital;

(III) Shareholder(s) individually or collectively holding 10% or more of the outstanding Shares of our Company carrying voting rights request so in writing;

(IV) The Board deems it is necessary;

(V) The Supervisory Board's request;

(VI) Any other circumstances stipulated by the laws, administrative regulations, regulations of the competent authorities, the Listing Rules or the Articles of Association.

If our Company convenes a Shareholders' general meeting, it shall give a written notice, at least 45 days prior to the date of the meeting, to all registered Shareholders. Such notice shall contain details of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who intend to attend the meeting shall send written replies to our Company confirming their intention to attend at least 20 days prior to the date of the meeting.

When our Company convenes an annual Shareholders' general meeting, Shareholder(s) holding 3% or more of the total number of the Shares of our Company carrying voting rights shall have the right to propose a written motion to our Company. The contents of the proposal shall fall into the category of the terms of reference of the Shareholders' general meeting and it shall have the explicit subject and specific resolutions.

Our Company shall, based on the written replies received 20 days before the date of the general meeting, calculate the number of Shares carrying rights to vote represented by Shareholders who intend to attend the meeting. If the number of Shares carrying rights to vote represented by Shareholders who intend to attend the meeting reaches more than one half of the total number of Shares in our Company which carry rights to vote, our Company may proceed to convene the general meeting; otherwise, our Company shall within five days notify the Shareholders again of the matters to be considered at, and the date and venue of the meeting by way of an announcement. Our Company may then proceed to convene the general meeting.

Notice of a general meeting shall:

(I) be given in writing;

(II) specify the place, date and time of the meeting;

(III) state the matters to be considered at the meeting;

(IV) Provide the information and explanation as necessary for the Shareholders to make an informed decision on the matters to be considered. This principle includes but not limited to that, in case of proposals made to amalgamate our Company with another, to repurchase Shares of our Company, to restructure its share capital, or otherwise, the details of the agreed terms of, and the contract (if any) for the proposed transaction must be provided, and the reason for and the consequences thereof must be properly explained;

(V) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, manager or other executives in the proposed transaction and the effect of the proposed transaction on them in their capacity as Shareholders in so far as it is different from the effect on the interests of other Shareholders of the same class;

(VI) contain the full text of any special resolution proposed to be proposed for adoption at the meeting;

(VII) contain a clear statement that a Shareholder entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend such meeting and to vote on his or her behalf and that such proxy may not necessarily be a Shareholder;

(VIII) Specify the time and place for lodging proxy form(s) for the relevant meeting.

Notices of general meetings shall be delivered to all the shareholders (whether with voting rights or not) by specific person or by postpaid mail. The address registered in the stock ledger shall be used as the address of the recipient. Notices of general meetings shall also be delivered by any methods approved by the Listing Rules (including but not limited to mail, email, faxes, announcement, posted on the websites of our Company or the stock exchange of Hong Kong) to Shareholders. In respect of holders of Domestic Shares, notices of the Shareholders' general meetings may also be given by way of an announcement.

The announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities regulatory agency of the State Council 45 to 50 days prior to the meeting. All holders of domestic shares shall be deemed to have received the notice of general meeting upon the publication of the announcement.

An accidental omission to give notice of a general meeting to any person entitled to receive notice or a failure by such person(s) to receive such notice shall not invalidate that general meeting and any resolution passed at that meeting.

Shareholders who individually or collectively hold 10% or more of the Shares of our Company carrying voting rights can request the Board to convene an extraordinary general meeting or a class meeting with written requirement to the Board and clarify the topic of discussion. The Board shall convene the extraordinary general meeting or the class meeting within 10 days upon receipt of the foresaid written requirement.

In the event that the Board cannot or fails to perform its duty to convene a meeting, the Supervisory Board shall convene and chair the meeting in time. If the Supervisory Board fails to do so, the Shareholders who individually or collectively hold more than 10% of the Shares of our Company within more than 90 consecutive days may convene and chair the meeting by themselves.

Shareholders who individually or collectively hold more than 3% of the Shares of our Company may submit a temporary proposal to the Board in writing prior to ten days since the convening of the Shareholders' general meeting; the Board shall notify other Shareholders within two days upon receiving the proposal and submit this temporary proposal to the Shareholders' general meeting for consideration.

Apart from aforesaid matters, the convener shall not amend the proposals stated in the notice of the Shareholders' general meeting or add new proposals upon issuance of the announcement on the notice of the Shareholders' general meeting.

The Shareholders' general meeting shall be convened by the Board and chaired by the chairman. If the Board cannot or fails to perform its duty to convene the Shareholders' general meeting, the Supervisory Board shall convene and chair the meeting in time; if the Supervisory Board cannot or fails to perform its duty to convene the Shareholders' general meeting, the Shareholders who individually or collectively hold more than 10% of our Company's Shares within more than 90 consecutive days may convene and chair the meeting by themselves.

The following matters shall be adopted by the Shareholders' general meeting through ordinary resolutions:

(I) Work reports of the Board and the Supervisory Board;

(II) Plans formulated by the Board for the distribution of profits and for making up losses;

(III) Appointment or removal of members of the Board and members of Supervisory Board, and their remuneration and manner of payment thereof;

(IV) Annual budget plan and actual budget plan;

(V) Annual preliminary and final budgets, balance sheets, income and other financial statements of our Company;

(VI) Matters other than those required by the laws, administrative regulations, or the Articles of Association to be approved by special resolutions.

The following matters shall be resolved by a special resolution at the Shareholders' general meeting:

(I) The increase or decrease in our Company's share capital, and issue of shares of any class, warrants and other similar securities;

(II) The issue of debentures of our Company;

(III) Division, merger, dissolution and liquidation of our Company and any change in the form of our Company;

(IV) Amendments to the Articles of Association;

(V) The total amounts of purchasing or selling material assets and the secured amount exceed 30% of our Company's latest audited total assets;

(VI) Share incentive plans to be considered and implemented;

(VII) Any other matters required by laws, administrative regulations, department regulations, the rules of the securities regulatory body or the stock exchange where the shares of our Company are listed, and decided by the Shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on our Company.

TRANSFER OF SHARES

Unless otherwise provided by laws and administrative regulations, the Shares of our Company shall be freely transferable and free from any lien.

The transfer of H Shares listed on Hong Kong Stock Exchange shall be registered at HONG KONG's local stock register institutions entrusted by our Company.

RIGHTS OF OUR COMPANY TO BUY BACK ITS OUTSTANDING SHARES

Under any of the following circumstances, our Company may buy back the outstanding Shares pursuant to the requirements of the laws, administrative rules, regulations and the Articles of Association:

(I) Cancelation of Shares to reduce our Company's share capital;

(II) Merger with other companies which hold the Shares;

(III) Paying Shares to the employees of our Company as bonus;

(IV) Buying back the Shares from Shareholders who vote against any resolutions adopted at the general meeting concerning the merger and division of our Company;

In the event our Company buys back its Shares for reasons stated in (I) through (III) of the preceding paragraph, related resolutions must be adopted at the Shareholders' general meeting. If our Company buys back the Shares according to the provisions of the preceding paragraph under the circumstances set forth in (I), the Shares bought back must be canceled within ten days of the date on which they are bought back. In the event of the circumstances set forth in (II) and (IV), the Shares bought back must be transferred or canceled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (III) in the preceding paragraph, the Shares bought back may not exceed 5% of the total issued Shares of our Company. The fund used for such buyback must be allocated from the after-tax profit of our Company and the Shares bought back must be transferred to the employees within one year.

Our Company may buy back Shares in any of the following ways:

(I) Making a pro-rata offer of repurchase to all its shareholders;

(II) Repurchasing Shares through public trading on a stock exchange;

(III) Repurchasing Shares by an agreement outside a stock exchange;

(IV) Other ways approved by the China Securities regulatory Commission.

Where our Company repurchases its Shares by an agreement outside a stock exchange the prior approval of the general meeting shall be obtained in accordance with the Articles of Association. Our Company may rescind, vary the contract or waive its rights under a contract so entered into by our Company with the prior approval at the general meeting in the same manner.

The aforementioned contract to repurchase Shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the Shares and obtain rights to buy them back.

Our Company may not assign any contract for the repurchase of its Shares or any rights conferred under such contract.

Unless our Company is in the case of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

(I) When our Company repurchases its Shares at par value, payment shall be made out of book surplus distributable profits of our Company, or out of proceeds of a new issue of Shares made for that purpose;

(II) When our Company repurchases its Shares at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of our Company, or out of the proceeds of a new issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:

1. If the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of our Company;

2. If the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of our Company, and out of the proceeds of a new issue of Shares made for that purpose, provided that the amount paid out of proceeds of the new issue shall neither exceed the aggregate premiums received by our Company on the issue of the Shares being repurchased nor the amount in the premium account (or capital reserve account) when the repurchase take place (including the premiums on the new issue);

(III) Payment by our Company for the following purposes shall be made out of our Company's distributable profits:

1. Acquisition of rights to repurchase its Shares;

2. Variation of contract to repurchase its Shares;

3. Release of its obligation under any contract to repurchase Shares;

(IV) After the total par value of the canceled Shares is deduced from the registered capital pursuant to the relevant provisions, the amount deducted from the distributable profits for payment of the par value portion of the Shares repurchased shall be credited to our Company's premium account (or capital reserve account).

DIVIDENDS AND DISTRIBUTION METHODS

Our Company may distribute dividends by the following ways:

(I) Cash;

(II) Shares;

(III) Other ways as permitted by laws, administrative regulations, departmental rules or the Listing Rules.

Cash dividends and other monies paid by our Company to holders of domestic Shares shall be paid in RMB. Cash dividends and other monies paid by our Company to holders of overseas-listed foreign Shares shall be calculated and announced in RMB and paid in a foreign currency. The foreign currency required by our Company to pay cash dividends and other monies to holders of overseas listed foreign Shares shall be obtained pursuant to state regulations on foreign exchange.

Our Company shall appoint receiving agents for holders of overseas-listed foreign Shares. The receiving agents appointed by our Company shall comply with the requirements of the laws in the jurisdiction where the Shares are listed or the requirements of the stock exchanges on which the Shares are listed. The receiving agents appointed on behalf of holders of overseas listed foreign Shares traded on the Hong Kong Stock Exchange shall be companies registered as a trust company under the Trustee Ordinance of Hong Kong.

Our Company is entitled to forfeit any unclaimed dividend in respect of its shares after the expiry of six years from the date on which such dividend is declared.

PROXIES

Any Shareholder entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (who may not necessarily be Shareholders) as his/her proxy to attend and vote on his/her behalf, and a proxy so appointed shall have:

(I) the same right as the Shareholder to speak at the meeting;

(II) the authority to demand or join in demanding a poll;

(III) the right to vote by hand or on a poll, but if there are more than one proxies, those proxies may only vote on a poll.

The instrument appointing a proxy shall be in writing and shall be signed by the appointer or a person duly authorized in writing. Where the appointer is a legal person, the stamp of the legal person shall be affixed, or signed by the director or a duly authorized agent.

The power of attorney must be kept at the residential address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the scheduled voting time. If the power of attorney is signed by another person authorized by the appointer by means of power of attorney or other instrument of authorization, the power of attorney or other instrument must be verified by a notary.

The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at the residential address or other location designated at the notice convening the meeting.

If the appointer is a legal person, its legal representative or such person as authorized by resolution of its Board of Directors or other governing bodies to act as its representative may attend at any general meetings of our Company.

Any form sent by the Directors to the Shareholder for appointing a shareholder proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the Shareholder does not provide instructions.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that no notice in writing of such matters as aforesaid shall have been received by our Company at its residence before the relevant meeting is convened.

REGISTER OF MEMBERS AND OTHER RIGHTS OF SHAREHOLDERS

Pursuant to the understanding and agreement entered into between the securities regulator under the State Council and the overseas securities regulatory agency, our Company may keep overseas register of members of the H Shares and entrust an overseas agency to manage it. The original register of members of the H Shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of members of the H Shares at the residential address. The overseas entrusted agency shall guarantee the continuous consistency between the original and copy of the register of members of the overseas-listed foreign Shares.

In case of inconsistency between the original and copy of the register of members of the H Shares, the original shall prevail.

Our Company shall keep a complete register of members.

The register of members shall include the following:

(I) Register of members kept at the residential address other than those specified in (II) and (III);

(II) Register of members of the H Shares kept at the location of the overseas stock exchange where such Shares are listed;

(III) Register of members kept in other locations according to the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the register of members shall not overlap. The transfer of Shares registered in a certain part of the register of members shall not be registered elsewhere in the register of members as long as the Shares remain registered.

Any alteration or rectification to any part of the register of members shall be made in accordance with the laws in the place where such part of the register of members is maintained.

No change of the register of members as a result of the transfer of Shares shall be made within 30 days before the Shareholders' general meeting is convened or within 5 days prior to the record date on which our Company decides to distribute dividends.

When our Company convenes the general meeting, distributes dividends, goes into liquidation or is involved in other actions that require the confirmation of equities, the Board of Directors shall fix a date as the equity registration date, upon expiration of which the Shareholders whose names appear on the register of members shall be the Shareholders.

Any person who objects to the register of members and requests to register his/her name (title) in the register of members or to remove his/her name (title) from the register of members may apply to the court with jurisdiction to amend the register of members.

Shareholders are entitled to obtain relevant information in accordance with the requirements of the Article of Association, including:

(I) A copy of the Articles of Association, subject to payment of costs;

(II) The right to inspect and copy the following, subject to payment with a reasonable fee:

(1) All parts of the register of members;

(2) Personal particulars of each of our Company's Directors, Supervisors, managers and other executives, including:

(a) Present and former names and aliases;

(b) Principal address (place of residence);

(c) Nationality;

(d) Primary and all other part-time occupations and duties;

(e) Identification documents and numbers;

(3) Status of our Company's issued share capital;

(4) Reports showing the aggregate nominal value, quantity, highest and lowest prices paid in respect of each class of Shares repurchased by our Company since the previous accounting year and the aggregate amount paid by our Company for this purpose;

(5) Counterfoil of our Company's debentures;

(6) The latest audited financial statements and the reports of the Board, auditors and the Supervisory Board;

(7) The special resolution of our Company;

(8) A copy of the latest annual review report, which shall be submitted to the State Administration for Industry and Commerce of the PRC or other authorities for inspection; and

(9) Minutes of Shareholders' general meetings (for the inspection of Shareholders only).

QUORUM OF GENERAL MEETINGS

If the number of Shares carrying voting rights represented by the Shareholders intending to attend a meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the Shareholders' general meeting. If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend a meeting exceeds one half of the total number of such class of Shares, our Company may convene the classified meeting.

RESTRICTIONS ON RIGHTS OF CONTROLLING SHAREHOLDERS

In addition to the obligations imposed by laws, administrative regulations or the listing rules required by the stock exchange on which Shares of our Company are listed, Controlling Shareholders shall not exercise their voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the Shareholders of our Company:

(I) To release the responsibility of a Director or Supervisor to act honestly in the best interests of our Company;

(II) To approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any way, of our Company's assets, including (without limitation to) any opportunities beneficial to our Company;

(III) To approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the personal rights of other Shareholders, including (without limitation to) rights to distributions and voting rights save pursuant to a restructuring proposal submitted to Shareholders for approval in accordance with the Articles of Association.

COMPANY LIQUIDATION

Our Company shall be dissolved and liquidated lawfully upon the occurrence of any of the following events:

(I) The operation period expires, or other liquidation matters in the Article of Associations happened;

(II) A resolution for dissolution is passed by Shareholders at a Shareholders' general meeting;

(III) Dissolution is necessary due to a merger or division of our Company;

(IV) Our Company's business license has been suspended, or our Company has been ordered to close or revoked;

(V) If our Company encounters significant difficulties in business and management, continuous survival will be significantly detrimental to the interests of Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request a People's court to dissolve our Company.

Under the circumstances set forth provision (I) above, our Company can still be existence via the amendment of the Article of Association.

If our Company is dissolved due to the provisions set forth in (I), (II), (IV) and (V) above, the liquidation team shall be established within 15 days and the members of the liquidation team shall be determined by a Shareholders' general meeting via an ordinary resolution.

If the Board decides to liquidate our Company, the Board shall state in the notice of the Shareholders' general meeting convened for this purpose that the Board has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

Upon the passing of the resolution by Shareholders in the Shareholders' general meeting for the liquidation of our Company, all duties and powers of the Board shall terminate immediately.

The liquidation committee shall act in accordance with the instructions of the Shareholders' general meeting to make a report at least once a year to the Shareholders' general meeting concerning the committee's income and expenses, the businesses of our Company and the progress of the liquidation and to present a final report to the Shareholders' general meeting on the completion of the liquidation.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

(I) Categorize our Company's assets and prepare a balance sheet and an inventory of assets respectively;

(II) Notify the creditors or to publish public announcements;

(III) Dispose of and liquidate any pending businesses of our Company;

(IV) Pay outstanding taxes and the taxes occurred during liquidation;

(V) Settle claims and debts;

(VI) Deal with the surplus assets remaining after repayment by our Company of debts;

(VII) Represent our Company in any civil proceedings.

After it has categorized our Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a Shareholders' general meeting or to the People's court for confirmation.

When our Company is liquidated by dissolution, upon completion of the categorization of our Company's assets and preparation of a balance sheet and an inventory of assets, if the liquidation committee discovers that our Company's assets are insufficient to repay our Company's debts in full, the liquidation committee shall immediately apply to the People's court for a declaration of insolvency. After our Company is declared insolvent by a ruling of the People's court, the liquidation committee shall transfer all matters arising from the liquidation to the People's court.

Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period, and a financial report, which shall be verified by a Chinese certified public accountant and submitted to the general meeting or the People's court for confirmation.

The liquidation committee shall, within 30 days after the confirmation by the Shareholders' general meeting or by the People's court, submit the documents referred to in the preceding paragraph to the registration authority and apply for cancelation of registration of our Company, and publish a public announcement relating to the termination of our Company.

OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

General Provisions

Our Company is a permanently existing joint stock limited company.

Our Company may invest in other companies, provided that, unless required by law, it may not become a jointly liable investor for the liability commitments of the invested company.

The Articles of Association is binding on our Company, the Shareholders, Directors, Supervisors, managers, and other executives. The above executives are entitled to make claims concerning the affairs of our Company in accordance with the Articles of Association.

Shareholders may sue our Company pursuant to the Articles of Association. Our Company may sue Shareholders pursuant to the Articles of Association. Shareholders may sue Shareholders pursuant to the Articles of Association. Shareholders may sue the Directors, Supervisors, managers and other executives pursuant to the Articles of Association.

Our Company may increase stock capital by the following means:

(1) Offer new Shares to unspecified investors;

(2) Place new Shares with existing Shareholders;

(3) Give new Shares to existing Shareholders;

(4) Convert the reserve funds into share capital;

(5) Other means approved by the laws, administrative regulations and securities regulatory agency of the State Council.

Upon approval to issue our Company's new Shares according to the provisions of the Articles of Association, the matter is to be dealt with in accordance with the procedures of related laws and administrative regulations of the State.

Our Company may reduce our registered capital according to the provisions of the Articles of Association. Reduction in registered capital of our Company is to be made in compliance with the procedures under our Company Law, other relevant provisions and the Articles of Association.

After our Company reduces its registered capital, it must prepare a balance sheet and a list of properties.

After our Company's reduction in registered capital, its registered capital may not be less than the statutory minimum amount.

Shareholders

The Shareholders of our Company are persons lawfully holding the Shares of our Company and whose names (titles) are listed in the register of Shareholders. Shareholders are entitled to rights and assume obligations according to types of their Shares and their shareholdings. Shareholders who hold the same type of Shares are entitled to the same rights and assume the same obligations.

The Shareholders of ordinary Shares of our Company enjoy the following rights:

(I) To receive dividends and other distributions in proportion to the number of Shares held;

(II) To participate in or appoint a proxy of Shareholder to participate in and exercise voting rights at the Shareholders' general meeting;

(III) To supervise and manage the business and operational activities, provide suggestions or submit queries;

(IV) To transfer the Shares held according to the provisions of the laws, administrative regulations and the Articles of Association;

(V) Subject to production of the relevant written documents evidencing the class and quantity of Shares held and verification of their identities as Shareholders by our Company, Shareholders are entitled to obtain relevant information in accordance with laws, administrative regulations and the requirements of the Articles of Association, including:

(1) A copy of the Articles of Association, subject to payment of costs;

(2) The right to inspect and copy the following, subject to payment of a reasonable fee:

(a) All parts of the register of shareholders;

(b) Personal documents of each of our Company's directors, supervisors, manager and other executives including:

A. Present and former names and aliases;

B. Principal address (place of residence);

C. Nationality;

D. Primary and all other part-time occupations and duties;

E. Identification documents and numbers;

(c) Status of our Company's issued share capital;

(d) Reports showing the aggregate nominal value, quantity, highest and lowest prices paid in respect of each class of Shares repurchased by our Company since the previous accounting year and the aggregate amount paid by our Company for this purpose;

(e) Minutes of the Shareholders' general meetings;

(f) The latest audited financial statements and the reports of the Board, auditors and the Supervisory Board;

(g) The special resolution of our Company;

(h) A copy of the latest annual review report, which shall be submitted to the State Administration for Industry and Commerce of the PRC or other authorities for inspection.

Our Company shall make available the documents mentioned in sub-section (a) to (h) (except sub-section (e)) above and other applicable documents at its Hong Kong representative office for inspection, free of charge, by the public and the shareholders in accordance with requirements of the Listing Rules.

(VI) To participate in the distribution of the remaining assets of our Company in proportion to the number of Shares held upon our termination or liquidation;

(VII) To require our Company to acquire Shares of Shareholders who disagree with the resolutions on the merger or division of our Company which are passed by the general meeting;

(VIII) Other rights conferred by laws, administrative regulations and the Articles of Association.

Our Company may not exercise any power to freeze or otherwise impair any of the rights attaching to any Share by reason only that any person interested directly or indirectly in the Shares of our Company has failed to disclose his/her interests to our Company.

Our Company adopts the registered method for the Shares.

The Share certificates of our Company are signed by the chairman of the Board of Directors. If the stock exchange on which the Shares are listed requires other executives of our Company to sign the Share certificates, they are also to be signed by other executives. The Share certificates are to become effective after being affixed with the stamp of our Company or print-stamped. Affixing our Company stamp to the Share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related executives may also be printed on the Share certificates.

If any person whose name appears in the register of Shareholders or who requests to register his/her name (title) in the register of Shareholders loses his/her Share certificates (that is, "original Share certificates"), he/she may apply to our Company to re-issue new Share certificates for those Shares (the "Relevant Shares"). If our Company is granted a mandate to issue warrants to anonymous holders, it may not issue any new warrants to replace the original warrants lost unless it is convinced beyond reasonable doubt the original warrants have been destroyed.

In the event Shareholder of Domestic Shares applies to our Company for a re-issuance after losing the Share certificates, the matter is to be dealt with pursuant to related provisions of our Company Law.

In the event that a Shareholder of overseas listed foreign Shares applies to our Company for re-issuance after losing the Share certificates, the matter is to be dealt with pursuant to the laws, rules of the stock exchange or other related provisions where the original register of Shareholders of the overseas listed foreign Shares is kept.

In the event a Shareholder of overseas listed foreign Shares listed in Hong Kong applies to our Company for re-issuance after losing the Share certificates, the Share certificates are to be issued in compliance with the following requirements:

(I) The applicant shall submit the application in the standard format designated by our Company and attach a notary certificate or legal declaration. The contents of the notary certificate or legal declaration shall include the reason for the applicant's request, circumstances and evidence of loss of Share certificates, as well as a statement that nobody else may request to be registered as a Shareholder with respect to the pertinent Shares.

(II) Before deciding to issue new Share certificates, our Company does not receive any statement in which any person other than the applicant requests to be registered as the Shareholder with respect to the Shares.

(III) If our Company decides to issue new Share certificates to the applicant, it shall publish an announcement in a newspaper designated by the Board of Directors indicating that plan to re-issue new Share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days.

(IV) Before publishing the announcement indicating that we plan to re-issue new Share certificates, our Company shall submit a copy of the announcement to be published to the securities exchange on which the Shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days.

If the application for reissue of new Share certificates is not approved by the registered Shareholders of the related Shares, our Company shall mail the copy of the announcement to be published to the Shareholders.

(V) In the event that nobody raises any objection to the reissue of new Share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (III) and (IV) above, the new share certificates may be reissued according to the application.

(VI) When re-issuing new Share certificates according to the Articles of Association, our Company shall immediately cancel the original Share certificates and register the cancelation and reissue on the register of Shareholders.

(VII) All expenses incurred by our Company from the cancelation of the original Share certificates and reissue of the new Share certificates are to be borne by the applicant. Before the applicant has provided reasonable security, our Company has the right to refuse to take any action.

Regulations on the Powers of the Board and Convening the Board Meetings

The Board of Directors is responsible to the Shareholders' general meeting and exercises the following powers:

(1) Convene the general Shareholders' meeting and report on work to the Shareholders' general meeting;

(2) Carry out the resolutions of the Shareholders' general meeting;

(3) Determine our business and investment plans;

(4) Make the annual financial budget and closing account plans;

(5) Make the profit distribution and loss offset plans;

(6) Formulate the plans for increasing or decreasing our registered capital and the issue on corporate bonds;

(7) Make our Company's material merger or sale plan, and the plan to buy back its own shares;

(8) Make plans for our Company's merger, separation, and dissolution;

(9) Make plans for our Company's change of form;

(10) Make decision on issues in respect of external investment (including increase in investment and equity transfer), financing, venture investment, entrusted wealth management, provision of external guarantees, save and except for those decisions to be decided by the Shareholders' general meeting pursuant to the law, regulations, Listing Rules and the Articles of Association;

(11) Make decision on the setup of our Company's internal management organization;

(12) Appoint or dismiss the general manager of our Company; based on the nomination of the general manager, to appoint or dismiss our deputy general manager and chief financial officer; to appoint or dismiss the secretary to the Board, and determine their remuneration;

(13) Establish the basic management systems of our Company;

(14) Make the modification plan to this Articles of Association;

(15) Disclose the manage information of our Company;

(16) Propose at Shareholders' general meetings for the appointment, renewal or remove of accountant's firm conducting audit for our Company;

(17) Listen to the work report of the general manager and review the work of the general manager;

(18) Other duties authorized by the laws, administrative regulations, department rules and the Listing Rules.

All of the above resolutions adopted by the Board of Directors, except for those in (VI), (VIII) and (XIV), which must be approved by more than a two-thirds vote of the Directors, are to be approved by a simple majority of votes by the Directors.

Board meetings are to be convened at least four times a year and called by the chairman of the Board of Directors, and a notice shall be sent to all Directors 14 days prior to the meeting.

If the shareholders with over 10% of voting rights, or over one third of Directors or Supervisors make a proposal for a special Board meeting, the chairman of the Board shall convene the special Board meeting in 10 days upon receiving the proposal.

The Directors shall attend the Board meeting in person. If the Director is unable to attend the meeting for some reason, he/she may appoint in writing another Director to attend the Board meeting. The proxy letter must specify authority domain.

The Director who attends the meeting on behalf of another Director is to exercise the right of the Director within the scope of authorization. If any Director fails to attend the Board meeting or to entrust a proxy to be present on his/her behalf, such Director is deemed to have waived his/her voting rights at that meeting.

Board meetings are to be attended by more than half of the Directors (including their proxies) before the Board meeting can be convened.

Each Director has one vote. Besides the specific provisions in the Articles of Association, resolutions made by the Board of Directors must be approved by more than half of the Directors' votes.

Independent Director

The Board of Directors includes three independent non-executive Directors.

Secretary to the Board

The secretary to the Board must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

Supervisory Board

Our Company shall set up a Supervisory Board. The Supervisory Board consists of three Supervisors, and one of them serves as the chairman of the Supervisory Board. The Supervisors serve a three-years term and may be re-elected. The chairman of the Supervisory Board shall be elected and dismissed with more than a two-thirds vote of the members of the Supervisory Board.

The Supervisory Board shall consist of two shareholder representatives and one employee representatives of our Company. The shareholder representatives shall be elected and dismissed by the Shareholders' general meeting. The employee representative shall be elected democratically via employees' meeting, employees' representative meeting or other ways.

The Directors, general manager, and other executives may not serve as Supervisors.

The Supervisory meeting shall be convened at least twice a year. The chairman of the Supervisory Board is entitled to hold the meeting. The chairman shall notice every supervisors 10 days prior to the meeting. The special supervisory meeting shall be convened via any supervisor's proposal.

The Supervisory Board is responsible to the general Shareholders' meeting and lawfully exercises the following powers:

(I) Examine the financial standing of our Company;

(II) Supervise the Directors, general manager and other executives in performing their duties to our Company, to determine whether there is any action in contravention of any laws, administrative regulations or the Articles of Association, and to put forward suggestions for dismissing any Directors or executives who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the Shareholders' general meetings;

(III) Require the Directors, general manager and other executives to take corrective measures when their actions are detrimental to our Company's interests;

(IV) Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general Shareholders' meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;

(V) Propose to convene an extraordinary general Shareholders' meeting, when the Board of Directors fails to perform the duties in relation to convening or presiding over the general meeting as required by our Company Law, to convene and preside over the general Shareholders' meeting;

(VI) Submit proposals at the general Shareholders' meetings;

(VII) Propose to convene extraordinary Board meetings;

(VIII) Attend the Board meeting and may make queries or provide suggestions on the resolutions of the Board meeting;

(IX) Represents our Company in negotiating with or in bringing actions against the Directors and executives;

(X) Investigate into any abnormalities in operation of our Company; if necessary, to engage accounting firms, law firms and other professional institutions to assist its work, and the expenses are to be borne by our Company;

(XI) Other duties authorized by laws, regulations, Listing Rules or the Articles of Association.

General Manager

Our Company includes one general manager, nominated, appointed or dismissed by the Board of Directors.

The general manager of our Company is responsible to the Board of Directors and exercises the following powers:

(I) Be in charge of the producing and operational management of our Company, to carry out the resolutions from the Board of Directors, and report to the Board of Directors;

(II) Carry out the annual operation plans and investment plans of our Company;

(III) Formulate the structure plans of the internal management agency of our Company;

(IV) Formulate the basic management system of our Company;

(V) Formulate the basic rules of our Company;

(VI) Propose to the Board of Directors of the appointment or dismissal of the deputy general manager, chief financial officer and chief engineer of our Company;

(VII) Appoint or dismiss executives other than those shall be appointed or dismissed by the Board of Directors;

(VIII) Other powers and duties authorized by the Articles of Association and the Board of Directors.

Reserves

At the time of distribution of the annual after-tax earnings, our Company must allocate 10% of the profits to our statutory reserve. Once the aggregate amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations need to be provided.

If the statutory reserve is insufficient to offset the losses incurred during the previous year, the profits generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

After allocation to the statutory reserve from the profits after tax of our Company, it may also allocate to the reserves at will from after-tax earnings in line with the resolution(s) adopted at the Shareholders' general meeting.

After offsetting the losses and allocating to the reserve, all remaining profits after tax may be distributed in proportion to Shares held by Shareholders.

If it is resolved at the general Shareholders' meeting to distribute profit to Shareholders before offsetting the losses and making allocation to statutory revenue reserve in violation to the provisions of the previous paragraph, the Shareholders shall return such distributed profits to our Company.

The Shares held by our Company may not engage in the profit distribution.

Settlement of Disputes

Our Company shall comply with the following rules governing the settlement of disputes:

(I) If there are disputes or claims between Shareholders of the overseas-listed foreign Shares and our Company, between Shareholders of the overseas-listed foreign Shares and our Company's Directors, Supervisors, general manager or other executives, or between Shareholders of the overseas-listed foreign Shares and Shareholders of Domestic Shares regarding the rights or obligations relating to the affairs of our Company imposed by the Articles of Association, our Company Law and other relevant laws and administrative regulations, such disputes or claims are to be referred by the relevant parties to arbitration.

Once the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or dispute as a whole must be referred to arbitration, and any party, who has a cause of action based on the same facts or whose participation is necessary for the settlement of such dispute or claim, is bound by the award of the arbitration provided that such person is our Company or a Shareholder, a Director, a Supervisor, the general manager or other executive of our Company.

Disputes in relation to the definition of Shareholders and the Shareholders' register need not be resolved by arbitration.

(II) A claimant may choose arbitration institutions from the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules and the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body so elected by the claimant.

If a claimant choose Hong Kong International Arbitration Center as the arbitration institution, any party related to the dispute may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

(III) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in item (I), unless otherwise provided in the laws and administrative regulations.

(IV) The award of an arbitration body shall be final and binding on all parties.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Establishment of our Company

Our Company was established in the PRC as a limited company on April 9, 2001 and was converted into a joint stock limited liability company on November 26, 2015. We established a place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and was registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on April 25, 2016. Ms. Lo Yee Har Susan, one of the joint company secretaries of our Company, has been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus.

2. Changes in registered capital of our Company

Pursuant to the shareholders' resolutions passed by the then shareholders of our Company on November 17, 2015, our Company was converted from a limited liability company into a joint stock limited company. Immediately upon the conversion, the registered capital of our Company was increased from RMB84,570,000 to RMB336,690,000 and was divided into 336,690,000 shares of RMB1 each, and all the then shareholders of our Company were allotted and issued such number of shares corresponding to the proportion of the respective equity interest in our Company prior to the conversion. The subscription price for these initial shares was based on the net asset value of our Company as of July 31, 2015. As of the Latest Practicable Date, the share capital of our Company was RMB336,690,000 divided into 336,690,000 Shares of nominal value of RMB1 each, all of which were fully paid up and were held as to in aggregate approximately 89.23% by members of the Controlling Shareholders Group and in aggregate approximately 10.77% by certain other individual Shareholders that included certain Directors and employees of our Group. Please refer to the section headed "History and Development — Corporate structure" of this prospectus for more information relating to the shareholding and corporate structure of our Group immediately prior to the Global Offering.

On November 30, 2015, the then shareholders of our Company resolved that subject to CSRC approval, the nominal value of our Shares shall be sub-divided from RMB1 per Share to RMB0.5 per Share prior to the Listing. On January 18, 2016, we obtained the CSRC approval for the issue of not more than 258,129,000 H Shares with a nominal value of RMB0.5 each under the Global Offering. As a result, a total of 673,380,000 Domestic Shares with nominal value of RMB0.5 each will be in issue upon the Listing.

Assuming the Over-allotment Option is not exercised, immediately upon completion of the Global Offering, the registered capital of our Company will be RMB448,920,000, made up of 673,380,000 Domestic Shares and 224,460,000 H Shares, with a nominal value of RMB0.5 each.

Assuming the Over-allotment Option is exercised in full, immediately upon completion of the Global Offering, the registered capital of our Company will be RMB465,754,500, made up of 673,380,000 Domestic Shares and 258,129,000 H Shares, with a nominal value of RMB0.5 each.

Save as disclosed in this paragraph and in the paragraph headed "History and development — Material change in registered capital and/or equity holders of members of our Group" of this prospectus, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this prospectus.

3. Resolutions of all Shareholders passed on November 30, 2015

At our Shareholders' meeting held on November 30, 2015, among other things, the following resolutions were passed by our Shareholders:

(a) approving the issue of the H Shares by our Company and the Listing;

(b) subject to completion of the Global Offering, the Articles of Association has been approved and adopted, which shall become effective on the Listing Date; and

(c) approving the Board and the person(s) authorised by the Board to handle all matters relating to, among other thing, the issue of the H Shares and the Listing.

4. Changes in share capital of our subsidiaries

As of the Latest Practicable Date, our Group comprised our Company and three subsidiaries, namely Yichen Corporate, Yichen Railway and Yichen Trading.

There had been no alteration in the share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

5. Further information of our subsidiaries

Our Group had interest in the registered capital of the following subsidiaries in the PRC as of the Latest Practicable Date. A summary of the corporate information of each of these entities as of the Latest Practicable Date is set out as follows:

(A) Yichen Corporate

(i)	Name of the enterprise:	石家莊市藁城區翼辰企業管理服務有限公司 (Shijiazhuang City Gaocheng District Yichen Corporate Management Services Co., Ltd.*)
(ii)	Economic nature:	Limited liability company
(iii)	Registered owner:	Our Company
(iv)	Registered capital:	RMB2,950,000

(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	May 6, 2011 to May 15, 2031
(vii)	Scope of business:	民辦企業管理服務；物業管理服務；園林綠化工程施工及服務；保潔服務；商品包裝服務；機械設備製造、維修服務；廠內搬運服務；金屬製品加工 (依法須經批准的項目，經相關部門批准後方可開展經營活動) Private corporate management services; property management services; landscaping project construction and services; cleaning services; product packaging services; manufacture and maintenance services of machinery and equipments; intra-plant transport services; metal product processing (for items requiring legal approval, operation can only be commenced upon approval from relevant departments*)

(B) Yichen Railway

(i)	Name of the enterprise:	石家莊市藁城區翼辰鐵路工務器材有限公司 (Shijiazhuang City Gaocheng District Yichen Railway Maintenance Equipments Co., Ltd.*)
(ii)	Economic nature:	Limited liability company
(iii)	Registered owner:	Our Company
(iv)	Registered capital:	RMB18,150,000
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	October 9, 2000 to October 8, 2020
(vii)	Scope of business:	生產性廢舊金屬回收；鐵路器材及零配件製造、銷售(法律、行政法規規定，需辦理前置許可的項目，未經批准不得經營) Recycle of scrap metals in production process; manufacture and sales of railway equipments and spare parts (application for permit for items is required by laws and administrative regulations, no operation without approval*)

(C) Yichen Trading

(i)	Name of the enterprise:	河北翼辰貿易有限公司 (Hebei Yichen Trading Co., Ltd.*)
(ii)	Economic nature:	Limited liability company
(iii)	Registered owner:	Our Company
(iv)	Registered capital:	RMB3,000,000
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	September 27, 2013 to September 26, 2033
(vii)	Scope of business:	金屬製品、橡塑製品、尼龍製品、五金製品、化工產品(不含化學危險品和一類易制毒化學品)、紡織品及針織品、服裝鞋帽、工藝品、機械設備、食品儀器儀表銷售;自營或代理貨物及技術的進出口業務(以上各項法律、行政法規、國務院規定禁止的項目,不准經營;需經專項審批的項目,未獲得批准之前不准經營) Metal products, rubber products, nylon products, hardware products, chemical products (excluding hazardous chemicals and category 1 precursor chemicals), textiles and knitwear, garments, handicrafts, machinery and equipments, food instrumentation sales; import and export business of self-owned or distributed goods and technology (no operation is allowed for items prohibited by laws, administrative regulations and regulations of the State Council; no operation is allowed prior to approval for items subject to specific approval*)

6. Registration under Part 16 of the Companies Ordinance

Our Company has established a place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company has been registered as non-Hong Kong company under Part 16 of the Companies Ordinance. Ms. Lo Yee Har Susan, one of the joint company secretaries of our Company, has been appointed as agent of our Company for the acceptance of service of process in Hong Kong.

7. Restriction on Share Repurchase

For details please refer to the paragraph headed "Hong Kong Laws and Regulations — (b) Listing Rules — (vi) Restrictions on purchase and subscription of its own securities" in Appendix IV to this prospectus.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

8. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) an agreement dated July 29, 2015 entered into between our Company as transferor and Longji as transferee in relation to the transfer of 26 properties located at Gaocheng District, Shijiazhuang City, Hebei Province, the PRC with a total gross floor area of 47,735.97 sq.m and equipment and fixtures thereat for a total consideration of RMB52,657,897.27;

(b) an equity transfer agreement dated June 9, 2015 entered into between Mr. Zhang Ligang (張立剛) as transferor and our Company as transferee in relation to the transfer of 11.78% equity interest in Yichen Railway for a consideration of RMB2,759,963.96;

(c) the Deed of Indemnity;

(d) a cornerstone investor placing agreement dated December 5, 2016 and entered into between our Company, the Joint Global Coordinators and Profaith Group Limited ("**Profaith**"), pursuant to which Profaith has conditionally agreed to subscribe for such number of Offer Shares as equal to HK$40 million divided by the final Offer Price, rounded down to the nearest whole board lot of 1,000 H Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee);

(e) a cornerstone investor placing agreement dated December 5, 2016 and entered into between our Company, the Joint Global Coordinators and Mr. Cai Yongwang (蔡永旺) ("**Mr. Cai**"), pursuant to which Mr. Cai has conditionally agreed to subscribe for such number of Offer Shares as equal to HK$16 million divided by the final Offer Price, rounded down to the nearest whole board lot of 1,000 H Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee);

(f) a cornerstone investor placing agreement dated December 5, 2016 and entered into between our Company, the Joint Global Coordinators and Ms. Xie Nuan (謝暖) ("**Ms. Xie**"), pursuant to which Ms. Xie has conditionally agreed to subscribe for such number of Offer Shares as equal to HK$24 million divided by the final Offer Price, rounded down to the nearest whole board lot of 1,000 H Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee); and

(g) the Hong Kong Underwriting Agreement.

9. Intellectual property rights of our Group

(a) Trademarks

As of the Latest Practicable Date, our Group had registered the following trademarks which might be material in relation to our business:

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.		Yichen Railway	The PRC	6 *(Note 1)*	3693416	April 28, 2015 to April 27, 2025
2.		Company	The PRC	6 *(Note 2)*	3693417	April 28, 2005 to April 27, 2025
3.		Company	The PRC	6 *(Note 3)*	6607532	June 7, 2010 to June 6, 2020
4.	翼辰	Company	The PRC	6 *(Note 4)*	12502522	September 28, 2014 to September 27, 2024
5.		Company	Hong Kong	6,17 *(Notes 5 and 6)*	303486033	July 28, 2015 to July 27, 2025

Notes:

1. The specific products under class 6 in respect of which the trademark was registered are metal ring railings; railway metal materials.

2. The specific products under class 6 in respect of which the trademark was registered are metal electrodes; flux cored wire.

3. The specific products under class 6 in respect of which the trademark was registered are metal washers; metal bolts; metal rings; metal hooks (fasteners); ordinary metal buckles (hardware appliances); metal screw nuts.

4. The specific products under class 6 in respect of which the trademark was registered are metal washers; metal bolts; metal rings; metal hooks (fasteners); metal screw nuts metal rivets; fastening screws for vehicles; ordinary metal buckles (hardware appliances); metal electrodes; rosin solder wires.

5. The specific products under class 6 in respect of which the trademark was registered are bolts of metal; bolts, flat; cast iron, unwrought or semi-wrought; fish plates (rails); railway points/railway switches; railway material of metal; soldering wire of metal; springs (metal hardware).

6. The specific product under class 17 in respect of which the trademark was registered is balata.

(b) Patents

As of the Latest Practicable Date, our Group had the following registered patents which are material in relation to our Group's business:

No.	Patent *(Note)*	Registered owner	Place of registration	Type	Registration number	Duration of validity
1.	耐磨堆焊自保護藥芯焊絲 (Durable hardfacing self-shielded flux cored wire)	Our Company	PRC	Invention	ZL201010258163.1	August 20, 2010 to August 19, 2030
2.	全位置高韌性自保護藥芯焊絲 (All-position high toughness self-shielded flux cored wire)	Our Company	PRC	Invention	ZL200910074611.X	June 3, 2009 to June 2, 2029
3.	全位置含鈮不銹鋼藥芯焊絲 (All-position niobium stainless steel flux cored wire)	Our Company	PRC	Invention	ZL200910075718.6	October 16, 2009 to October 15, 2029
4.	帶齒調距軌撐 (Geared pitch rail support)	Our Company	PRC	Utility Model	ZL201320372935.3	June 27, 2013 to June 26, 2023
5.	加強型彈條 (Enhanced spring bars)	Our Company	PRC	Utility Model	ZL201320376765.6	June 27, 2013 to June 26, 2023
6.	減震器旋轉固定裝置 (Shock absorber rotary fixtures)	Our Company	PRC	Utility Model	ZL201220232933.X	May 14, 2012 to May 13, 2022
7.	螺栓用圓鋼縮徑裝置 (Round steel necking device for bolts)	Our Company	PRC	Utility Model	ZL201220543855.5	October 23, 2012 to October 22, 2022
8.	曲綫重載軌撐 (Curve heavy haul rail support)	Our Company	PRC	Utility Model	ZL201320373040.1	June 27, 2013 to June 26, 2023
9.	一種軌撐 (A type of rail support)	Our Company	PRC	Utility Model	ZL201220543596.6	October 23, 2012 to October 22, 2022
10.	一種可防止彈條過安裝的鐵墊板 (A type of iron plates which is capable of preventing over installation of spring bars)	Our Company	PRC	Utility Model	ZL201320421109.3	July 16, 2013 to July 15, 2023

No.	Patent *(Note)*	Registered owner	Place of registration	Type	Registration number	Duration of validity
11.	一種模具接口 (A type of mold interfaces)	Our Company	PRC	Utility Model	ZL200920102460.X	April 24, 2009 to April 23, 2019
12.	一種有防退功能的單趾彈條 (A type of single toe spring with anti-reverse function)	(i) Our Company (ii) Mr. Chen Chunguang	PRC	Utility Model	ZL201220054459.6	February 20, 2012 to February 19, 2022
13.	用於支撐鐵軌的鐵墊板澆注造型裝置 (Iron plate casting model device for rail support)	Our Company	PRC	Utility Model	ZL201220543403.7	October 23, 2012 to October 22, 2022
14.	鑄造傾斜式蔽渣系統 (Casting tilt slag cover system)	Our Company	PRC	Utility Model	ZL201220543845.1	October 23, 2012 to October 22, 2022
15.	鑄造鐵墊板切邊裝置 (Casting iron plate trimming device)	Our Company	PRC	Utility Model	ZL201220543808.0	October 23, 2012 to October 24, 2022
16.	有軌電車無螺栓扣件系統 (Tram bolt-less fastening system)	(i) Our Company (ii) 廣州地鐵設計研究院有限公司 (Guangzhou Subway Design Institute Co., Ltd.*)	PRC	Utility Model	ZL201420170104.2	April 9, 2014 to April 8, 2024
17.	二合一電爐除塵系統 (Two-in-one electric stove dust removal system)	Our Company	PRC	Utility Model	ZL201420695947.4	November 19, 2014 to November 18, 2024
18.	鐵路軌道扣件防鬆止退系統 (Railway fastener locking system)	Our Company	PRC	Invention	ZL201410083373.X	March 6, 2014 to March 5, 2034
19.	無彈條軌道扣件系統 (Spring-less railway fastening system)	(i) Our Company (ii) 深圳市市政設計研究院有限公司 (Shenzhen Municipal Design & Research Institute Co., Ltd.*)	PRC	Invention	ZL201410408904.8	August 19, 2014 to August 18, 2034

No.	Patent *(Note)*	Registered owner	Place of registration	Type	Registration number	Duration of validity
20.	螺栓固定式減震扣件 (Bolt-fixed vibration reduction fasteners)	Our Company	PRC	Utility Model	ZL201520832981.6	October 26, 2015 to October 25, 2025
21.	插銷式雙層減震扣件 (Plug locked, double-layered vibration reduction bolt fastener)	Our Company	PRC	Utility Model	ZL201520832185.2	October 26, 2015 to October 25, 2025
22.	一種上鎖扣型減震扣件系統 (A type of lock-type vibration reduction fastening system)	Our Company	PRC	Utility Model	ZL201520904914.0	November 13, 2015 to November 12, 2025

Note:

The English translation is for identification and reference only.

As of the Latest Practicable Date, our Group had applied for the registration of the following patents which are or may be material in relation to our Group's business:

No.	Patent *(Note)*	Applicant	Place of application	Type	Application number	Application Date
1.	有軌電車無螺栓扣件系統 (Tram bolt-less fastening system)	(i) Our Company (ii) 廣州地鐵設計研究院有限公司 (Guangzhou Subway Design Institute Co., Ltd.*)	PRC	Invention	201410140701.5	April 9, 2014
2.	用於平焊和橫焊的自保護藥芯焊絲 (Self-shielded flux cored wire for flat welding and horizontal welding)	Our Company	PRC	Invention	201510700158.4	October 26, 2015
3.	一種用於水泥輥堆焊自保護藥芯焊絲 (A self-shielded flux cored wire for roller cement)	Our Company	PRC	Invention	201510700370.0	October 26, 2015

No.	Patent *(Note)*	Applicant	Place of application	Type	Application number	Application Date
4.	單趾小阻力彈條 (Single toe less resistance spring bars)	Our Company	PRC	Utility Model	201620863957.3	August 11, 2016
5.	中空減震尼龍墊板 (Hollow vibration reduction nylon plates)	Our Company	PRC	Utility Model	201620868268.1	August 11, 2016
6.	一種雙頭螺旋道釘搓絲機 (A double-headed screw spike rolling machine)	Our Company	PRC	Utility Model	201621008302.4	August 31, 2016

Note:

The English translation is for identification and reference only.

(c) Domain name

As of the Latest Practicable Date, our Group had registered the following domain name:

No.	Domain Name	Registration Date	Expiry Date
1.	http://www.hbyc.com.cn	April 20, 2011	February 1, 2021

10. Connected transactions and related party transactions

Save as disclosed in the section headed "Continuing Connected transactions" of this prospectus and in note 34 to the Accountant's Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material connected transactions or related party transactions.

FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

11. Directors and Supervisors

(a) Disclosure of interests of Directors and Supervisors

Save as disclosed in the paragraph headed "History and Development — Material change in registered capital and/or equity holders of members of our Group" and section headed "Continuing Connected Transactions" of this prospectus, none of our Directors and Supervisors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) Particulars of Directors' and Supervisors' service contracts

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for a term commencing from October 20, 2016 and expiring on November 17, 2018 unless terminated by the Company by way of ordinary resolutions of the Shareholders at a general meeting of our Company in accordance with the applicable laws of the PRC and Hong Kong. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of these executive Directors is entitled to a basic salary as set out below (subject to an annual increment at the discretion of the Directors as authorized by a general meeting of the Company) and a discretionary management bonus in such sum as the Board may in its absolute discretion determine based on the financial performance of our Group in that financial year provided that the maximum amount of bonuses payable to each of these executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated net profit of our Group (after taxation, minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him/her.

The current basic annual salaries of the executive Directors are as follows:

Name	**Annual salary**
	(RMB)
Mr. Zhang Haijun(張海軍)	360,000
Mr. Zhang Ligang (張立剛)	230,000
Mr. Wu Jinyu (吳金玉)	190,000
Mr. Zhang Chao (張超)	140,000
Mr. Zhang Lihuan (張力歡)	170,000
Ms. Fan Xiulan (樊秀蘭)	170,000

INEDs

Each of our INEDs has entered into an appointment letter with our Company pursuant to which they agreed to act as INEDs for a term commencing from October 20, 2016 and expiring on November 17, 2018 unless terminated by the Company by way of ordinary resolutions of our Shareholders at a general meeting of our Company in accordance with the applicable laws of the PRC and Hong Kong. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of Mr. Jip Ki Chi, Mr. Wang Qi and Mr. Zhang Liguo is entitled to a Director's fee of HK$166,560 per annum, RMB40,000 per annum and RMB40,000 per annum respectively, with effect from the Listing Date. Save for Directors' fees, none of the INEDs is expected to receive any other remuneration for holding their office as an INED.

Supervisors

Each of our Supervisors has entered into a service agreement with our Company pursuant to which they agreed to act as Supervisors for a term commencing from October 20, 2016 and expiring on November 16, 2018 (for Mr. Zhou Encheng) or November 17, 2018 (for Mr. Zhang Xiaosuo and Ms. Liu Jiao) unless terminated by the Company by giving to the relevant Supervisor not less than three months' written notice at any time after expiry of the first year during the term of his/her appointment. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Supervisors, removal and retirement by rotation of Supervisors. Each of Mr. Zhang Xiaosuo, Mr. Zhou Encheng and Ms. Liu Jiao is entitled to a fee of RMB260,000 per annum, RMB110,000 per annum and RMB80,000 per annum respectively. Save for Supervisors' fees, none of our Supervisors is expected to receive any other remuneration for holding their office as a Supervisor.

Save as disclosed aforesaid, none of our Directors or Supervisors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by our Company within one year without the payment of compensation (other than statutory compensation).

(c) Remuneration of Directors and Supervisors

(i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors and Supervisors in respect of the three years ended December 31, 2015 and the six months ended June 30, 2016 were approximately RMB1.1 million, RMB1.1 million, RMB1.1 million and RMB0.7 million respectively.

(ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our INEDs) and Supervisors for the year ending December 31, 2016, are expected to be approximately RMB1.3 million.

(iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended December 31, 2015 and the six months ended June 30, 2016 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended December 31, 2015 and the six months ended June 30, 2016.

(d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the interests or short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our

Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Name	Class of Shares held after the Global Offering	Capacity/Nature of interest	Number of Shares	Deemed interest pursuant to Section 317 of the SFO *(Note 1)*	Total approximate percentage of shareholding in the relevant class after the Global Offering *(Note 2)*	Total approximate percentage of shareholding in the total share capital of our Company after the Global Offering *(Note 3)*
Mr. Zhang Haijun	Domestic Shares	Beneficial owner	133,598,592	467,258,382	89.23%	66.92%
Mr. Zhang Ligang (張立剛)	Domestic Shares	Beneficial owner	27,608,580	573,248,394	89.23%	66.92%
Mr. Wu Jinyu (吳金玉)	Domestic Shares	Beneficial owner	29,561,382	571,295,592	89.23%	66.92%
Mr. Zhang Chao (張超)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Lihuan (張力歡)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Ms. Fan Xiulan (樊秀蘭)	Domestic Shares	Beneficial owner	942,732	N/A	0.14%	0.11%
Mr. Zhang Xiaosuo (張小鎖)	Domestic Shares	Beneficial owner	87,068,034	513,788,940	89.23%	66.92%
Ms. Liu Jiao (劉姣) *(Note 4)*............	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%

Notes:

(1) Members of the Controlling Shareholders Group are parties acting in concert and on December 2, 2015, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all, all the members of the Controlling Shareholders Group will together control approximately 66.92% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by the other members of the Controlling Shareholders Group.

(2) The calculation is based on the total number of 673,380,000 Domestic Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.

(3) The calculation is based on the total number of 897,840,000 Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.

(4) Ms. Liu Jiao (劉姣) is the spouse of Mr. Zhang Libin (張力斌). Under the SFO, Ms. Liu Jiao (劉姣) will be deemed to be interested in the same number of Shares in which Mr. Zhang Libin (張力斌) is interested.

12. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following completion of the Global Offering (but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "11. Directors and Supervisors — (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" above, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	Class of Shares held after the Global Offering	Capacity/Nature of interest	Number of Shares	Deemed interest pursuant to Section 317 of the SFO *(Note 1)*	Total approximate percentage of shareholding in the relevant class after the Global Offering *(Note 2)*	Total approximate percentage of shareholding in the total share capital of our Company after the Global Offering *(Note 3)*
Ms. Zhou Qiuju (周秋菊) *(Note 4)*	Domestic Shares	Interest of spouse	133,598,592	467,258,382	89.23%	66.92%
Ms. Zhang Junxia (張軍霞)	Domestic Shares	Beneficial owner	87,270,048	513,586,926	89.23%	66.92%
Ms. Zhang Xiaoxia (張小霞) *(Note 5)*	Domestic Shares	Interest of spouse	87,068,034	513,788,940	89.23%	66.92%
Mr. Zhang Xiaogeng (張小更)	Domestic Shares	Beneficial owner	86,866,020	513,990,954	89.23%	66.92%
Ms. Sun Shujing (孫書京) *(Note 6)*	Domestic Shares	Interest of spouse	86,866,020	513,990,954	89.23%	66.92%
Ms. Zhang Xiaoxia (張曉霞) *(Note 7)*	Domestic Shares	Interest of spouse	29,561,382	571,295,592	89.23%	66.92%
Ms. Di Junping (翟軍平) *(Note 8)*	Domestic Shares	Interest of spouse	27,608,580	573,248,394	89.23%	66.92%
Ms. Zhang Weihuan (張偉環) *(Note 9)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%

Name	Class of Shares held after the Global Offering	Capacity/Nature of interest	Number of Shares	Deemed interest pursuant to Section 317 of the SFO *(Note 1)*	Total approximate percentage of shareholding in the relevant class after the Global Offering *(Note 2)*	Total approximate percentage of shareholding in the total share capital of our Company after the Global Offering *(Note 3)*
Mr. Zhang Lijie (張力杰)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Ms. Liu Lixia (劉麗霞) *(Note 10)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Lifeng (張力峰)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Ms. Yang Yunjuan (楊雲娟) *(Note 11)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%
Ms. Zhang Yanfeng (張艷峰)	Domestic Shares	Beneficial owner	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Weiwei (張偉衛) *(Note 12)*	Domestic Shares	Interest of spouse	19,123,992	581,732,982	89.23%	66.92%
Mr. Zhang Libin (張力斌)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Ms. Yin Yanping (尹彥萍) *(Note 13)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Mr. Zhang Ning (張寧)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Ms. Huang Li (黃麗) *(Note 14)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Ms. Zhang Hong (張宏)	Domestic Shares	Beneficial owner	17,507,880	583,349,094	89.23%	66.92%
Mr. Liu Chaohui (劉朝輝) *(Note 15)*	Domestic Shares	Interest of spouse	17,507,880	583,349,094	89.23%	66.92%
Mr. Zhang Ruiqiu (張瑞秋)	Domestic Shares	Beneficial owner	2,356,830	598,500,144	89.23%	66.92%
Ms. Gao Xiangrong (高香榮) *(Note 16)*	Domestic Shares	Interest of spouse	2,356,830	598,500,144	89.23%	66.92%
Profaith Group Limited *(Note 17)*	H Shares	Beneficial owner	13,333,000	N/A	5.94%	1.49%
China Oil And Gas Group Limited *(Note 17)*	H Shares	Interest in controlled corporation	13,333,000	N/A	5.94%	1.49%

Notes:

(1) Members of the Controlling Shareholders Group are parties acting in concert and on December 2, 2015, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all, all the members of the Controlling Shareholders Group will together control approximately 66.92% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by the other members of the Controlling Shareholders Group.

(2) The calculation is based on the total number of 673,380,000 Domestic Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.

(3) The calculation is based on the total number of 897,840,000 Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.

(4) Ms. Zhou Qiuju (周秋菊) is the spouse of Mr. Zhang Haijun. Under the SFO, Ms. Zhou Qiuju (周秋菊) will be deemed to be interested in the same number of Shares in which Mr. Zhang Haijun is interested.

(5) Ms. Zhang Xiaoxia (張小霞) is the spouse of Mr. Zhang Xiaosuo (張小鎖). Under the SFO, Ms. Zhang Xiaoxia (張小霞) will be deemed to be interested in the same number of Shares in which Mr. Zhang Xiaosuo (張小鎖) is interested.

(6) Ms. Sun Shujing (孫書京) is the spouse of Mr. Zhang Xiaogeng (張小更). Under the SFO, Ms. Sun Shujing (孫書京) will be deemed to be interested in the same number of Shares in which Mr. Zhang Xiaogeng (張小更) is interested.

(7) Ms. Zhang Xiaoxia (張曉霞) is the spouse of Mr. Wu Jinyu (吳金玉). Under the SFO, Ms. Zhang Xiaoxia (張曉霞) will be deemed to be interested in the same number of Shares in which Mr. Wu Jinyu (吳金玉) is interested.

(8) Ms. Di Junping (翟軍平) is the spouse of Mr. Zhang Ligang (張立剛). Under the SFO, Ms. Di Junping (翟軍平) will be deemed to be interested in the same number of Shares in which Mr. Zhang Ligang (張立剛) is interested.

(9) Ms. Zhang Weihuan (張偉環) is the spouse of Mr. Zhang Chao (張超). Under the SFO, Ms. Zhang Weihuan (張偉環) will be deemed to be interested in the same number of Shares in which Mr. Zhang Chao (張超) is interested.

(10) Ms. Liu Lixia (劉麗霞) is the spouse of Mr. Zhang Lijie (張力杰). Under the SFO, Ms. Liu Lixia (劉麗霞) will be deemed to be interested in the same number of Shares in which Mr. Zhang Lijie (張力杰) is interested.

(11) Ms. Yang Yunjuan (楊雲娟) is the spouse of Mr. Zhang Lifeng (張力峰). Under the SFO, Ms. Yang Yunjuan (楊雲娟) will be deemed to be interested in the same number of Shares in which Mr. Zhang Lifeng (張力峰) is interested.

(12) Mr. Zhang Weiwei (張偉衛) is the spouse of Ms. Zhang Yanfeng (張艷峰). Under the SFO, Mr. Zhang Weiwei (張偉衛) will be deemed to be interested in the same number of Shares in which Ms. Zhang Yanfeng (張艷峰) is interested.

(13) Ms. Yin Yanping (尹彥萍) is the spouse of Mr. Zhang Lihuan (張力歡). Under the SFO, Ms. Yin Yanping (尹彥萍) will be deemed to be interested in the same number of Shares in which Mr. Zhang Lihuan (張力歡) is interested.

(14) Ms. Huang Li (黃麗) is the spouse of Mr. Zhang Ning (張寧). Under the SFO, Ms. Huang Li (黃麗) will be deemed to be interested in the same number of Shares in which Mr. Zhang Ning (張寧) is interested.

(15) Mr. Liu Chaohui (劉朝輝) is the spouse of Ms. Zhang Hong (張宏). Under the SFO, Mr. Liu Chaohui (劉朝輝) will be deemed to be interested in the same number of Shares in which Ms. Zhang Hong (張宏) is interested.

(16) Ms. Gao Xiangrong (高香榮) is the spouse of Mr. Zhang Ruiqiu (張瑞秋). Under the SFO, Ms. Gao Xiangrong (高香榮) will be deemed to be interested in the same number of Shares in which Mr. Zhang Ruiqiu (張瑞秋) is interested.

(17) Pursuant to the cornerstone investor placing agreement dated December 5, 2016 and entered into between Profaith Group Limited ("Profaith"), our Company and the Joint Global Coordinators, Profaith has agreed to subscribe for such number of International Offer Shares that may be subscribed for with HK$40 million at the final Offer Price (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%), to be rounded down to the nearest whole board lot of 1,000 H Shares. Please refer to the section headed "Our Cornerstone Investors" in this prospectus for further information. The above number of H Shares assumes that the final Offer Price is fixed at HK$3.00, being the lower end of the stated Offer Price range. Profaith is wholly owned by China Oil And Gas Group Limited ("China O&G"). Under the SFO, China O&G will be deemed to be interested in the H Shares in which Profaith is interested.

13. Disclaimers

Save as disclosed in this prospectus:

(a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of us;

(b) none of our Directors or Supervisors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

(c) none of our Directors or Supervisors nor any of the parties listed in paragraph 20 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the H Shares either in his/her own name or in the name of a nominee;

(d) none of our Directors or Supervisors nor any of the parties listed in paragraph 20 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us; and

(e) save in connection with the Underwriting Agreements, none of the parties listed in paragraph 20 below:

  (i) is interested legally or beneficially in any securities of any member of us; or

  (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

OTHER INFORMATION

14. Tax and other indemnities

The members of the Controlling Shareholders Group (together, the "**Indemnifiers**") have entered into the Deed of Indemnity with and in favor of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract (c) referred to in paragraph 8 above) to provide indemnities on a joint and several basis in respect of, among other matters, tax liabilities (including all prosecutions, claims, litigations, losses, damages, payment, costs and expenses (including those incurred for professional services) incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, sales, transactions, intellectual property right, tangible and intangible assets, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring, whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation, and whether or not such tax liabilities shall be paid or payable before or after the Listing Date.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation liability to the extent that:

(a) provision has been made for such taxation liability in the audited accounts of any member of our Group for any accounting period up to June 30, 2016;

(b) such taxation liability is incurred in the ordinary course of business of any member of our Group after June 30, 2016 or relates thereto;

(c) such taxation liability is incurred in any transaction which any member of our Group engages in after the Listing Date or relates thereto;

(d) such taxation liability is incurred as a consequence of or in connection with any legally binding agreement or commitment entered into or created by any member of our Group on or before June 30, 2016;

(e) such taxation liability is incurred solely because of or in connection with any act or omission by any member of our Group after the Listing Date; or

(f) such taxation liability is incurred solely as a consequence of any retrospective amendment or change in the applicable laws, rules or regulations or the interpretations thereof by any relevant taxation authority coming into force after the Listing Date or as a consequence of any increase in the applicable taxation rates after the Listing Date with retrospective effect.

Under the Deed of Indemnity, each of the Indemnifiers has also undertaken to us that he/she will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss, costs, expenses (including those incurred for professional services), damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with (a) the conversion of our Company into a joint stock limited liability company, change in registered capital and contribution of registered capital, and/or transfer of equity interest or nominee shareholding arrangement prior to the Listing Date as described in the section headed "History and

Development" of this prospectus; (b) any breach or alleged breach of any PRC laws, rules and administrative regulations concerning (i) social insurance contribution, (ii) housing provident fund contribution, (iii) late payment of wages to employees, (iv) environmental protection obligations, and (v) the occupation, use and/or leasing of properties without the valid title documents by any member of our Group on or before the Listing Date; and (c) any breach or alleged breach of PRC laws, rules and administrative regulations by any member of our Group in the PRC as disclosed in this prospectus, provided that, if any provision has been made for such liability under (b) and (c) above in the audited accounts of any member of our Group for any accounting period up to June 30, 2016, the Indemnifiers' liability under (b) and (c) above shall be to the extent exceeding such provision only.

15. Litigation

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

16. Preliminary expenses

We have not incurred any material preliminary expenses.

17. Promoter

The promoters of our Company (the "**Promoters**") include all the members of the Controlling Shareholders Group and the other individual Shareholders of our Company who were involved in our Company's conversion into a joint stock limited liability company in November 2015, namely Mr. Zhang Haijun, Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Xiaogeng (張小更), Mr. Wu Jinyu (吳金玉), Mr. Zhang Ligang (張立剛), Mr. Zhang Suoqun (張鎖群), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Mr. Zhang Chao (張超), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Ning (張寧), Mr. Zhang Lihuan (張力歡), Mr. Zhang Libin (張力斌), Ms. Zhang Hong (張宏), Ms. Liu Huizhen (劉惠珍), Ms. Liu Jihong (劉繼紅), Mr. Zhang Fengxuan (張風選), Mr. Liu Xiwen (劉喜文), Mr. Wu Yonggang (吳永崗), Mr. Ma Hailu (馬海錄), Mr. Zhao Liqiang (趙利強), Mr. Fan Tiejun (樊鐵軍), Mr. Ma Li (馬利), Mr. Zhang Ruiqiu (張瑞秋), Mr. Zhang Qinghua (張慶華), Ms. Zhang Shuangge (張雙格), Ms. Fan Xiulan (樊秀蘭) and Mr. Gao Weifeng (高衛峰).

Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

18. Agency fees or commissions received

Pursuant to the terms and conditions of the Hong Kong Underwriting Agreement, our Company will pay BOCOM International Securities (on behalf of the Hong Kong Underwriters) a commission of 2.75% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commissions. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to BOCOM International Securities (on behalf of the relevant International Underwriters) but not the Hong Kong Underwriters. We may also in our sole discretion pay BOCOM International Securities an additional incentive fee of 1.00% of the aggregate Offer Price for the Offer Shares.

The aggregate commissions and fees payable by us in relation to the Global Offering together with the Stock Exchange listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering, assuming an Offer Price of HK$3.37 (being the mid-point of the indicative Offer Price range between HK$3.00 per H Share and HK$3.74 per H Share), are estimated to amount to approximately HK$68.4 million in total (assuming that the Over-allotment Option is not exercised).

19. Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus and any H Shares which may be issued upon the exercise of the Over-allotment Option on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Save as disclosed in this prospectus, the Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The Sole Sponsor's fee is estimated to amount to HK$4.9 million.

20. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
BOCOM International (Asia) Limited	Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Jingtian & Gongcheng	Qualified PRC lawyers
PricewaterhouseCoopers	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Professional property valuer
DLA Piper UK LLP	Legal advisers as to the applicability of sanctions administered by OFAC, the laws of other countries and under international law, including the U.S., the E.U., the United Nations and Australia, on our Group's sales of products to customers in certain countries during the Track Record Period
Frost & Sullivan	Industry consultant

21. Consents of experts

Each of BOCOM International (Asia) Limited, Jingtian & Gongcheng, PricewaterhouseCoopers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, DLA Piper UK LLP and Frost & Sullivan has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

22. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

23. Taxation of holders of H Shares

Dealings in H Shares registered on our Company's H Shares register of members will be subject to Hong Kong stamp duty. Intending holders of H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in H Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in H Shares.

Profits from dealings in H Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the H Shares being sold or transferred. Information in relation to taxation is set out in Appendix III to this prospectus.

24. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within two years preceding the date of this prospectus:

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) our Company has no outstanding convertible debt securities or debentures; and

(iv) none of our Company nor any of its subsidiaries has issued or agreed to issue any founder or management or deferred shares.

(b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since June 30, 2016 (being the date to which the latest audited consolidated financial statements of our Group were made up). Based on our current estimates, we will recognize approximately RMB2.1 million of our listing expenses as our administrative expenses for the year ending December 31, 2016, which is unlikely to have a material adverse impact on our net profit for the year ending December 31, 2016.

(c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

25. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Other information — 21. Consents of experts" in Appendix VI to this prospectus; and

(c) copies of the material contracts referred to in the paragraph headed "Further information about the business of our Company — 8. Summary of material contracts" in Appendix VI to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:30 p.m. (excluding Saturdays and public holidays) up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(c) the audited consolidated financial statements of our Group for each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016;

(d) the report from PricewaterhouseCoopers on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation;

(f) the legal opinions issued by our PRC legal advisers, Jingtian & Gongcheng, in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(g) the legal memorandum issued by our International Sanctions Legal Advisers, DLA Piper UK LLP, on the applicability of International Sanctions laws on our Group's sales of products to customers in certain countries during the Track Record Period;

(h) the industry overview report from Frost & Sullivan;

(i) the letter from Jones Lang LaSalle Corporate Appraisal and Advisory Limited relating to the leasing of premises in Beijing and Shijiazhuang, Hebei province, the PRC as described in the section headed "Continuing Connected Transactions" of this prospectus;

(j) the material contracts referred to in the paragraph headed "Further information about the business of our Company — 8. Summary of material contracts" in Appendix VI to this prospectus;

(k) the service contracts referred to in the paragraph headed "Further information about our directors and supervisors — 11. Directors and Supervisors — (b) Particulars of Directors' and Supervisors' service contracts" in Appendix VI to this prospectus; and

(l) the written consents referred to in the paragraph headed "Other information — 21. Consents of experts" in Appendix VI to this prospectus.

Hebei Yichen Industrial Group Corporation Limited*

河北翼辰實業集團股份有限公司