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

ANNUAL REPORT 2016

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhang Haijun *(Chairman)*
Mr. Zhang Ligang *(Chief Executive Officer)*
Mr. Wu Jinyu
Mr. Zhang Lihuan
Mr. Zhang Chao
Ms. Fan Xiulan

Independent non-executive Directors

Mr. Jip Ki Chi
Mr. Wang Qi
Mr. Zhang Liguo

SUPERVISORS

Mr. Zhang Xiaosuo *(Chairman)*
Ms. Liu Jiao
Mr. Zhou Encheng

AUDIT COMMITTEE

Mr. Jip Ki Chi *(Chairman)*
Mr. Wang Qi
Mr. Zhang Liguo

REMUNERATION COMMITTEE

Mr. Zhang Liguo *(Chairman)*
Mr. Wu Jinyu
Mr. Jip Ki Chi

NOMINATION COMMITTEE

Mr. Wang Qi *(Chairman)*
Ms. Fan Xiulan
Mr. Zhang Liguo

CORPORATE GOVERNANCE COMMITTEE

Mr. Jip Ki Chi *(Chairman)*
Mr. Wang Qi
Mr. Zhang Ligang

JOINT COMPANY SECRETARIES

Ms. Lo Yee Har Susan (FCS (PE), FCIS)
Mr. Zhang Chao

AUTHORIZED REPRESENTATIVES

Mr. Zhang Haijun
Ms. Lo Yee Har Susan

ALTERNATES TO THE AUTHORIZED REPRESENTATIVES

Ms. Fan Xiulan
Mr. Zhou Encheng

AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

Corporate Information

COMPLIANCE ADVISER

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central, Hong Kong

HONG KONG LEGAL ADVISER

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

PRC LEGAL ADVISER

Jingtian & Gongcheng
34/F, Tower 3
China Central Place
77 Jianguo Road
Beijing, PRC

REGISTERED OFFICE AND HEADQUARTERS

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Gaocheng District
Shijiazhuang City
Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
Hong Kong

H SHARE REGISTRAR

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Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
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STOCK CODE

1596

WEBSITE

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INVESTOR AND MEDIA RELATIONS CONSULTANT

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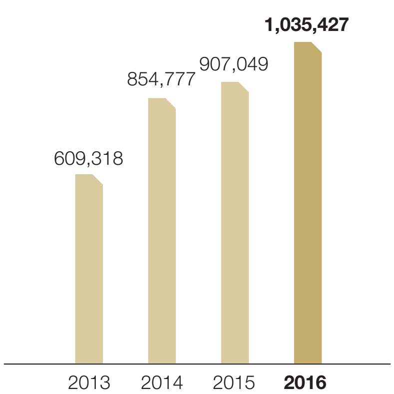
FINANCIAL SUMMARY

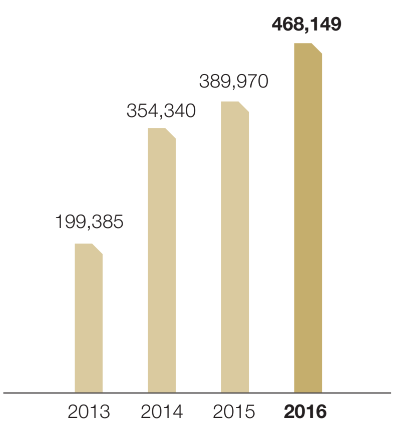
	2016	2015	2014	2013
Results (RMB'000)				
Revenue	**1,035,427**	907,049	854,777	609,318
Cost of sales	**(567,278)**	(517,079)	(500,437)	(409,933)
Gross profits	**468,149**	389,970	354,340	199,385
Selling and distribution expenses	**(48,654)**	(50,525)	(41,364)	(38,722)
General and administrative expenses	**(64,728)**	(54,147)	(51,223)	(52,455)
Profit before income tax	**354,732**	275,370	250,447	89,271
Earnings attributable to equity holders of the Company	**305,857**	228,069	188,410	67,171

	2016	2015	2014	2013
Assets and Liabilities (RMB'000)				
Non-current assets	**322,394**	278,286	267,051	263,631
Current assets	**2,056,364**	1,088,559	909,787	767,435
Non-current liabilities	**26,106**	6,338	10,455	19,791
Current liabilities	**715,096**	521,803	542,930	566,676
Equities attributable to equity holders of the Company	**1,637,556**	838,704	620,635	442,225

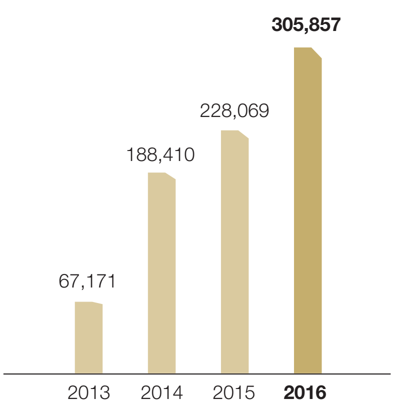
Revenue (RMB'000)



Gross profits (RMB'000)



Earnings attributable to equity shareholders of the Company



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the annual results of the Group or "Yichen Industrial" for the year ended 31 December 2016.

2016 REVIEW

On 21 December 2016, Yichen Industrial had its listing on the Main Board of Hong Kong Stock Exchange, leading to a new platform for the development of the Group.

In 2016, in the environment of downward pressure on the economy and in facing of increasingly fierce competition in the industry, the Company strived to expand its market share, improve quality and efficiency, upgrade and transform to overcome all kinds of severe challenges. For the year ended 31 December 2016, the Group recorded revenue of RMB1,035,427,000, representing an increase of 14.15% over the same period of last year and net profit of RMB305,857,000, representing an increase of 34.14% over the same period of last year; earnings per share amounted to RMB0.45, representing an increase of 32.35% over the same period of last year.

2017 OUTLOOK

2017 is a year of opportunities for the Company. In the future, Yichen Industrial will continue to provide professional products and services to our customers. The railway development in China is in its high growth phase. According to the PRC government's "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》) 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 high speed railway, by 2030. The high speed railway in the PRC is going global under "One Belt and One Road" and "High Speed Railway Diplomacy" policies. Moreover, as the number of urban population is increasing, urban transit sector has become an indispensable part of planning in various cities. The mileages in both heavy-haul railway and ordinary railway also increased. These are the factors that would bring opportunities for the Company.

Looking ahead, as a leading manufacturer of rail fasteners in China, and with the support from the international capital, we will continue to promote the Company's core competitiveness and brand influence, as well as employ "excellent technology, product, service, management and talents" in order to serve our customers.

Finally, I would like to express my sincere gratitude to our Directors, management team and all the staff members of the Company for their efforts and hard work in 2016. I also wish to extend my gratitude to our shareholders and business partners for their strong support over the past year!

Zhang Haijun
Chairman
Hebei, 22 March, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRIAL REVIEW AND ANALYSIS

2016 was the first year of the state's "13th Five Year Plan", which was China's critical stage of building a moderately prosperous society, and also a key 5 years for the reform and development of China's railway. Under the new normal economic development, acceleration in the standardized construction of railway system would play an important role as technical support to the business transformation and upgrade, protection of people's lives and properties and establishment of new pattern for the open economy. Looking back at China's railway development, the scope of railway network was under rapid expansion; a larger number high-speed railways have commenced operation; new technologies and equipment were widely applied; the requirements for the standardization has been raised and the strategies of standardization have been implemented. These are the key points of facilitating the reform and development of railway and implementation of "Going Global" of China's railway.

According to the Conference Meeting of China Railway Corporation for 2016, fixed asset investment on national railways for the year 2016 amounted to RMB801.5 billion, which maintained the scale of around RMB800.0 billion for the recent years. The mileage of new railway line was 3,218 km, while 46 projects newly commenced. The new investments amounted to RMB550.0 billion. As at the end of 2016, the total operational mileage of national railways reached 124,000 km.

Following the implementation of the state's "13th Five Year Plan", the development in the middle and western regions will be a new focus for the future railway construction. As at 2020, the investment in railway by the Central Government would amount to RMB3.8 trillion, which would be a massive business opportunity for the Group. Meanwhile, all the railway fasteners must be replaced after using for 8-10 years, which would bring a sustainable market demand for the Group in terms of repair and maintenance for all railways, as well as upgrade and replacement for traditional railway, of which the high-speed railway and heavy-haul railways would be the main focus for the future railway construction. Driven by "One Belt and One Road" and "High Speed Railway Diplomacy", there would be more opportunities for the Group in participating overseas infrastructure construction projects.

BUSINESS REVIEW

The Group is a leading rail fastening system provider to the PRC railway industry, with the major business focusing on two business segments, including 1) rail fastening system; and 2) flux cored wire products. In 2016, the total revenue of the Group amounted to RMB1,035.4 million, representing an increase of 14.15%.

Rail Fastening System Products

For the year ended 31 December 2016, the revenue from rail fastening system products amounted to RMB958.8 million, accounting for 92.6% of the Group's total revenue, and representing an increase of 15.7% when compared to the revenue of this segment over the last year which was amounted to RMB828.4 million. It is attributable to an increase in sales proportion of high speed rail fastening system products which had a higher selling price; and execution of supply agreement of substantial contract sum regarding the high speed rail fasteners with major customers in 2016.

During the year under review, cost of sales incurred by rail fastening system products increased, which was mainly attributable to an increase in sales proportion of rail fastening system products, leading to an increase in the corresponding cost of sales. However, such increase was partially offset by decrease in steel (as raw material) price. During the year, cost of sales incurred by rail fastening system products increased by 9.5% to RMB503.5 million in 2016 from RMB459.7 million in 2015.

Benefited from increase in sales volume, especially the sales volume of high-speed railway fastening system products with higher gross profit, gross profit of rail fastening system products increased to RMB455.2 million in 2016 from RMB368.7 million in 2015. Gross profit margin increased to 47.5% in 2016 from 44.5% in 2015.

During the year under review, the initial value of entering into agreements of supplying rail fastening system amounted to RMB1,238 million, representing an increase of 57.23% compared to 2015, among which the initial value of entering into agreements of high speed rail fastening system amounted to RMB839 million, representing an increase of 53.51% compared to 2015; the initial value of entering into agreements of heavy haul rail fastening system amounted to RMB109 million; the initial value of entering into agreements of metro series fastening system amounted to RMB163 million; the initial value of entering into agreements of traditional rail fastening system amounted to RMB127 million. As of 31 December 2016, the backlog of the Group amounted to RMB1,117.7 million (Value-added Tax inclusive).

Under the support from the development plan of national railway network such as the "13th Five Year Plan" and "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》), it is expected that the revenue of rail fastening system will maintain a steady growth.

Flux Cored Wire Products

For the year ended 31 December 2016, the Group's revenue from flux cored wire amounted to RMB68.9 million, accounting for 6.65% of total revenue of the Group, compared to RMB71.9 million in 2015. The change in revenue was mainly attributable to distress of welding material industry during the year under review, leading to decrease in demand, while there was a general decrease in unit price of welding material product industry, leading to decrease in revenue in relation to welding materials.

During the year under review, cost of sales incurred by welding products increased by 9.8% to RMB57.3 million in 2016 from RMB52.2 million in 2015, mainly attributable to increase in cost of steel strip (as raw material of welding products), which was partially offset by decrease in sales of welding products.

The Group's revenue incurred by welding products was mainly generated from the sales to private shipbuilding companies and trading companies operating in the shipbuilding industry. The Group expects to continue to collaborate with our existing major customers, and expects such customers to continue to contribute to a significant portion of our flux cored wire products revenue in the future.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's main business operations are manufacturing and sales of rail fastening system. The above business has brought sustainable and stable revenue to the Group. In 2016, the total revenue of the Group increased to RMB1,035.4 million from RMB907.0 million in 2015, mainly attributable to the increase in revenue from rail fastening system products.

Revenue generated from rail fastening system products increased by 15.7% to RMB958.8 million in 2016 from RMB828.4 million in 2015, mainly attributable to (i) an increase in sales proportion of high speed rail fastening system products which had a higher selling price; and (ii) execution of supply agreement of substantial contract sum regarding the high-speed rail fasteners with major customers in 2016.

Revenue generated from welding materials decreased by 4.1% to RMB68.9 million in 2016 from RMB71.9 million in 2015. 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 reflected the demand from our main welding material customers, which were primarily private shipbuilding companies and trading companies operating in the shipbuilding industry. The distress of welding material industry in 2016 had led to decrease in demand, while there was a general decrease in unit price of welding material product industry, leading to decrease in revenue in relation to welding materials.

Cost of sales

The Group's cost of sales increased by 9.7% to RMB567.3 million in 2016 from RMB517.1 million in 2015, mainly attributable to the increase in the sales volume of rail fastening system products, the increase in cost of steel strip (as raw material of welding products) and increase in relevant costs.

Cost of sales incurred by rail fastening system products increased by 9.5% to RMB503.5 million in 2016 from RMB459.7 million in 2015, mainly attributable to increase in sales proportion of rail fastening system products, leading to increase in the corresponding cost of sales.

Cost of sales incurred by welding products increased by 9.8% to RMB57.3 million in 2016 from RMB52.2 million in 2015, mainly attributable to increase in cost of steel strip (as raw material of welding products), which was partially offset by decrease in sales of welding products.

Gross profit

Based on the aforesaid reasons, the Group recorded gross profit of RMB468.1 million in 2016, representing an increase of 20.0% from RMB390.0 million in the corresponding period in 2015, which was mainly attributable to (i) increase in gross profit of rail fastening system products; and (ii) partially offset by the decrease in gross profit of welding products.

Gross profit of rail fastening system products increased to RMB455.2 million in 2016 from RMB368.7 million in the corresponding period in 2015. Gross profit margin increased to 47.5% in 2016 from 44.5% in the corresponding period in 2015, mainly attributable to increase in sales volume, especially the sales volume of high-speed railway fastening system products with higher gross profit, in 2016.

Gross profit of welding products decreased by 41.1% to RMB11.6 million in 2016 from RMB19.7 million in the corresponding period in 2015. Gross profit margin decreased to 16.8% in the corresponding period in 2016 from 27.4% in 2015, mainly attributable to (i) the decrease of 4.1% in sales revenue of welding products; and (ii) the partial offset of cost by increase in costs of raw material of welding products.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased to RMB48.7 million in 2016 from RMB50.5 million in 2015. For the years ended 31 December 2015 and 2016, selling and distribution expenses as a percentage of total revenue were 5.6% and 4.7%, respectively. Decrease in selling and distribution expenses was mainly attributable to the decrease in transportation and warehouse expenses, employee benefit costs and other costs.

General and administrative expenses

General and administrative expenses of the Group increased by 19.5% to RMB64.7 million in 2016 from RMB54.1 million in 2015. For the years ended 31 December 2015 and 2016, general and administrative expenses as a percentage of total revenue were 6.0% and 6.3%, respectively. During the reporting period, the increase in general and administrative expenses as a percentage of total revenue was mainly attributable to (i) increase in both provision of impairment of receivables and depreciation and amortization; and (ii) increase in the listing expense due to the initial public offering of the Company.

Operating profit

Based on the aforesaid reasons, the Group recorded operating profit of RMB358.1 million in 2016, representing an increase of 24.5% from RMB287.5 million in the corresponding period in 2015, mainly attributable to increase in operating profit of rail fastening system products.

Finance charges

In 2016, the Group incurred total net finance charges of RMB14.4 million, representing a decrease of 27.1% from total net finance charges of RMB19.8 million in 2015, of which the finance income increased by 67.0% to RMB1.9 million from RMB1.1 million in 2015, and finance charges decreased by 22.0% to RMB16.3 million from RMB20.9 million in 2015. Decrease in finance charges was mainly attributable to the decrease in loan interest rate.

In 2016, the Group realized foreign exchange losses of RMB0.13 million; the loss was mainly derived from the process of converting Hong Kong dollar to RMB as a result of the proceeds obtained from listing of the Company.

Share of profit of an associate

In 2016, the Group's share of profits of an associate was RMB11.1 million, representing an increase of 45.9% from RMB7.6 million in the corresponding period in 2015 which was mainly attributable to increase in profit of the associate incurred by increase in its revenue.

Income tax

Income tax expenses of the Group increased by 3.2% to RMB48.9 million in 2016 from RMB47.4 million in 2015, mainly attributable to the increase in taxable income.

The applicable corporate tax rates for the Company were 15.0% for 2016 and 2015.

Net profit

Based on the aforesaid reasons, net profit increased of RMB77.9 million or approximately 34.1% to RMB305.9 million for the year ended 31 December 2016 from RMB228.0 million for the year ended 31 December 2015. The net profit margin increased to 29.5% for the year ended 31 December 2016 from 25.1% for the year ended 31 December 2015, which was attributable to (i) increase in gross profit margin; (ii) decrease in finance costs; and (iii) increase in investment income.

Profit attributable to equity holders of the Company

The Group recorded profit attributable to equity holders of the Company of RMB305.9 million in 2016, representing an increase of 34.1% from RMB228.0 million in 2015. Basic earnings per share amounted to RMB0.45 in 2016, representing an increase of approximately 32.4% from the basic earnings per share of RMB0.34 in 2015. The increase in profit attributable to equity holders was attributable to the increase in net profit of the Group in 2016.

Financial resources and capital structure

As at 31 December 2016, the Group had cash and cash equivalents of RMB649.4 million, accounts receivable of RMB989.0 million, accounts payable of RMB258.7 million, and outstanding borrowings of RMB371.4 million. The above cash and cash equivalents denominated in RMB included RMB579.6 million equivalents of Hong Kong dollars as at 31 December 2016.

As at 31 December 2015, the Group had cash and cash equivalents of RMB85.5 million, accounts receivable of RMB753.4 million, accounts payable of RMB189.1 million, and outstanding borrowings of RMB269.2 million.

The Group usually satisfied its daily working capital requirements through self-owned cash and short-term borrowings. In December 2016, the Company completed the listing on the main board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and issued a total of 224,460,000 shares. As at 31 December 2016, the outstanding borrowings of the Group included short-term borrowings and long-term borrowings of RMB351.4 million and RMB20.0 million, respectively. The Group will promptly repay the aforesaid borrowings at maturity.

As at 31 December 2016, the weighted average annual interest rate of the Group's bank borrowings amounted to 5.07%. The loan amount based on the fix rate amounted to RMB 371.4 million.

Total assets

As at 31 December 2016, the total assets of the Group were RMB2,378.8 million, representing an increase of RMB1,011.9 million or approximately 74.0% as compared with that as at 31 December 2015, mainly attributable to (i) the increase in cash and cash equivalents as a result of receipt of proceeds from listing; (ii) increase in accounts receivable as a result of increase in revenue; and (iii) increase in land use right of intangible assets as a result of acquisition of land.

Total liabilities

As at 31 December 2016, the total liabilities of the Group were RMB741.2 million, representing an increase of RMB213.1 million or approximately 40.3% as compared with that as at 31 December 2015, mainly attributable to (i) increase in bank borrowings; and (ii) increase in accounts payable.

Total equity

As at 31 December 2016, the total equity of the Group was RMB1,637.6 million, representing an increase of RMB798.9 million as compared with that as at 31 December 2015, mainly attributable to the proceeds raised as a result of successful listing on the main board of the Stock Exchange in 2016. The total number of shares issued in the issuance was 224,460,000, based on its nominal value of RMB0.5 per share. The trade price was HK$3 per share and proceeds was HK$673.4 million (equivalent to RMB602.5 million), among which RMB112.3 million was credited to the share capital. The capital reserve was increased by RMB446.0 million after deducting the listing expenses. In 2016, the amount of transferring to statutory reserves was approximately RMB30.0 million, while the other comprehensive income incurred from the change in fair value of funds was RMB7.9 million.

Gearing ratio

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 2016, the Group’s gearing ratio was –20%, representing a decrease of 38 percentage points from 18% as at 31 December 2015, mainly attributable to the significant increase in cash and cash equivalents as a result of proceeds from listing.

Current Ratio

As at 31 December 2016, the Group’s current ratio (the current assets divided by current liabilities as of the end of the year) increased to 2.9 from 2.1 as at 31 December 2015, mainly attributable to proceeds received from listing of the Company on 21 December 2016, and the increase in accounts receivable. The current ratio reflects the Group’s liquidity. The Group will analyze its short-term repayment ability based on it and adjust its debt structure and scale of financing when applicable.

Net profit margin

In 2016, the Group’s net profit margin (net profit divided by total revenue for the year) increased to 29.5% from 25.1% in 2015, mainly attributable to the increase in sales volume of rail fastening products in 2016, especially an increase in the sales volume of high-speed railway fastening system products with higher gross profit. The net profit margin reflects the Group’s profitability. The Group will analyze and adjust its product portfolio when applicable.

Return on assets

In 2016, the Group’s return on assets (net profit divided by total assets at the end of the year) decreased to 12.9% from 16.7% in 2015, mainly attributable to the increase in net profit for the year 2016, which was offset by proceeds received from listing of H shares of the Company, and the increase in accounts receivable, which would lead to increase in total assets. The return on assets reflects the utilization of assets of the Group and the Group’s profitability. The Group will operate and manage in conjunction of such indicators.

Pledge of asset

As at 31 December 2016, accounts receivable of RMB147,347,000 were pledged for acquiring the Group‘s bank advance for factored receivables, buildings and lease prepayment for land use rights with net book value of RMB32,354,000 and RMB136,329,000 respectively were secured for acquiring the Group’s current bank borrowings and non-current bank borrowings.

Employee and remuneration policies

As at 31 December 2016, the total number of employees in the Group was 1,096 and incurred total staff costs of RMB62.6 million, representing a decrease of RMB1.1 million or approximately 1.7%, mainly attributable to (i) the decrease in number of employees of the Group; and (ii) the increase of contribution base of social insurance and housing provident fund.

The Group set employee remuneration standards based on employees’ qualifications, positions and industry average levels, and offered rewards based on the Group’s operating performance and the performance of individual employees.

In 2016, the Company has formulated a comprehensive annual training plan for the staff to have a better understanding of the systems and procedures regarding the corporate culture, production safety and quality control.

FUTURE PROSPECTS

According to the state's "Mid-to-Long Term Plan of Railway Network" (中長期鐵路網規劃), the high speed railway network shall be expanded with the addition of high-speed railways with supporting passenger flow, applicable standards and development requirements based on "Four Horizontal and Four Vertical High-speed Railway Corridors". The existing railways should be fully utilized to form a high speed railway network by adopting "Eight Horizontal and Eight Vertical High-speed Railway Corridors" as a framework, which links regional connecting lines and supplements with intercity railways. Leveraging on its gradually expanding production capacity and extensive industry experience, the Group shall seize the massive business opportunities, by focusing on the high speed railway fastening system, and continuing to increase its market share in heavy haul rail fastening system, urban transit fastening system and traditional rail fastening system at the same time. The Group shall actively expand its customer base and reinforce the Group's leading position in the industry of rail fastening system.

In 2017, the Group will continue to enhance our automated production process and information system, establish an efficient automated production line, and further enhance the production process and efficiency, in order to reduce production costs and increase the profit. Moreover, the Group will continue to actively explore the opportunities to acquire quality assets in relation to the rail fastening system in order to enhance the core competitiveness and profitability of the Group.

Looking ahead, the Group will continue to focus on rail fastening system and provide professional products and services for railway in China.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 9 April 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 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 1 January 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

Biographical Details of Directors, Supervisors and Senior Management

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. 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 9 April 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. 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 27 July 2015. Mr. Zhang was appointed as the joint company secretary of our Company on 10 December 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 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 27 July 2015. He has been the sole director and legal representative of Hebei Yiden Trading Co., Ltd (河北省翼辰貿易公司) 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.

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 27 July 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jip Ki Chi (葉奇志), aged 47, is our independent non-executive Director. Mr. Jip was appointed as an independent non-executive Director on 30 November 2015. He was admitted as a Certified Practising Accountant of the Australian Society of Certified Practising 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 30 November 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.

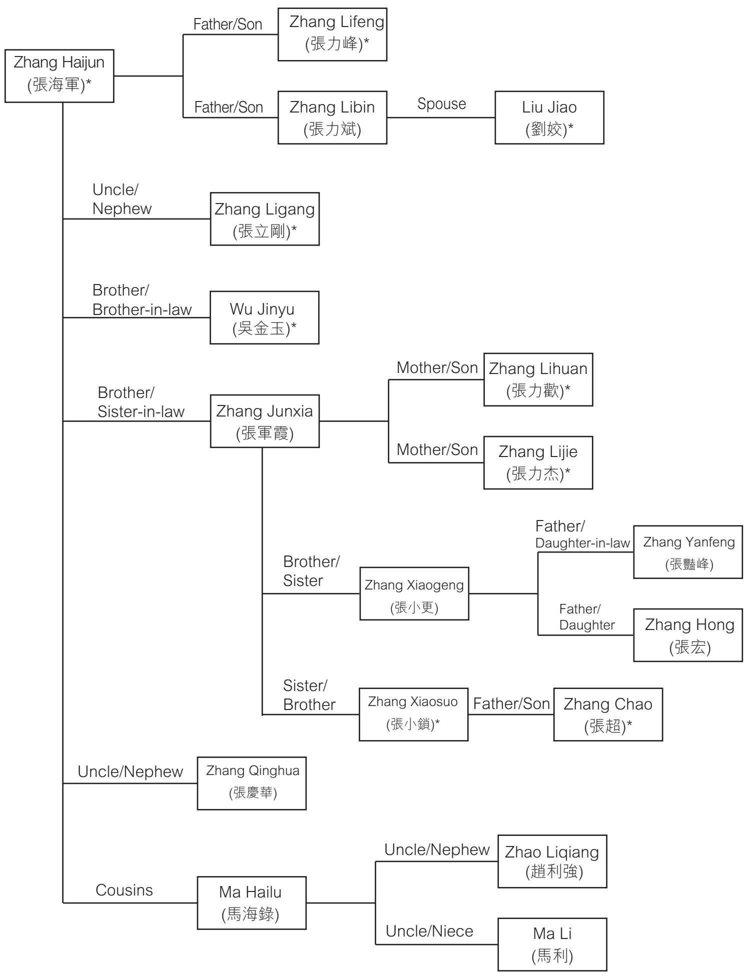
Since January 1999, Mr. Wang has been a designer, person in charge of projects, head of the first design institute, deputy chief engineer and deputy head of rail transport institute and head of Shijiazhuang branch institute of Beijing Urban Construction Design & Development Group Co., Limited (北京城建設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 59, is our independent non-executive Director. Mr. Zhang was appointed as an independent non-executive Director on 30 November 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.

FAMILY RELATIONSHIP AMONG MEMBERS OF THE BOARD

As of the date of the annual report, the family relationship among the members of the Board and with the Supervisors and senior management is as follows.



Note: The individuals with * mark are Directors, Supervisors and senior management.

SUPERVISORS

Mr. Zhang Xiaosuo (張小鎖), aged 56, 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.

Biographical Details of Directors, Supervisors and Senior Management

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.

SENIOR MANAGEMENT

Mr. Zhang Fengxuan (**張風選**), aged 63, 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 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 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) 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 Lijie (**張力杰**), aged 37, 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. He Jinxiang (**和金祥**), aged 57, 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.

REPORT OF THE BOARD OF DIRECTORS

PRINCIPAL BUSINESS

For the year ended 31 December 2016, the Company is principally engaged in development and research, manufacturing and sale of rail fastening system and flux cored wire.

SHARE ISSUANCE

The Company was listed on the Main Board of the Stock Exchange on 21 December 2016, by issuing 224,460,000 H Shares, with the offer price of HK$3.00 per Share (excluding brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and other fees), which raised a net proceeds of approximately HK$647.97 million.

Share capital

As of 31 December 2016, the total share capital of the Company was RMB448,920,000, divided into 897,840,000 Shares (including 673,380,000 Domestic Shares and 224,460,000 H Shares) of nominal value of RMB0.5 each. Details of movements of the Company's share capital during the year 2016 are set out in note 19 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Company's initial public offering as described in the prospectus of the Company dated 9 December 2016, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2016.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2016.

EQUITY-LINKED AGREEMENT

The Company did not enter into any equity-linked agreement, nor did any equity-linked agreement exist during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance and become valid when the Company was listed on the Main Board of the Stock Exchange on 21 December 2016 and remain valid when this Report of the Board of Directors was approved.

RISK FACTORS

The Group's current operations and development are under influence of certain factors mainly including:

1. **Risk of market competition**

   Increase in demand of China's railway transportation has led to a significant increase in demand of the rail fastening system. Growth in rail fastening system market has led to further expansion in production capacity of both Sino-foreign joint ventures and domestic new suppliers of rail fastening system. 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. The Company shall actively respond to the market challenges, utilize its advantages by producing quality products for trial, serving customers with professional services, and hence further consolidate and enhance its rank in the field.

2. **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 customers have 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 expiry 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 customers' rail construction projects; 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.

   The Company will fully utilize 10% of the proceeds as deposits for project bids. Moreover, the Company will actively understand the progress of railway construction projects and adjust its delivery arrangement based on such progress so to minimize any loss arising from delay of construction.

3. **Exchange rate risk**

   The Group's operation is concentrated on mainland China, and substantially all of its revenues and expenditures are denominated in RMB. A small portion of our revenues are generated overseas. Therefore, any fluctuation of exchange rate between RMB and any foreign currency may affect our business. However, the fund raised by the Group through the offering of H shares is denominated in HKD. The fluctuation of RMB exchange rate will cause exchange loss or gain to the Group's business transacted in foreign currencies.

To manage the effect from exchange rate fluctuation, the Company will persistently assess the risk exposure of exchange rate. The Company would use derivative financial instruments to reduce part of its exchange rate risks if necessary.

RELATIONSHIP WITH EMPLOYEES

Since employees are the foundation for development, the Group adheres to the "people-oriented" principle in its human resources management and practice equal employment opportunities and prohibits any career discrimination. The Group reviews its compensation policies of employees on a regular basis and bonuses and commission may be awarded to employees based on their annual performance evaluation. Efforts have also been made to help employees in the aspects of housing, transportation and children education, etc.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group strives to build and maintain long term and strong relationships with customers. The Company's business department has from time to time conducted a customer satisfaction management survey with a view to understand and fulfil customers' demands and enhance their satisfaction. In terms of suppliers, the Group's objective is to keep mutually beneficial and win-win partnerships with all suppliers. At the same time, the Group regularly evaluates the performance of our suppliers.

BUSINESS REVIEW

A fair review of the business of the Group during the year ended 31 December 2016, a discussion about the Group's future business development and an analysis of the Group's performance using financial key performance indicators are set out in the sections headed "Business Review" and "Performance Analysis and Discussion" in the "Management Discussion and Analysis" in this annual report.

Particulars of important events affecting the Group that have occurred since the financial year ended 31 December 2016 are set out in note 36 to the consolidated financial statements in this annual report.

Information about the Group's environmental policies and performance can be found in the "Environmental, Social and Governance Report" in this annual report.

In addition, a description of the principal risks and uncertainties facing the Group and a discussion of the Group's key relationships with its employees, customers and suppliers, which have a significant impact on the Group and on which the Group's success depends, are included in the sections headed "Risk Factors", "Relationship with Employees" and "Relationship with Customers and Suppliers" in this "Report of the Board of Directors".

All the aforementioned sections and parts in this annual report constitute parts of the "Business Review" as contained in this "Report of the Board of Directors".

For the financial year ended 31 December 2016, the Group has strictly complied with relevant laws and regulations which have material impact on the Company, and did not receive any punishment from the relevant regulatory authorities.

For the financial year ended 31 December 2016, some of the persons who held equity interest in the Group were related to each other. For the relationship of those individuals, please refer to the section headed "Family Relationship Among Members of the Board" in "Biographical Details of Directors, Supervisors and Senior Management" in this annual report.

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") will be held on Friday, 26 May 2017. Shareholders should refer to details regarding the AGM in the circular to be despatched by the Company and the notice of meeting, reply slip and form of proxy accompanying thereto.

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.167 (tax inclusive) per share for the year ended 31 December 2016 (the "2016 Final Dividend") with an aggregate amount of approximately RMB149,939,280 to Shareholders of the Company whose names are listed on the Company's register of members as at 9 June 2017 at the forthcoming AGM to be held on 26 May 2017. The 2016 Final Dividend will be denominated and declared in RMB. We will pay dividends in respect of Domestic Shares in RMB and dividends in respect of H Shares in HKD. Once the relevant resolution is passed at the AGM, the 2016 Final Dividend is expected to be paid on or around 14 July 2017.

WITHHOLDING AND PAYMENT OF INDIVIDUAL INCOME TAX ON BEHALF OF OVERSEAS INDIVIDUAL SHAREHOLDERS

According to the Articles of Association, dividends will be denominated and declared in Renminbi. Dividends on Domestic Shares will be paid in Renminbi and dividends on H Shares will be paid in foreign currencies. The relevant exchange rate will be the average middle exchange rate as announced by the People's Bank of China for one calendar week prior to the date of declaration of dividends.

In accordance with the tax law and relevant requirements under taxation regulatory institutions of the PRC, the Company is required to withhold 10% enterprise income tax when it distributes the final dividend for the year 2016 to all non-resident enterprise shareholders (including HKSCC Nominees Limited, other nominees, trustees or other entities and organisations, who will be deemed as non-resident enterprise shareholders) whose names appear on the H share register of members of the company on Friday, 9 June 2017.

Pursuant to the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong stock exchanges connectivity mechanism" (《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》) (Cai Shui [2014] No. 81) (the "Shanghai-Hong Kong Stock Connect Tax Policy") jointly issued by the Ministry of Finance of the PRC, the State Administration of Taxation and China Securities Regulatory Commission, the dividends derived from the investment by a domestic corporate investor in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect will be included in its total income and subject to enterprise income tax according to the law. In particular, dividends received by resident enterprises in the Mainland which hold H share for at least 12 consecutive months shall be exempted from enterprise income tax according to the law. In respect of the dividends received by domestic corporate investors, H share companies listed on the Stock Exchange will not withhold relevant tax for such corporate investors. The tax payable shall be reported and paid by the enterprises themselves.

As such, when distributing the 2016 Final Dividend to the domestic corporate investors as the holders of H Shares of the Company whose names appear on the register of shareholders of the Company on Friday, 9 June 2017 provided by China Securities Depository and Clearing Corporation Limited ("China Clearing"), the Company shall not withhold tax on dividend for the domestic corporate investors. The tax payable shall be reported and paid by the enterprises themselves.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No.045 of the State Administration of Taxation (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), the Shanghai-Hong Kong Stock Connect Tax Policy and other relevant laws and regulations and based on the Company's consultation with the relevant PRC tax authorities, the Company is required to withhold and pay individual income tax for the Company's individual non-resident H Shareholders whose names appear on the register of H Shareholders of the Company (the "Individual H Shareholders").

Pursuant to the Shanghai-Hong Kong Stock Connect Tax Policy, for dividends received by domestic individual investors from the investment in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, the H share companies listed on the Stock Exchange shall withhold and pay individual income tax at a rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from the investment in shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, the income tax payable shall follow the same requirements in respect of domestic individual investors.

As such, when distributing the 2016 Final Dividend to the domestic individual investors (including domestic securities investment funds) as the holders of H Shares of the Company whose names appear on the register of shareholders of the Company on Friday, 9 June 2017 provided by China Clearing, the Company shall withhold and pay individual income tax in accordance with the requirements mentioned above on behalf of the investors.

Pursuant to the Notice on Matters concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (《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》) issued by the State Administration of Tax and the letter titled "Tax arrangements on dividends paid to Hong Kong residents by Mainland companies" issued by the Stock Exchange, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax arrangements between the countries where they reside and China and the tax arrangements between China mainland and Hong Kong (Macau). The Company will identify the country of domicile of Individual H Shareholders according to their registered address on the H share register of members of the Company on Friday, 9 June 2017 (the "Registered Address"). The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the Individual H Shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the Individual H Shareholders or any disputes over the withholding mechanism or arrangements. Details of arrangements are as follows:

- For individual holders of H Shares who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these individual holders of H Shares in the distribution of the final dividend;

- For individual holders of H Shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of these individual holders of H Shares in the distribution of the final dividend. If relevant individual holders of H Shares would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice (《稅收通知》). Qualified Shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to competent tax authorities and, after their examination and if and when approved, the Company will assist in refunding the excess amount of tax withheld and paid;

- For individual holders of H Shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these individual holders of H Shares in the distribution of the final dividend; and

- For individual holders of H Shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these individual holders of H Shares in the distribution of the final dividend.

If the domicile of an Individual H Shareholder is not the same as the Registered Address or if the Individual H Shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the Individual H Shareholder shall notify and provide relevant supporting documents to the Company on or before Friday, 9 June 2017. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding provisions and arrangements. Individual H Shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the Tax Treaties Notices if they do not provide the relevant supporting documents to the Company within the time period stated above.

Shareholders are recommended to consult their tax advisers regarding PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Company.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of Shareholders who are entitled to attend and vote at the AGM of the Company to be held on Friday, 26 May 2017, the register of members of the Company will be closed from Wednesday, 26 April 2017 to Friday, 26 May 2017, both days inclusive, during which no transfer of shares will be registered. Holders of H Shares and Domestic Shares whose names appear on the register of members of the Company on Friday, 26 May 2017 are entitled to attend and vote at the AGM. In order for holders of H Shares of the Company to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. (Hong Kong Time) on Tuesday, 25 April 2017 for registration.

In order to determine the list of Shareholders who are entitled to receive the 2016 Final Dividend, the register of members of the Company will be closed from Saturday, 3 June 2017 to Friday, 9 June 2017, both days inclusive, during which no transfer of shares will be registered. Holders of H Shares and Domestic Shares whose names appear on the register of members of the Company on Friday, 9 June 2017 are entitled to receive the 2016 Final Dividend. In order for holders of H Shares of the Company to qualify for the 2016 Final Dividend payment, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. (Hong Kong Time) on Friday, 2 June 2017 for registration.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the applicable laws and regulations of the PRC where the Company is incorporated.

NON-COMPETE UNDERTAKING

The Controlling Shareholders of the Company have given the irrevocable non-compete undertaking (as defined in the prospectus of the Company date 9 December 2016) in favor of the Company (the "Non-compete Undertaking"). Each of the Controlling Shareholders has confirmed and hereby declares that, during the financial year ended 31 December 2016 since the Company being listed on the Main Board of the Stock Exchange on 21 December 2016 (the Listing Date), he/she had strictly complied with the Non-compete Undertaking without any breach thereof.

All the independent non-executive Directors have reviewed the matters relating to the enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Controlling Shareholders.

USE OF PROCEEDS

The H Shares of the Company were listed on the Stock Exchange on 21 December 2016. Net proceeds of the Company's listing was approximately HK$647.97 million, which were intended to be applied in the manner consistent with that in the prospectus of the Company dated 9 December 2016. As of 31 December 2016, the planned uses of proceeds are as follows:

- 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;

- 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, 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.

As of 31 December 2016, the proceeds remained unused. The Directors have placed or will place in short term demand deposits with banks in the PRC and/or through money market instruments. In 2017, the proceeds will be put into use successively by the Company in accordance with the strategies of operation and development as well as the conditions of the capital market.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2016, the Group's revenue from operations attributed to our five largest customers and largest customer were 60.23% and 35.96%, respectively.

During the same period, the Group's total procurement expenses attributed to our five largest suppliers and largest supplier were 64.55% and 25.60%, respectively.

To the best knowledge of the Directors, none of the Directors of the Company, any of their close associates, or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

BANK LOAN AND OTHER BORROWINGS

Details of the bank loan and other borrowings for the Company and its subsidiaries on 31 December 2016 are set out in note 21 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company had distributable reserves denominated in RMB of approximately RMB880.57 million. The distributable reserves were calculated according to the Chinese laws and regulations and the International Financial Reporting Standards.

CHARITABLE DONATION

For the year ended 31 December 2016, the Group has made charitable donation of approximately RMB72,000. The donation is used for payment to the General Charity Federation of Gaocheng District of Shijiazhuang City (石家莊市藁城區慈善總會).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Company and its subsidiaries for the year are set out in note 6 to the consolidated financial statements.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the year ended 31 December 2016, details of Directors, Supervisors and senior management are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

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

SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

Each of our Directors has entered into a service contract or letter of appointment with our Company pursuant to which they agreed to act as Directors for a term commencing from 20 October 2016 and expiring on 17 November 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 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 20 October 2016 and expiring on 16 November 2018 (for Mr. Zhou Encheng) or 17 November 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 the Directors and Supervisors has entered into a contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with the Company.

Save as disclosed above, none of the Directors or Supervisors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' REMUNERATION

Details of remuneration of Directors and Supervisors of the Company for the year ended 31 December 2016 are set forth in Note 27 to audited consolidated financial statements.

The Remuneration Committee of the Company will review and determine the remuneration and compensation packages of our Directors and Supervisors with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of our Group.

The details of remuneration of senior managements (other than Directors and Supervisors as disclosed in Note 27 to the consolidated financial statements) for the year ended 31 December 2016 are as follows:

Remuneration bands	Individual
RMB100,001 to RMB200,000	3
RMB200,001 to RMB300,000	1

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Apart from as disclosed under the heading of the "Continuing Connected Transactions" in this report, at the end of the year or at any time during the year, there was no transaction, arrangement or contract of significance to the Group's business in which the Company or its subsidiaries was a party, and in which a Director or Supervisor or an entity connected with the Director or Supervisor had a material interest, either directly or indirectly, subsisted during the year or at the end of the year.

INTEREST OF DIRECTORS IN COMPETING BUSINESS AND CONFLICT OF INTERESTS

During the year of 2016, no other Directors and their associates had any competing interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group or has any other conflict of interest with the Group.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2016, so far as known to the Company, the interest and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of Part XV of the SFO (a) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code (including those they are taken or deemed to have under such provisions of the SFO) are as follows:

Long Position in the Domestic Shares of the Company:

Name	Capacity	Number of Shares Personal interest	Spouse interest	Deemed interest pursuant to section 317 of the SFO (Note 1)	Total number	Total approximate percentage of shareholding in the relevant class (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Mr. Zhang Haijun (張海軍)	Director	133,598,592	N/A	467,258,382	600,856,974	89.23	66.92
Mr. Zhang Ligang (張立剛)	Director	27,608,580	N/A	573,248,394	600,856,974	89.23	66.92
Mr. Wu Jinyu (吳金玉)	Director	29,561,382	N/A	571,295,592	600,856,974	89.23	66.92
Mr. Zhang Chao (張超)	Director	19,123,992	N/A	581,732,982	600,856,974	89.23	66.92
Mr. Zhang Lihuan (張力歡)	Director	17,507,880	N/A	583,349,094	600,856,974	89.23	66.92
Ms. Fan Xiulan (樊秀蘭)	Director	942,732	N/A	N/A	942,732	0.14	0.11
Mr. Zhang Xiaosuo (張小鎖)	Supervisor	87,068,034	N/A	513,788,940	600,856,974	89.23	66.92
Ms. Liu Jiao (劉姣) (Note 4)	Supervisor	N/A	600,856,974	N/A	600,856,974	89.23	66.92

Notes:

(1) The relevant parties are members of the Controlling Shareholders Group. On 2 December 2015, they entered into a written agreement to, among others; confirm their acting-in-concert agreement. Immediately following completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group 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.

(3) The calculation is based on the total number of 897,840,000 Shares in issue.

(4) Ms. Liu Jiao is the spouse of Mr. Zhang Libin. Under the SFO, Ms. Liu Jiao is deemed to be interested in the same number of Shares in which Mr. Zhang Libin is interested.

Save as disclosed above, as at 31 December 2016, none of the Directors, Supervisors and chief executives of the Company had registered an interest and short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, so far as is known to the Directors, the interests or short positions of the persons (other than a Director, Supervisor or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO are as follows:

Long positions in Shares of the Company:

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Total approximate percentage of shareholding in the relevant class (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Ms. Zhou Qiuju (周秋菊) (Note 4)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Ms. Zhang Junxia (張軍霞) (Note 1)	Domestic Shares	Beneficial owner	87,270,048		
		Deemed interest pursuant to Section 317 of the SFO	513,586,926		
			600,856,974	89.23%	66.92%
Ms. Zhang Xiaoxia (張小霞) (Note 5)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Mr. Zhang Xiaogeng (張小更) (Note 1)	Domestic Shares	Beneficial owner	86,866,020		
		Deemed interest pursuant to Section 317 of the SFO	513,990,954		
			600,856,974	89.23%	66.92%
Ms. Sun Shujing (孫書京) (Note 6)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Ms. Zhang Xiaoxia (張曉霞) (Note 7)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Ms. Di Junping (翟軍平) (Note 8)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Ms. Zhang Weihuan (張偉環) (Note 9)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Mr. Zhang Lijie (張力杰) (Note 1)	Domestic Shares	Beneficial owner	19,123,992		
		Deemed interest pursuant to Section 317 of the SFO	581,732,982		
			600,856,974	89.23%	66.92%
Ms. Liu Lixia (劉麗霞) (Note 10)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Mr. Zhang Lifeng (張力峰) (Note 1)	Domestic Shares	Beneficial owner	19,123,992		
		Deemed interest pursuant to Section 317 of the SFO	581,732,982		
			600,856,974	89.23%	66.92%

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Total approximate percentage of shareholding in the relevant class (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Ms. Yang Yunjuan (楊雲娟) (Note 11)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Ms. Zhang Yanfeng (張艷峰) (Note 1)	Domestic Shares	Beneficial owner	19,123,992		
		Deemed interest pursuant to Section 317 of the SFO	581,732,982		
			600,856,974	89.23%	66.92%
Mr. Zhang Weiwei (張偉衛) (Note 12)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Mr. Zhang Libin (張力斌) (Note 1)	Domestic Shares	Beneficial owner	17,507,880		
		Deemed interest pursuant to Section 317 of the SFO	583,349,094		
			600,856,974	89.23%	66.92%
Ms. Yin Yanping (尹彥萍) (Note 13)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Mr. Zhang Ning (張寧) (Note 1)	Domestic Shares	Beneficial owner	17,507,880		
		Deemed interest pursuant to Section 317 of the SFO	583,349,094		
			600,856,974	89.23%	66.92%
Ms. Huang Li (黃麗) (Note 14)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Ms. Zhang Hong (張宏) (Note 1)	Domestic Shares	Beneficial owner	17,507,880		
		Deemed interest pursuant to Section 317 of the SFO	583,349,094		
			600,856,974	89.23%	66.92%
Mr. Liu Chaohui (劉朝輝) (Note 15)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Mr. Zhang Ruiqiu (張瑞秋) (Note 1)	Domestic Shares	Beneficial owner	2,356,830		
		Deemed interest pursuant to Section 317 of the SFO	598,500,144		
			600,856,974	89.23%	66.92%
Ms. Gao Xiangrong (高香榮) (Note 16)	Domestic Shares	Interest of spouse	600,856,974	89.23%	66.92%
Guo Zhongyan (郭中彥)	H Shares	Beneficial owner	36,960,000	16.47%	4.12%
BOCOM International Securities Limited	H Shares	Beneficial owner	33,669,000	15.00%	3.75%
BOCOM International Holdings Company Limited (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Bank of Communications (Nominee) Company Limited (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Total approximate percentage of shareholding in the relevant class (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Bank of Communications Co., Ltd. (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Sino Wealthy Limited	H Shares	Beneficial owner	24,000,000	10.69%	2.67%
Bremwood Holdings Limited (Note 18)	H Shares	Interest in controlled corporation	24,000,000	10.69%	2.67%
Gauteng Focus Limited (Note 18)	H Shares	Interest in controlled corporation	24,000,000	10.69%	2.67%
Rentian Technology Holdings Limited (Note 18)	H Shares	Interest in controlled corporation	24,000,000	10.69%	2.67%
Yang Zhenyu (楊晨宇)	H Shares	Beneficial owner	23,000,000	10.25%	2.56%
Li Qi (李琦)	H Shares	Beneficial owner	16,666,000	7.42%	1.86%
North Ocean (Hong Kong) Holdings Ltd.	H Shares	Beneficial owner	16,666,000	7.42%	1.86%
Hebei Publishing & Media Group Co. Ltd. (河北出版傳媒集團有限責任公司) (Note 19)	H Shares	Interest in controlled corporation	16,666,000	7.42%	1.86%
The Leading Group Office of Supervision and Management of state-owned assets of Provincial Culture Enterprise in Hebei Province (河北省省級文化企業國有資產監督管理領導小組辦公室) (Note 19)	H Shares	Interest in controlled corporation	16,666,000	7.42%	1.86%
Profaith Group Limited	H Shares	Beneficial owner	13,333,000	5.94%	1.49%
China Oil And Gas Group Limited (Note 20)	H Shares	Interest in controlled corporation	13,333,000	5.94%	1.49%

Notes:

(1) The relevant parties are members of the Controlling Shareholders Group. On 2 December 2015, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group together control approximately 66.92% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group is 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 or 224,460,000 H Shares in issue.

(3) The calculation is based on the total number of 897,840,000 Shares in issue.

(4) Ms. Zhou Qiuju (周秋菊) is the spouse of Mr. Zhang Haijun (張海軍). Under the SFO, Ms. Zhou Qiuju (周秋菊) is 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) is 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) is 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) is 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) is 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) is 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) is 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) is 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) is 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) is 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) is 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) is 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) is deemed to be interested in the same number of Shares in which Mr. Zhang Ruiqiu (張瑞秋) is interested.

(17) Bank of Communications (Nominee) Co. Ltd. is wholly owned by Bank of Communications Co., Ltd.; BOCOM International Holdings Company Limited is wholly owned by Bank of Communications (Nominee) Co. Ltd.; BOCOM International Securities Limited is wholly owned by BOCOM International Holdings Company Limited. Under the SFO, Bank of Communications Co., Ltd., Bank of Communications (Nominee) Co. Ltd. and BOCOM International Holdings Company Limited are deemed to be interested in the H Shares beneficially owned by BOCOM International Securities Limited.

(18) Gauteng Focus Limited is wholly owned by Rentian Technology Holdings Limited; Bremwood Holdings Limited is wholly owned by Gauteng Focus Limited; Sino Wealthy Limited is wholly owned by Bremwood Holdings Limited. Under the SFO, Rentian Technology Holdings Limited, Gauteng Focus Limited and Bremwood Holdings Limited are deemed to be interested in the H Shares beneficially owned by Sino Wealthy Limited is interested.

(19) Hebei Publishing & Media Group Co. Ltd. controls 70% equity interest of North Ocean (Hong Kong) Holdings Ltd.; while Hebei Publishing & Media Group Co. Ltd. is wholly owned by The Leading Group Office of Supervision and Management of state-owned assets of Provincial Culture Enterprise in Hebei Province. Under the SFO, The Leading Group Office of Supervision and Management of state-owned assets of Provincial Culture Enterprise in Hebei Province and Hebei Publishing & Media Group Co. Ltd. are deemed to be interested in the H Shares beneficially owned by North Ocean (Hong Kong) Holdings Ltd..

(20) Profaith Group Limited is wholly owned by China Oil And Gas Group Limited. Under the SFO, China Oil And Gas Group Limited is deemed to be interested in the H Shares beneficially owned by Profaith Group Limited.

Save as disclosed above, as at 31 December 2016, no person, other than a Director, Supervisor and chief executive of the Company, whose interests are set out in the section "Interests and Short Positions of the Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

DIRECTOR INSURANCE

As of the reporting date, the Company had bought effective Director insurance for the Directors (current).

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the reporting period, no right to subscribe the shares in or debentures of the Company or any of its associated corporations was granted by the Company and its subsidiaries to any Director, Supervisor or chief executive of the Company or their respective spouses or children aged under 18, and no such rights to subscribe the above Shares or debentures were exercised by them.

SHARE INCENTIVE TO THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company did not have or implement share incentive scheme during the reporting period.

MANAGEMENT CONTRACT

The Company did not enter into or establish any management and administrative contracts relating to all or any material part of business in 2016.

SIGNIFICANT CONTRACTS

Apart from as disclosed under the heading of the "Continuing Connected Transactions" in this report, neither the Company nor any one of its subsidiaries has signed significant contracts with the Controlling Shareholder or (if the Controlling Shareholder is a company) any one of its subsidiaries other than the Group, and no significant contract for delivery of service has been signed between the Group and the Controlling Shareholder or any one of its subsidiaries other than the Group.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2016, the continuing connected transactions of the Company were as follows:

	For the year ended 31 December 2016	
	Actual amount *RMB'000*	**Annual cap** *RMB'000*
Properties leased from Mr. Zhang Haijun	360	360
Certain office premises in Shijiazhuang, Hebei province, the PRC leased from Longji	700	700
Procurement of comprehensive services from Longji	2,110	2,110
Purchase of steel beams (型鋼) from Longji	–	850
Procurement of processing services for the manufacturing of steel billets (鋼坯) from Longji	1,197	3,300
Total	4,367	7,320

The details of the continuing connected transactions regarding the procurement of processing services by the Company in 2016 are disclosed as follows:

(1) Date of transaction: December 2016

(2) Description of connected relationship among parties of transaction:

Longji is a limited liability company incorporated under the laws of the PRC on 8 June 2013. Its business scope 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, an 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. Moreover, each of Ms. Zhou Qiuju, Ms. Zhang Junxia, Ms. Sun Shujing, Ms. Zhang Xiaoxia and Ms. Liu Jiao (as daughter-in-law and one of the Supervisors) are directors of Longji.

(3) Brief description of the transaction and its purposes:

We procured processing services for the manufacturing of steel billets from Longji.

(4) Terms of the transaction:

On 30 November, 2015, the 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 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 Processing Agreement will be reduced into separate contract or sales order as agreed between our Company and Longji. Each of the Master Processing Agreement was entered into for a term of three years commencing from 1 August 2015 and expiring on 31 July 2018 unless terminated earlier by our Company with three months' written notice to Longji.

and

(5) Nature of the connected parties' interests in transaction:

Please refer to the paragraph (2) "Description of connected relationship among parties of transaction" above.

Confirmation of Independent Non-Executive Directors

The independent non-executive Directors of the Company had reviewed the abovementioned continuing connected transactions and confirmed the transactions were conducted:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; if the comparable transactions could not be relied on to judge whether the terms of the transactions were normal commercial terms, those terms should not be less favorable than the terms accepted or provided by independent third parties; and

(3) in accordance with the terms of agreement related to the transactions and the terms were fair and reasonable and in the interests of shareholders of the Company as a whole.

Confirmation of Auditors

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The Board hereby confirmed that, external auditor has issued their letter containing their findings and conclusions in respect of the abovementioned transactions in accordance with Rule 14A.56 of Listing Rules, in which the auditors confirmed to the Company that nothing has come to their attention that causes them to believe that the continuing connected transactions (1) have not been approved by the Board, (2) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions, or (3) have exceeded the cap. The Company has provided a copy of the said letter to Hong Kong Stock Exchange.

Apart from the continuing connected transactions as disclosed above and other continuing connected transactions exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules, the Company did not conduct any connected transaction or continuing connected transaction which were subject to the reporting requirements of the Listing Rules in 2016. In respect of all connected transactions and continuing connected transactions of the Group (including those set out in note 35 to the consolidated financial statement in this annual report), Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

PUBLIC FLOAT

Based on the publicly available information to the Company and within the knowledge of the Directors, not less than 25% of the Shares of the Company in issue are held by the public as at the latest practicable date prior to the publication of this annual report, which complied with the requirement of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

As of the date of the report, there is no significant event occurring after the reporting period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 of Listing Rules as its own code of corporate governance. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. Since Listing Date to the date of this report, the Company has complied with applicable code provisions as set out in the CG Code. For more details, please see the sections in Corporate Governance Report.

ARTICLES OF ASSOCIATION

On 24 June 2016, the Articles of Association of the Company were reviewed and approved at the Annual General Meeting in 2015.

MAJOR LEGAL PROCEEDING

As of 31 December 2016, the Company did not involve in any major legal proceedings.

BUSINESS ACTIVITIES IN THE SANCTIONED COUNTRIES

In respect of the Group's business activities in the Sanctioned Countries, the Company has established the International Trade Audit Committee (the "ITAC") to monitor the risk exposure of the Group under the international sanctions laws and periodically review the Group's internal control policies and procedures with respect to sanction law matters and its implementation by the Group, and report to the Board thereon. Details of the Group's internal control measures and policies in relation to sanction risks are set out in the section headed "Risk Management and Internal Controls" in the "Corporate Governance Report" in this annual report.

For the year ended 31 December 2016, the Group had sales of welding materials to customers in three sanctioned countries, namely Russia, Ukraine and Egypt, amounting to approximately 0.2% of the total revenue of the Group for the year. Before the aforementioned sales were made, the ITAC had assessed the relevant sanction risks based on the internal control procedures and reviewed and approved all relevant business transaction documentation (including but not limited to the information of the customers (such as identity, nature of business etc.) along with the draft business transaction documentation). The ITAC had checked the customers' names against the various lists of restricted parties and countries maintained by the European Union, the United States of America, Australia or the United Nations and ascertained that the customers were not, or were not owned or controlled by, a person located in a sanctioned country or a sanctioned person. The ITAC has also continuously monitored the use of proceeds from the Global Offering by the Company, as well as any other funds raised through the Stock Exchange, to ensure that such funds have not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any sanctioned countries which are prohibited under international sanction laws and regulations or any sanctioned persons.

The Board believes that, the Group's business activities in the sanctioned countries are not sanctioned activities under the international sanctions laws and the Group, the Company's shareholders and potential investors, the Stock Exchange and the related group companies, the HKSCC or the HKSCC Nominees Limited would not be subject to any risks under or become a target of sanctions law of the European Union, the United States of America, Australia or the United Nations as a result thereof. Therefore, in order to maintain revenue and to maximize the Shareholders' interests, the Group will continue to legally carry out the above business activities in the sanctioned countries in accordance with the applicable international sanctions laws and regulations.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Group's annual results and the consolidated financial statements for the year ended 31 December 2016 prepared in accordance with the IFRS.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 prepared in accordance with the IFRS have been audited by PricewaterhouseCoopers who shall retire as the auditor of the Company and, being eligible, offer themselves for reappointment. The resolution of reappointment of PricewaterhouseCoopers as the Company's auditor will be proposed and considered in the 2017 AGM. The Company has retained PricewaterhouseCoopers since the date of preparation of its Listing.

FINANCIAL SUMMARY

The summary of operating results, assets and liabilities of the Group for the year ended 31 December 2016 is set out on page 4 of this annual report.

By Order of the Board
Chairman
Zhang Haijun
Heibei, China

22 March 2017

REPORT OF SUPERVISORY BOARD

In 2016, the Supervisory Board of the Company, for the long-term interests of the Company and rights and interests of Shareholders, dutifully supervised the performance of duties by Directors and senior management personnel of the Company in strict accordance with laws such as PRC Company Law, regulations, rules, the Article of Associations and Rules of Procedure for Meetings of the Supervisory Board of Hebei Yichen Industrial Group, and the applicable regulations of the Listing Rules of the Hong Kong Stock Exchange. Following is a report of the principal work of the Supervisory Board during the reporting period:

I. SUPERVISORY BOARD MEETINGS

1. "Resolution on the Work Report of the Supervisory Board of Hebei Yichen Industrial Group Corporation Limited for the year 2015" (《關於審議河北翼辰實業集團股份有限公司2015年監事會工作報告的議案》) was deliberated and approved by the first Supervisory Board Meeting in 2016 convened on January 18, 2016;

2. "Resolution on the Financial Report for the year 2015 of Hebei Yichen Industrial Group Corporation Limited" (《關於審議河北翼辰實業集團股份有限公司2015年度財務決算報告的議案》), "Resolution on the Financial Budget Report for the Year 2016 of Hebei Yichen Industrial Group Corporation Limited" (《關於審議河北翼辰實業集團股份有限公司2016年度財務預算報告的議案》), "Resolution on the re-appointement of PricewaterhouseCoopers as the audit firm of Hebei Yichen Industrial Group Corporation Limited for the year 2016" (《關於續聘羅兵咸永道會計師事務所為河北翼辰實業集團股份有限公司2016年度審計機構的議案》), and "Resolution on Execution of 'Service Agreement of Executive Directors', 'Service Agreement of Independent non-executive Directors' and 'Service Agreement of Supervisors'" (《關於簽訂<執行董事服務合同>、<獨立非執行董事服務合同>和<監事服務合同>的議案》) were deliberated and approved by the second Supervisory Board Meeting in 2016 convened on June 13, 2016.

   All the Supervisors had taken part in the above meetings.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY BOARD

The Supervisory Board made the following observations regarding relevant aspects of the Company during the year:

1. Compliance with Laws and Regulations in the Course of Company Operations

During the reporting period, the Supervisory Board attended all Board meetings and general meetings. The Supervisory Board also supervised the Board and general meeting procedures and proposal discussions, the Board's implementation of decisions made during general meetings, the ability of senior management employees to perform their duties, the implementation of various management policies of the Company, and the Company's operational performance. The Supervisory Board believes that the Company operated in compliance with required standards, made lawful and rational decisions, acted in compliance with its corporate governance structure, and established adequate internal controls. Directors and senior management of the Company performed their duties with responsibility, integrity and diligence, and strictly implemented the various decisions of the general meetings. The Supervisory Board did not find any activities that were unlawful, out of compliance with government or Company regulations, or damaging to the Company or shareholders' interest.

2. **Financial Position**

The Supervisory Board carefully inspected the Company's periodic financial report and financial policies during the reporting period. The Supervisory Board believes that the Company's financial department's internal control system is complete, and is continuously being improved. The Supervisory Board believes all policies and systems were strictly implemented, and therefore effectively guaranteed the successful functioning of the Company's production and operation. During 2016, the Company's financial position was sound, financial management was effective, the consolidated financial statements were complete and objective, and truthfully reflected the Company's financial position and operational performance. The Supervisory Board believes that the 2016 annual report with unqualified opinion issued by PricewaterhouseCoopers was true and fair.

3. **Connected Transactions**

During the reporting period, the pricing method of the connected transaction agreements were in accordance with accepted business practices and the relevant rules and regulations, demonstrating the principles of fairness and equality. The Supervisory Board believes that, during the year 2016 there were no connected transactions that would damage the Company or shareholders', especially medium and small shareholders' interests.

4. **Internal Control System and Internal Control Management Structure**

The Supervisory Committee considered the internal control system and internal control management structure as complete and continuously improving; each system were executed strictly, thereby ensure the smooth progress of the Company's production activities.

5. **The execution of the resolutions passed at the general meeting**

The Supervisory Committee attended the general meeting for the year to review and supervise the resolutions of the general meeting. The Supervisory Committee considered that the Board of Directors had effectively executed the resolutions of general meeting.

Chairman of the Supervisory Board
Zhang Xiaosuo
Shijiazhuang

22 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company is committed to maintaining good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules.

The Company has devised its own code of corporate governance which incorporates all the principles and practices as set out in the CG Code contained in Appendix 14 to the Listing Rules.

The H Shares of the Company were listed on the Main Board of the Stock Exchange on 21 December 2016 (the "Listing Date"). In the opinion of the Directors, the Company has complied with all applicable code provisions as set out in the CG Code throughout the period from the Listing Date to 31 December 2016.

DIRECTORS' SECURITIES TRANSACTIONS/MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the Directors and Supervisors of the Company.

Specific enquiry has been made of all the Directors and Supervisors of the Company and they have confirmed that they have complied with the required standards set out in the Model Code throughout the period since the Listing Date.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance with the Employees Written Guidelines by the employees was noted by the Company since the Listing.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Zhang Haijun *(Chairman)*
Mr. Zhang Ligang *(Chief Executive Officer)*
Mr. Wu Jinyu
Mr. Zhang Lihuan
Mr. Zhang Chao
Ms. Fan Xiulan

Independent Non-executive Directors

Mr. Jip Ki Chi
Mr. Wang Qi
Mr. Zhang Liguo

The biographical information of the Directors and the relationships among the Directors are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on page 15 to page 20 of this annual report.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular Board meetings, the Chairman should also hold meetings with the Independent Non-executive Directors without the presence of Executive Directors annually. No such meeting was convened in 2016, but will be scheduled to be held in 2017.

During the year 2016, the Board held 3 meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Haijun	3/3
Mr. Zhang Ligang	3/3
Mr. Wu Jinyu	3/3
Mr. Zhang Chao	3/3
Mr. Zhang Lihuan	3/3
Ms. Fan Xiulan	3/3
Mr. Jip Ki Chi	1/3
Mr. Wang Qi	1/3
Mr. Zhang Liguo	1/3

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, the Company has not held four Board meetings during the year 2016. The Company is obliged to comply with the CG Code and will take appropriate arrangements for holding at least 4 Board meetings in the forthcoming year.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Zhang Haijun and Mr. Zhang Ligang respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

From the Listing Date and up to 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The Directors of the Company are appointed for a specific term commencing on 20 October 2016 and expiring on 17 November 2018 unless terminated by the Company by way of ordinary resolutions of the Shareholders at a general meeting of the Company in accordance with the applicable laws of the PRC and Hong Kong, and subject to renewal after the expiry of the then current term.

Pursuant to the Articles of Association of the Company, Directors shall be elected at Shareholders' general meetings with a term of office of three years from the date on which the election takes effect. Upon the expiration of the term of office, Directors shall be eligible to offer themselves for re-election.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides directions to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors shall participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, all Directors have not participated in appropriate continuous professional development to develop and refresh their knowledge and skills. All Directors will be obliged to comply with Code Provision A.6.5 of the CG Code and will take appropriate arrangements in the forthcoming year to participate in continuous professional development or training.

SUPERVISORY BOARD

The Company has a Supervisory Board which is composed of three members, namely Mr. Zhang Xiaosuo, Mr. Zhou Encheng and Ms. Liu Jiao. Mr. Zhang Xiaosuo is the chairman of the Supervisory Board. The Supervisory Board consists of 2 representatives of the Shareholders and 1 representative of the Company's staff. 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.

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 statutory member.

The functions and duties of the Supervisory Board

The Supervisory Board exercises the following powers:

- To review the Company's financial position
- 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
- To require correction of the behaviors, which are harmful to the Company's interests, of Directors, general manager and other senior management members
- To check and inspect the financial information submitted by the Directors to the Shareholders' general meeting and to engage certified public accountants and practising auditors, where necessary
- To propose the convening of extraordinary general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meeting under the PRC Company Law
- To submit proposals to the Shareholders' general meetings
- To bring actions against Directors and members of senior executives
- To exercise any other authority stipulated in the Articles of Association.

Supervisors may be in attendance at Board meetings and make enquiries or proposals in respect of Board resolutions. The Supervisory Board 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.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Jip Ki Chi, Mr. Wang Qi and Mr. Zhang Liguo. Mr. Jip Ki Chi is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board:

- To review the financial information and reporting process, risk management and internal control systems
- To monitor the effectiveness of the internal audit function
- To discuss with auditors on scope of audit and make recommendations to the Board on the appointment of external auditors
- To review arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, the Audit Committee under the Board of the Company had not yet held any meetings during the reporting period.

The Audit Committee had reviewed together with the senior management and the external auditors the accounting principles and practices adopted by the Group, and the accuracy and fairness of the consolidated financial statements for the year ended 31 December 2016.

Remuneration Committee

The Remuneration Committee consists of three members, one executive Director, namely Mr. Wu Jinyu, and two independent non-executive Directors, namely Mr. Jip Ki Chi and Mr. Zhang Liguo. Mr. Zhang Liguo is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include:

- To review and make recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management
- To review and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management
- To review and make recommendations to the Board on the remuneration of the non-executive Directors
- To assess performance of executive Directors

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, the Remuneration Committee under the Board of the Company had not yet held any meetings during the reporting period.

Nomination Committee

The Nomination Committee consists of three members, one Executive Director, namely Ms. Fan Xiulan, and two Independent Non-executive Directors, namely Mr. Wang Qi, and Mr. Zhang Liguo. Mr. Wang Qi is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include:

- To review the structure, size and composition of the Board

- To assess the independence of the Independent Non-executive Directors

- To consider and make recommendations to the Board on the re-election of Directors

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, the Nomination Committee under the Board of the Company had not yet held any meetings during the reporting period.

Corporate Governance Committee

The Corporate Governance Committee consists of three members, one executive Director, namely Mr. Zhang Ligang, and two independent non-executive Directors, namely Mr Jip Ki Chi and Mr Wang Qi. Mr. Jip Ki Chi is the chairman of the Corporate Governance Committee.

The principal duties of the Corporate Governance Committee include:

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board

- To review and monitor the training and continuous professional development of Directors and senior management

- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements

- To developing, review and monitor the code of conduct and compliance manual applicable to employees and Directors

- To review the Company's compliance with the CG Code and disclosure on Corporate Governance Report

The Corporate Governance Committee was established by the Board for performing the functions set out in the code provision D.3.1 of the CG Code.

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, the Corporate Governance Committee under the Board of the Company had not yet held any meetings during the reporting period.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee, assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, details are as follows:

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.

In order to achieve effective and efficient operations and reliable financial reporting and compliance with applicable laws and regulations, the Company has adopted various internal control rules and procedures, including the following:

- To adopt the Internal Control Management Measures, which sets out the procedures for effective implementation of internal control measures.
- To provide 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.
- 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.
- 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.
- To appoint BOCOM International (Asia) Limited as our compliance adviser to advise us on on-going compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

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 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 which stipulates the process of customer identification verification, credit assessment, agreement approval and accounts receivable management.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems during the reporting period.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. In addition, the Internal Audit Department reviewed the subsisting continuing connected transactions entered into by the Group and the adequacy and effectiveness of the internal control procedures in place to ensure that the continuing connected transactions had been conducted in compliance with the Listing Rules, and provided the findings to the independent non-executive Directors to assist them in performing their annual reviews.

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, the Board had not yet reviewed the risk management and internal control systems during the reporting period.

Arrangements/Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Internal Control Department shall regularly report to the International Trade Audit Committee ("the ITAC"). The members of the ITAC include the general manager of Group companies, manager of welding material division and chief financial officer, and their responsibilities include monitoring the Group's exposure to risk of sanction laws and execution of relevant internal control.

Prior to judgment of whether seizing any business opportunities from sanctioned countries and/or sanctioned person, the Internal Control Department shall assess the relevant sanctions risk and report to the ITAC. The Internal Control Department has to submit the relevant business transaction documents of all sanctioned countries and/or sanctioned customers or potential customers to the ITAC. The ITAC shall review and approve all the relevant business transaction documents of all sanctioned countries and/or sanctioned customers or potential customers. The ITAC will review the data from counterparty of relevant contracts (including identity and business nature etc.) and draft of business transaction documents. The ITAC checks the counterparty of contract against several lists (as publicly available data) of restricted parties and countries (including but not limited to any government, individual or entity as the sanctioned targets of Office of Foreign Assets Control of the United States Department of the Treasury) maintained by the European Union, United Nations or Australia, and determines whether the counterparty belongs to or is owned or controlled by person(s) located in sanctioned countries or sanctioned person(s). In the event of discovering any potential sanction risks, the ITAC will seek advices from external international legal advisors with necessary professional knowledge and experiences of international sanction laws.

To ensure our compliance with our undertakings to the Stock Exchange, the ITAC will persistently monitor the use of proceeds from Global Offering and any other proceeds raised by any other means on the Stock Exchange, in order to ensure that such proceeds will not be used for, directly or indirectly, subsidizing or facilitating any activities or businesses with any sanctioned countries or persons restricted under international sanction laws and regulations or between any sanctioned countries or persons, or subsidizing or facilitating such activities or business for the benefits of such countries or persons. The ITAC shall regularly review the Company's internal control policies and procedures in relation to the matters of sanction laws. When the ITAC considers as necessary, the Company will engage the external international legal advisors with necessary professional knowledge and experiences of international sanction laws for seeking recommendations and advices. If necessary, the external international legal advisors will provide training courses of sanction laws to Directors, senior management, the Legal Affairs Department and other relevant individuals and assist them to evaluate the potential sanction risks in our daily operations. The ITAC will convene at least two meetings every year to monitor our exposure to sanction law risks and submit report to the ITAC as soon as possible after such meetings.

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 62 to 66.

AUDITORS' REMUNERATION

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch as the auditor of the Company's 2016 consolidated financial statements prepared under IFRSs and China Accounting Standards, respectively.

The remuneration for the year 2016 paid or payable to the Company's auditors, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, for audit services amounted to RMB2,300,000 (including value added tax) and for non-audit services (internal control review service) fee amounted to RMB350,000 (including value added tax).

COMPANY SECRETARY

Ms. Lo Yee Har Susan of Tricor Services Limited has been engaged by the Company as its external joint company secretary. Its primary contact person at the Company is Mr. Zhang Chao, Executive Director and another joint company secretary of the Company.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

Ms. Lo Yee Har Susan has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

As the Company's H Shares were listed on the Hong Kong Stock Exchange on 21 December 2016, which is less than one month before 31 December 2016, Mr. Zhang Chao has taken less than 15 hours of the relevant professional training during the year and will be obliged to comply with Rule 3.29 of the Listing Rules and will take appropriate arrangements in the forthcoming year.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a shareholders' communication policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Convening an Extraordinary General Meeting

Shareholders holding 10% or more Shares (individually or together with others) shall be entitled to request for an extraordinary general meeting.

The Board of Directors shall give a written reply on agreeing or disagreeing to convene an extraordinary general meeting of Shareholders within 10 days upon receipt of the request.

Putting Forward Proposals at Annual General Meetings

When the Company convenes a Shareholders' general meeting, the Board of Directors, Supervisory Board and Shareholders individually or jointly holding 3% or more of Shares of the Company shall be entitled to propose motions in writing to the Company. The contents of the motions shall fall within the scope of duties of the Shareholders' general meeting, have definite topics and specific matters for resolution and comply with the relevant requirements of the laws, administrative regulations and Articles of Association.

Shareholders individually or jointly holding 3% or more of the Shares of the Company shall be entitled to propose ad hoc motions and submit to the convener in writing 10 days prior to the convening of the Shareholders' general meeting. The convener shall issue a supplemental notice of Shareholders' general meeting to other Shareholders within 2 days after the receipt of such proposal and incorporate the motions into the agenda of such meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Registered Office and Headquarters:
No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, the PRC

Principal Place of Business in Hong Kong:
Representative Office in Hong Kong
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: yichenshiye@hbyc.com.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

Since the Listing Date, the Company has not held any general meeting.

The Articles of Association of the Company were amended pursuant to a resolution passed at the annual general meeting of the Company on 24 June 2016. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

NON-COMPETE UNDERTAKING

The Controlling Shareholders of the Company have given the irrevocable Non-compete Undertaking in favour of the Company. Pursuant to the Non-compete Undertaking, each of the Controlling Shareholders has undertaken not to, directly or indirectly, carry on, invest in or be engaged in any business which would or might compete with the business currently and from time to time engaged in by the Group, and to provide the Company and the Directors from time to time (including the independent non-executive Directors) with all information necessary for the annual review by the independent non-executive Directors with regard to compliance with the terms of the Non-compete Undertaking by the Controlling Shareholders and the enforcement of the Non-compete Undertaking.

Each of the Controlling Shareholders has confirmed that during the period from the Listing Date to 31 December 2016, he/she had strictly complied with the terms of the Non-compete Undertaking and there was no matter which would require deliberation by the Board in relation to compliance and enforcement of the Non-compete Undertaking. All the independent non-executive Directors have reviewed the matters relating to enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Controlling Shareholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), for the purpose of stakeholders to have a detailed understanding in our environmental, social and governance policies, measures and performances.

The report covers the time frame from 1 January 2016 to 31 December 2016 (the "Reporting Period"). We have arranged our management and staff from each department to review the operating situation of the Company based on their functions, identify the relevant issues of environmental, social and governance, and assess their importance/relevancy to our business.

A. ENVIRONMENT

A1. Emissions

The Company is committed to the requirements set out in local environmental laws and regulations, including but not only limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), 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》), 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》) 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》).

The Company is a conglomerate comprising of scientific research and development, manufacturing and production, and domestic and foreign trading, with its subordinate manufacturing and operation entities including rail work and equipment workshop, new welding material division, casting workshop, packaging and painting workshop, motive workshop, and repair workshop. The production of rail fastening system and flux cored wire would produce certain amount of exhaust gas and discharge of solid waste, among which the main pollutant of exhaust gases is dust, while the solid waste includes the sieved floor sand blocks, dust-ash, abandoned gate gauge and trace of domestic solid waste. As our production activities are largely relied on purchased electricity, and most of domestic power plants are coal-fired power plants, which would cause indirect pollution by emission of pollutants like greenhouse gas and Sulphur dioxide during operation. By contrast, the Company recycles and reuses water by condensation during the manufacturing process, leading to a relatively small amount of discharge of industrial waste water, and hence the gasoline consumed by the Company's vehicles and greenhouse gases emission from staff travelling by aviation are no longer significant.

The Company emphasizes on environmental protection, and works on energy saving and reduction in emission. The Company persistently promotes the reconstruction of manufacturing system in an environmental-friendly way, implementation of clean production, formulation and improvement on regulation policies and procedures of environmental management, as well as promotion on systematic management in environmental protection work. The environmental management system established by the Company was qualified for the certification of ISO14001:2004 in December 2015.

The Company has installed dust removal devices for the exhaust gas emission. Gas-collecting hood and hermetic precipitator room are installed for the procedures of dust emission. Negatively-pressurized collection port is established so that dust can be processed by passing through the negative-pressurized collection port to multi-tube cyclone precipitators plus pulse-jet dust removal bag. The purification efficiency of the precipitator can achieve 99%. The purified dust is released from incinerator with height of 17m, which would satisfy the Integrated Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》). Installation of pumping fans and air coolers together with enhancement of ventilation in workshops would minimize dust pollution.

For the hazardous exhaust gas such as oily wastes, wasted paint residues and paint buckets, wasted activated carbon and wasted emulsified cooling liquid, the Company engages qualified parties for waste treatment.

For the non-hazardous wastes such as sieved floor sand blocks and dust-ash in the solid waste, the Company adopts the approach of collection and storage in solid waste warehouse, external sales, and comprehensive utilization. For the abandoned gate gauge, we recycle and reuse it in smelting process. The domestic waste is collected and processed together by sanitation department.

The wastewater discharged from industrial production of the Company is flushed to the urban sewage pipe network after processing. The sanitary sewage is gathered in the urban sewage pipe network after treatment in septic tank and then flushed to the water treatment centre in Gaocheng District, but not directly to the surface water. Such process complies the Integrated Wastewater Discharge Standard (《污水綜合排放標準》).

In 2016, the Company has initiated the 609.66 kilowatt peak (KWP) photovoltaic power project on the roof of idle plants. The construction of the project will be completed in 2017 and production shall be commenced on schedule. By adhering to the principle of “all for self-use, excess for the grid” in using electricity, the Company can use the electricity in a more flexible way to enhance the voltage quality of the Company’s grid, to save the energy, reduce its consumption and emission. The annual power generation of the project is expected to achieve 1,160,000 to 1,350,000 kilowatt-hours. Assuming 1,160,000 kilowatt-hours as the annual power generation, it could save or reduce about 400 tons of standard coal used in upstream coal-fired power plants, about 1,260 tons of carbon dioxide emission, about 332 tons of carbon dust emission, and about 4,738 tons of waste water.

During the reporting period, the Company did not have any material non-compliance cases in relation to the environmental law and regulations.

A2. Use of resources

The Company consistently pays high attention on energy conservation. We comply with the requirements of the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), and encourage to reuse and recycle the used resources during the course of operation, for the purpose of protection of our environment and improvement on the operational efficiency. The resources we used are generally electricity, petroleum, diesel oil or liquefied petroleum gas (LPG), water and paper.

The Company understands and values the importance of energy management. We have prepared energy management manual, administrative measures of corporate energy measurement, energy management system and its relevant procedures, and established energy management mechanism in order to reduce energy consumption and enhance the utilization rate of energy.

The Company has established a specialized energy measurement organization, which is responsible for management, inspection, testing and repair of our energy measurement, assessment on the usage of major resources as well as preparation of energy assessment report. Energy statistical reporting system is also established, in which the statistics of energy consumption has to be progressively reported every month for the purposes of summarizing various types of energy consumption and its utilization level.

The Company focuses on the rationality of production management, including effective organization, planning, control and coordination of different activities and resources during the manufacturing process in order to improve the efficiency of use of resources. For example, in respect of equipment with large power consumption, effective control is required for its operation time. The loading rate should be maximized while the specific power consumption should be minimized. It is prohibited to turn on the light where nobody is therein or long operation time. Free running of motors is also prohibited.

The Company emphasizes that all organizations should perform better in water conservation, recycling and using the recycled water from equipment and prevention of direct drainage. Staff should be more aware of water saving and prevent non-stop water flow. Regular checking and repair is conducted on the Company's water pipelines and water-tap to prevent leaking.

The Company requires all the departments, which involve in using energy, to conduct regular assessment on the major usages of energy system, procedures, details and operating situation of material energy factors, evaluate the performance of energy management and identify any opportunities for continuous improvement.

The Company prudently complies with the national policies in relation to technologies of energy conservation, details of the enterprises as well as latest domestic technology developments. The Company formulates a middle-to-long term plan and annual plan in relation to energy conservation, encourages the adoption of new technologies, new craftsmanship and new equipment of energy conservation in order to reduce the energy and resource consumption during manufacturing.

The Company has formulated a comprehensive plan and commenced the upgrade and replacement of equipment suffering with high energy consumption. For the mechanical and electrical products declared for phrase-out by the government and equipment of low efficiency and high energy consumption, orderly upgrade and replacement shall be implemented. The acquisition of equipment shall adhere to principles of advanced technology, reasonable pricing and suitability for production, as well as compliance of national statutory requirements in relation to labour, safety and environmental protection, and hence high-end products with low energy consumption and advanced technology should be chosen.

A3. Environment and Natural Resources

The Company concerns the manufacturing process, practices, materials or products adopted, including recycling, processing, change in procedures, control mechanism, effective use of resources and material substitution, with aims to prevent, reduce or control pollution, minimize the adverse effect to the environment, as well as increase the overall efficiency of the Company.

The Company currently adopts some measures to reduce the impact on the environment and natural resources. For instance, exhaust gases, waste water, solid wastes are discharged after proper treatment in order to minimize the impact on local ecological diversity due to discharging pollutants by the Company. Natural light is utilized as the light source in washrooms in order to reduce the electricity consumption and maintain the indoor temperature of office at a proper level.

The Company has developed Procedures for Identification and Control of Environmental Factors (《環境因素識別與控制程序》) in order to identify and evaluate the environmental factors in activities, products and services of the Company, confirm the significant environmental factors to have effective control, as well as establish a supervisory and measurement-based system which can fulfill environment protection objectives, performance and requirements. The Company has to pass the annual management assessment and update the significant environment factors. The Company keeps monitoring information and results and evaluates them. If the results fail to meet specific requirements, rectification measures or precautionary measures should be adopted on a timely manner.

B. SOCIETY

Employment and Labour Practices

B1. Employment

The Group strives to promote ethical and fair labour policies. The Company has established comprehensive guidelines to govern the employee remuneration, dismissal, recruitment and promotion, working hours and leave application, equal opportunities and other staff welfares, which have been clearly notified to all employees. The Company consistently follows the requirements as set out in the related laws and regulations including the Labour Law of the PRC (《中華人民共和國勞動法》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Trade Union Law of the PRC (《中華人民共和國工會法》).

The Company implements the management system of labour contracts and enters into labour contracts with employees. The labour contract is executed with strict compliance on the Labour Law, the Labour Contract Law and relevant government rules and regulations for protection of responsibilities, rights and benefits of both parties.

The Company implemented categorized management for employees' remuneration, and emphasizes on value of post (or position) and personal contribution. We encourage employees to continue serving for the Company, work together for the continuing development and sustainability of the Company, as well as share the benefits from the development of the Company. Our remuneration is constituted of salaries determined by the position, academic qualifications, title wage, salaries based on production outputs, incentives, subsidies or allowances. Moreover, the Company provides welfares such as festive gifts and pension to our staff.

The Company implements an 8-hour working schedule and the rest breaks could be adjusted in different seasons, with a minimum of one day break every week. Employees can enjoy the statutory holiday as stipulated by the State, annual leave and marriage leave, compassionate leave, maternity leave and nursing leave, during which staff wage is paid as normal practice. The Company strictly observes the relevant requirements in the Labour Law to ensure the leave entitlements of employees.

The Company hires employees from different background and working experiences, and enables mobility within the Company. We aim to nurture a diversified talent team with senses of modern management and of professional standard. The Company believes that everyone should be treated fairly, and ensures that all staff will not be discriminated by any form during their application of job and employment. In assessing and evaluating the staff, the Company shall only consider their skill, qualification and performance and disregard their sex, age, marital status, race, religion and nationality etc.

During the reporting period, the Company did not have any material non-compliance cases in relation to labour practices.

B2. Health and Safety

The Company highly values the protection of staffs' rights, workplace safety and health protection, emphasizes on vocational skills training and safety training, strive to protect staff from work accidents or occupational hazards, and promises to strictly follow the regulations of occupational health and safety, such as the Production Safety Law of the PRC (《中華人民共和國安全生產法》), so that we can provide a safe and healthy workplace for the staff.

The Company has developed the Rules for Production Safety (《安全生產規章制度》), the Manual of Quality, Environment and Occupational Health Management System (《品質、環境和職業健康安全管理體系手冊》) and the corresponding procedures, which state clearly the working processes and different safety measures and guidelines, specify staffs' responsibilities regarding the health and safety in workplace, and formulate a control and management mechanism for the existence of relevant risks in business operations. In July 2015, our occupational health and production safety management system was granted the OHSAS 18001:2007 certifications.

The Company posts the working safety system, hazard signs and warning illustration in Chinese in conspicuous place of the production workshop. The Company also provides equipment which meets the safety requirements, and requires conducting regular maintenance. During the formulation of production plan, production capacity of equipment and facilities should be taken into consideration to prevent overloading. Meanwhile, the technical department evaluates on the situation of plants and equipment every year and formulates annual repair & maintenance and equipment upgrading plan. For instance, the Company upgrades the electric boilers with pier cap by installing grease filter in accordance with the equipment upgrading plan for the year 2016 in order to prevent any accumulation of grease within chimney which would lead to fire.

The Company provides educational training on safety and health for all employees of the Company on an annual and occasional basis. Examination is also arranged and the results are documented. New staffs have to receive safety training before their employment. The Company provides labour protection equipment which meets national or industry standards for the staff and requires them to wear and use it properly. Such equipment should be upgraded on time based on its usage. We have made reasonable arrangement for the rest breaks of our staff and strictly controlled their overtime in accordance with the relevant labour laws and regulations to foster staff well-being. Annual body check is also arranged for the staff.

To consistently follow the guidelines of "Occupational health and safety as on top priority and prevention as main focus", the Company arranges an annual comprehensive inspection on safety, identification of source of hazards and assessment. Notices of hidden dangers rectification is issued for the potential safety hazards being identified. The department in charge should complete the rectification and verify the result of rectification. Moreover, the Health and Safety Office arrange full-time and part-time safety staffs on monthly basis to conduct safety assessment in respect of safety management, exploding, blasting and thermal engineering, electrical management, machinery and equipment and working environment. Penalties should be implemented for failure in any criteria. Notice of hidden dangers rectification is then issued which requires rectification to be completed before deadline. The Company would randomly arrange various competitions on safe production, rescues for confronting emergencies and regular training.

The Company has also set up various reward and punishment systems. For instance, reward system is implemented for reporting any potential safety hazards so that it would enhance the pro-activeness of the staff in work safety to minimize any risk of safety hazards.

During the reporting period, the Company did not have any material non-compliance cases in relation to health and safety laws and regulations.

B3. Development and Training

The Company values our staffs as our most valuable assets. We believe that our staffs' continuous enhancement in job knowledge is vital for business development of the Company. The Company has already formulated the relevant policies and systems of staffs' development and training, which regulates various training plan, implementation, guidance, assessment and recommendation of all staffs, in conjunction with the development target of the Company and enhancement in manpower performance.

For the purpose of improving the professional knowledge, trend of industrial development, skills that a business personnel in this function should have, as well as enhancing the quality of final products and working efficiency, the Company provides relevant training for staffs in different functions, in which the training content is designed based on corporate regulations and systems, staff duties, and operating skill. The corporate training system constitutes of introduction training, pre-employment training, internal training of technologies and management as well as external training. The Company also invests a substantial amount in training funds every year for the specified purpose.

The Company conducts training plan, implementation and assessment in an organized way and establishes training profiles. For better outcome in training, the Company will set up a training test after the end of each training session. The relevant assessment result, training test, training outcome and effect are integrated to a single training file for the reference of consideration in whether a staff should be given priority to receive training in the future, and the file is included for the reference of assessment and promotion.

B4. Labour Standards

The Company consistently emphasizes and strictly complies all the relevant state's law and local regulations in the city in which we operate, the relevant labour laws and regulations (including prohibition of use of child and forced labour) and has formulated a rigorous and systematic approval and identification measure in order to avoid hiring child labour and ensure that such employment is in compliance of relevant law and regulations.

The Company applies equal opportunities and non-discriminating employment policies and treats all the employees of different nationalities, races, genders, religious beliefs and cultural backgrounds fairly. It is prohibited and resisted to hire child labour in any form in order to avoid the occurrence of forced labour and enhance the employment of female and minority. The Company has made reasonable arrangement on staffs' working time in accordance with the statutory standardized working time range, and provide leave benefits such as paid leave and sick leave based on the Labour Law.

During the reporting period, the Company did not have any material non-compliance cases in relation to labour standards as stipulated in relevant laws and regulations.

Operating Practice

B5. *Supply Chain Management*

Suppliers are our vital partner. The Company has formulated the relevant policies and systems in relation to supply chain management, including the relevant procedures and selection criteria chosen by the suppliers. By adhering to the principles of equal emphases on quality, costs, delivery and services, suppliers with good potential can enter into the supply system of the Company and hence provide strong support to our production activities.

The Company conducts supply chain management by establishment of Qualified Supplier Catalogue. Only samples which pass the Company's inspection can be included in the Qualified Supplier Catalogue (《合格供方名錄》). Moreover, on-site inspection to suppliers would be conducted if necessary to verify its product quality assurance. The procurement segment of the Company is classified into material resources and general resources. For the suppliers of material resources, the Company has established strategic cooperation relationship with qualified suppliers to guarantee the quality of procurement.

For better enhancement in our sustainable development, during the tendering process of filtering suppliers, in addition to the considerations of the quality of product or services and business factors, the suppliers should strictly comply with the national requirements and receive the relevant certifications and qualifications. The Company would prioritize the product/service suppliers which can provide green products and actively perform their social responsibilities.

To ensure that the raw materials (such as spring steel and iron) acquired comply with the quality standards of the Company and applicable national standards, we received test certificates from supplier in relation to such raw materials, of which the chemical components are stated in the certificate. Our quality control staff will also conduct chemical and physical tests. Only those raw materials which can meet the requirements stated in the purchase agreements would be accepted.

The Company treats every product/service suppliers fairly in order to establish long-term cooperation relationship. Moreover, the Company conduct regular assessment on selected products and service suppliers based on price, quality and after-services, to ensure that we can continue to receive quality products and services.

B6. *Responsibility of products*

The Company primarily manufactures rail fastening system products, which are applied in all aspects of high speed rail, heavy haul rail, traditional rail and metro series. The Company high values safety and reliability of products and strictly complies with the relevant national, international and industrial standards to ensure that the products would meet the generally accepted quality requirements in terms of safety, reliability, availability and maintainability.

The Company emphasizes on quality management and regulates the procedures of quality inspection and disposal in order to minimize the fail rate of products. The product quality control system established by the Company was qualified for the certification of ISO9001:2008 in April 2015.

The Company has formulated the corporate technical standard, in which we are capable and can apply consistently the relevant national standards and industrial standards. We have equipped with the necessary manufacturing equipment and technological equipment and have established comprehensive systems of equipment, and tooling management, repair and maintenance systems as well as accounts and technological information, of which their function and accuracy meet the national and China Railway Corporation's provisions and requirements of manufacturing qualified products. The Company has established and maintained an environment that is necessary for proper product manufacturing and storage.

Our Quality Control Department is responsible for on-site inspection of the acquired material, ex-factory checking and inspection, as well as monitoring, inspecting and reporting in order to control the product quality and minimize the substandard goods to be produced.

For the requests of products made by customers, the Company will instruct the Technical Department for the review. The department should clarify the requests made by the customers regarding delivery and subsequent actions, or requests not explicitly mentioned by the customers but are required or known of its expected usage, requirements of laws and regulations applicable to products, as well as any additional requirements if deemed necessary by the Company, in order to achieve the purpose of receiving confirmations from both parties regarding the requests on product. The review will be completed before the Company has made our commitment of providing products to customers. All of our commitments of providing products to customers are in form of written contracts, which reflect our responsibility and respect to the customers.

For the products that have already delivered to the customers, if they are found to be unqualified, the Company shall negotiate with customers depending on effects incurred by such unqualified products or seriousness of their potential effects to satisfy customers' reasonable demands, including acceptance on deviation, repair, exchange or return of goods. Meanwhile, we will analyze and adopt the rectification or precautionary measures.

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. Our operations are in compliance with applicable safety regulations in all material aspects.

During the reporting period, the Company did not have any penalties associated with any material non-compliance of applicable laws and regulations in the PRC in relation to occupational health and production safety.

B7. Anti-corruption

The Company endeavours to comply regulations regarding anti-corruption and anti-money laundering, including but not limited to the Criminal Law of the PRC (《中華人民共和國刑法》) and the Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》). The Company has already formulated various internal regulations regarding anti-corruption and anti-fraud behaviour, including measures on acquisition of benefits by violence, threats or other illegal means such as bribes and kickbacks, and improper use of corporate assets.

The Company highly emphasizes on anti-corruption, and has created an enterprise cultural atmosphere with integrity and impartiality. Employees or anyone acting on behalf of its companies and its business partners are prohibited from offering, making, or receiving any bribes or kickbacks, giving anything of value for the purpose of securing an improper business advantage, or otherwise engaging in corrupt activities or practices. We further encourage our employees and business partners to promptly report violations of any law or policy so that they may be dealt with appropriately. We believe that strong ethical conduct is essential in building a sustainable business and gaining the trust from our employees, customers, suppliers and other business partners.

Our Internal Audit Department is a permanent establishment of anti-corruption and currently opens and announces the reporting hotline and mail address. Staffs and parties who are directly or indirectly connected with the Company in economic sectors can reflect and report any misconduct and dishonest behaviour by phone or email, such as reporting suspicious crime of corruption, bribery, fraud and other forms.

In addition, the Corporate Management Procedures of Labour Contract clearly states that, the Company is entitled to implement direct dismissal on such individual who commits serious misconduct, fraudulent acts, corruption or other serious misdeed which lead to material damages on the Company's benefits or reputation. In case of involving criminal offence, the case shall be referred to a judicial authority in time in accordance with laws.

During the reporting period, the Company did not bring legal cases regarding corruption against the issuer or its employees.

Community

B8. Community Investment

As a socially responsible corporate citizen, the Company has created many job opportunities for the local community, and has been actively involved in community charity events of the city in which we operate. The Company has donated the reconstruction process due to massive natural disasters and encourages our staff to join various internal and external community events, such as:

- The Company organized the non-remunerated blood donation in both 2014 and 2015, and encouraged the public to proactively participate in public welfare, and share their caring with others. In 2016, the Company was awarded the pennant of "Dedication and Charity" ("無私奉獻，傳遞愛心") by the Office of Hebei Province Non-remunerated Blood Donation Committee (河北省無償獻血領導小組辦公室).

- On 19 July 2016, a massive rainstorm and flooding occurred in Hebei, leading to massive loss suffered by many counties and cities of Hebei Province. The Company donated RMB72,000 to the afflicted region and the General Charity Federation of Gaocheng District of Shijizhuang City (石家莊市藁城區慈善總會) for supplementing the rebuilding after disaster.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Hebei Yichen Industrial Group Corporation Limited
(incorporated in the PRC with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hebei Yichen Industrial Group Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 132, which comprise:

- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Provision for impairment of trade receivables
- Revenue cut-off of rail fastening system products

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of trade receivables Refer to notes 4(c) and 13 of the consolidated financial statements. As of 31 December 2016, trade receivables of the Group amounted to RMB981 million, net of provision for impairment of RMB85 million. Management estimated provision for impairment of trade receivables as follows: • Assessed whether objective evidence of impairment existed indicating that trade receivables were impaired for which individual provision was made. • Categorised the remaining trade receivables, for which no individual provision was made, on the basis of similar credit risk characteristics. Performed collective assessment for impairment on each category of trade receivables with reference to respective aging analysis. Because of the significant judgements made by management, and the significant impact of the impairment charge on the Group's consolidated financial statements for the year ended 31 December 2016, we had placed our audit focus on this matter.	We evaluated and tested the controls over the impairment assessment of trade receivables. On a sample basis, we sent confirmations to customers independently. For those not replied, we checked the related goods receipts signed by the customers. For individually assessed trade receivables, we inspected the litigation list prepared by the Company's in-house legal counsel, communicated with the Company's external legal advisers and inquired the personnel from the sales department, with the objective to identify whether there were debtors with financial difficulties or other impairment indicators. For collectively assessed trade receivables, we tested, on a sample basis, the accuracy of aging analysis prepared by management. We assessed the provision method for impairment, taking into consideration the aging analysis of trade receivables and industry practices. We found that management's judgements made in assessing the impairment of trade receivables were supported by the evidence we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue cut-off of rail fastening system products Refer to notes 2.19 and 5 of the consolidated financial statements. For the year ended 31 December 2016, the Group recognised revenue of RMB1,035 million of which 92% derived from sales of rail fastening system products. According to sales contracts, the Group had the obligations to deliver these products to construction sites or designated sites. Risks and rewards were transferred at the point when the customers examined the products and signed the goods receipts. Due to the volume of transactions incurred around year end and the time lag in exchanging sales related documents, revenue cut-off errors of rail fastening system products might exist.	We evaluated and tested the key controls in relation to the revenue cut-off, including management's monitoring of the timing of revenue recognition and checking the accuracy of revenue recognized around the end of reporting period. We checked the sales contracts of rail fastening system products, on a sample basis, to determine when risks and rewards of rail fastening system products were transferred, so as to determine in which periods the revenue should be recognized. We tested sales transactions incurred around the year end on a sample basis by checking the related contracts and goods receipts signed by customers. Based on the work performed, we found no revenue cut-off errors of rail fastening system products.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March, 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		For the year ended 31 December	
	Note	**2016** ***RMB'000***	2015 *RMB'000*
Revenue	5	**1,035,427**	907,049
Cost of sales	5,26	**(567,278)**	(517,079)
Gross profit		**468,149**	389,970
Selling and distribution expenses	26	**(48,654)**	(50,525)
General and administrative expenses	26	**(64,728)**	(54,147)
Other gains, net	25	**3,288**	2,235
Operating profit		**358,055**	287,533
Finance income	28	**1,899**	1,137
Finance costs	28	**(16,294)**	(20,888)
Finance costs, net		**(14,395)**	(19,751)
Share of profits of an associate	10	**11,072**	7,588
Profit before income tax		**354,732**	275,370
Income tax expense	29	**(48,875)**	(47,359)
Profit for the year		**305,857**	228,011
Attributable to:			
Equity holders of the Company		**305,857**	228,069
Non-controlling interests		**–**	(58)
		305,857	228,011
Basic and diluted earnings per share for profit attributable to equity holders of the Company (RMB)	31	**0.45**	0.34

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**305,857**	228,011
Other comprehensive income:		
Item that may be reclassified to income statement		
Change in value of available-for-sale financial assets	**7,869**	–
Total comprehensive income for the year	**313,726**	228,011
Attributable to:		
Equity holders of the Company	**313,726**	228,069
Non-controlling interests	**–**	(58)
Total comprehensive income for the year	**313,726**	228,011

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**110,087**	117,046
Lease prepayment for land use rights	7	**136,329**	97,811
Intangible assets	8	**111**	177
Investments in an associate	10	**51,185**	40,113
Deferred income tax assets	11	**17,218**	14,670
Other receivables and prepayments Non-current portion	16(b)	**7,464**	8,469
		322,394	278,286
Current assets			
Available-for-sale financial assets	15	**136,869**	–
Inventories	12	**170,935**	137,459
Accounts receivable	13	**989,010**	753,375
Advances to suppliers	14	**47,387**	12,196
Other receivables and prepayments Current portion	16(a)	**17,903**	21,242
Restricted cash	17	**44,824**	78,746
Cash and cash equivalents	18	**649,436**	85,541
		2,056,364	1,088,559
Total assets		**2,378,758**	1,366,845
EQUITY			
Capital and reserves attributable to equity holders			
Capital	19	**448,920**	336,690
Other reserves	20	**880,573**	396,720
Retained earnings		**308,063**	105,294
		1,637,556	838,704
Non-controlling interests		**–**	–
Total equity		**1,637,556**	838,704

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	21(a)	**20,000**	–
Deferred income from government grants	22	**6,106**	6,338
		26,106	6,338
Current liabilities			
Accounts payable	23	**258,693**	189,076
Advances from customers		**10,343**	4,550
Other payables and accruals	24	**92,465**	54,771
Current income tax liabilities		**2,185**	351
Bank borrowings	21(a)	**351,410**	221,755
Other borrowings	21(b)	**–**	47,400
Finance lease liabilities	6(b)	**–**	3,900
		715,096	521,803
Total liabilities		**741,202**	528,141
Total equity and liabilities		**2,378,758**	1,366,845

The financial statements on pages 67 to 132 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf

Zhang Ligang　　　　Wu Jinyu

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Company					
	Capital *RMB'000* (Note 19)	Other reserves *RMB'000* (Note 20)	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2015	84,570	42,285	493,780	620,635	2,818	623,453
Comprehensive income						
Profit for the year	–	–	228,069	228,069	(58)	228,011
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	228,069	228,069	(58)	228,011
Transactions with owners						
Dividends paid/declared (Note 32)	–	–	(10,000)	(10,000)	–	(10,000)
Appropriation to statutory surplus reserves	–	10,939	(10,939)	–	–	–
Appropriation to capital reserves due to transformation to a joint stock limited liability company	–	385,781	(385,781)	–	–	–
Transfer to capital due to transformation to a joint stock limited liability company	252,120	(42,285)	(209,835)	–	–	–
Purchase of non-controlling interests (Note 35 (a))	–	–	–	–	(2,760)	(2,760)
	252,120	354,435	(616,555)	(10,000)	(2,760)	(12,760)
Balance at 31 December 2015	336,690	396,720	105,294	838,704	–	838,704

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Company					
	Capital *RMB'000* (Note 19)	Other reserves *RMB'000* (Note 20)	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2016	336,690	396,720	105,294	838,704	–	838,704
Comprehensive income						
Profit for the year	–	–	305,857	305,857	–	305,857
Other comprehensive income						
Change in fair value of available-for-sale financial assets(Note 15)	–	7,869	–	7,869	–	7,869
Total comprehensive income for the year	–	7,869	305,857	313,726	–	313,726
Transactions with owners						
Issuance of new shares (Note 19)	112,230	445,958	–	558,188	–	558,188
Dividends paid/declared (Note 32)	–	–	(73,062)	(73,062)	–	(73,062)
Appropriation to statutory surplus reserves	–	30,026	(30,026)	–	–	–
	112,230	475,984	(103,088)	485,126	–	485,126
Balance at 31 December 2016	448,920	880,573	308,063	1,637,556	–	1,637,556

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	For the year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	99,623	222,772
Interest paid		(16,136)	(27,675)
Interest received		2,406	989
Income tax paid		(31,596)	(99,027)
Net cash generated from operating activities		54,297	97,059
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,743)	(16,065)
Purchase of intangible assets		(93)	(42)
Payments for acquisition of land use right		(35,852)	(68,293)
Purchase of available-for-sale financial assets		(129,000)	–
Proceeds from disposals of property, plant and equipment	33(b)	65	49,186
Decrease/(increase) of term deposits with initial term of over three months		50,000	(50,000)
Net cash used in investing activities		(128,623)	(85,214)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		602,520	–
Listing cost paid		(36,288)	(7,450)
Proceeds from bank borrowings		513,146	330,355
Proceeds from other borrowings		–	48,350
Repayments of bank borrowings		(363,491)	(256,940)
Repayments of other borrowings		(47,400)	(62,439)
Dividends and related withholding tax paid		(28,000)	(10,000)
Payments of financing lease fee		(2,132)	(9,566)
Increase of interest in a subsidiary	35(a)	–	(2,760)
Net cash generated from financing activities		638,355	29,550
Net increase in cash and cash equivalents		564,029	41,395
Cash and cash equivalents at 1 January		85,541	44,146
Exchange losses on cash and cash equivalents		(134)	–
Cash and cash equivalents at 31 December	18	649,436	85,541

The notes on pages 74 to 132 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 per share. The sub-division was completed upon the Listing.

On 21 December 2016, the Company completed its global public offering of shares ("Global Offering") by issuing 224,460,000 new shares with nominal value of RMB0.50 per share. The Company's shares were then listed on the Main Board of the Stock Exchange of Hong Kong.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and requirements of the Hong Kong Companies ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, as appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The preparation of the consolidated financial statements 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 consolidated financial statements are disclosed in Note 4.

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012–2014 cycle, and
- Disclosure initiative – amendments to IAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) *New standards and interpretations not yet adopted by the Group*

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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet adopted by the Group (Continued)

- 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 34(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 RMB1,678,000 as at 31 December 2016, as set out in note 34(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *New standards and interpretations not yet adopted by the Group* (Continued)

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 consolidated financial statements. 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 consolidated financial statements 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 consolidated financial statements of the Group and the Group does not plan to early adopt this amendment.

- Amendments to IAS 7 will require entities explain changes in their liabilities arising from financing activities. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. Entities may include changes in other items as part of this disclosure. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The amendment will be effective for annual periods beginning on or after 1 January 2017.

  The adoption of the amendments to IAS 7 is not expected to have a significant effect on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

(a) *Consolidation (Continued)*

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the Group's 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.

Gain or losses on dilution of equity interest in associates are recognised in statement of profit or loss.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 consolidated financial statements are 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

(a) *Classification (Continued)*

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Loans and receivables are subsequently carried at amortized cost using effective interest method.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as "gains and losses from investment securities".

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

(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.

Assets classified as available for sale.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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". 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. 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 consolidated financial statements. 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 contribution amount is calculated based on the average monthly salary of previous year or minimum pension base made by government multiplying by applicable ratio. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee benefits *(Continued)*

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 consolidated financial statements 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. However, upon the Listing, the Group has significant foreign currency balance of cash and cash equivalents, primarily with respect to HK$. Foreign exchange risk arises from cash and cash equivalents dominated in currencies other than the functional currency of the Group. Analyses of cash and cash equivalents by currencies are disclosed in Note 18.

To manage the impact of exchange rate fluctuations, the Group continually assesses its exposure to foreign exchange risks, and a portion of those risks will be mitigated by using derivative financial instruments when management considers necessary.

As at each year end, if HK$ weakened by 10% against RMB with all other variables held constant, the post-tax profit for each year would have decreased mainly as a result of foreign exchange differences on translation of HK$ denominated assets and liabilities:

	Profit for the year *RMB'000*
At at and for the year ended 31 December 2016	
HK$	49,267
At at and for the year ended 31 December 2015	
HK$	–

A strengthening of HK$ against RMB would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Interest rate risk

The Group's interest rate risk arises from borrowings. The Group's borrowings, including bank borrowings and other borrowings, are all at fixed rates.

At 31 December 2015 and 2016, if interest rates of borrowings had increased/decreased by 30 basis points with all other variables held constant, the Group's profit after tax for the year ended 31 December 2015 and 2016 would have decreased/increased by approximately RMB784,550 and RMB733,870 respectively.

(b) Credit risk

As at 31 December 2015 and 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 consolidated financial statements 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

As at 31 December 2015 and 2016 the Group has net current assets of approximately RMB566,756,000 and RMB1,341,268,000 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 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 *RMB'000*	1-2 years *RMB'000*	2-5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
At 31 December 2016					
Bank borrowings	358,512	20,167	–	–	378,679
Other borrowings	–	–	–	–	–
Accounts payable	258,693	–	–	–	258,693
Other payables and accruals	88,295	–	–	–	88,295
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

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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 statement of financial position) less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Total borrowings (Note 21 (a)(b))	**371,410**	273,055
Less: cash and cash equivalents (Note 18)	**649,436**	85,541
Net debt	**(278,026)**	187,514
Total equity	**1,637,556**	838,704
Total capital	**1,359,530**	1,026,218
Gearing ratio	**–20%**	18%

The decrease in the gearing ratio during 2016 resulted primarily from the listing on the Main board of the Stock Exchange of Hong Kong, as a result the cash and cash equivalents as at 31 December 2016 increased by RMB563,895,000 compared with 31 December 2015.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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.

The table below analyses the group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Financial assets at fair value through equity				
At December 31, 2016	–	–	136,869	136,869
At December 31, 2015	–	–	–	–

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(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.

(e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The group has used discounted cash flow analysis for various foreign exchange contracts that are not traded in active markets.

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:

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2016	Rail fastening system products RMB'000	Welding materials RMB'000	Others RMB'000	Total RMB'000
Total revenue	958,787	68,887	7,753	1,035,427
Inter-segment revenue	–	–	–	–
Revenue from external customers	958,787	68,887	7,753	1,035,427
Total cost of sales	503,544	57,302	6,432	567,278
Segment gross profit	455,243	11,585	1,321	468,149
Other profit & loss disclosure:				
Depreciation and amortization	13,079	2,501	4,164	19,744
Provisions for impairment of receivables	20,617	1,358	378	22,353
Finance costs, net	–	–	14,395	14,395

For the year ended 31 December 2015	Rail fastening system products RMB'000	Welding materials RMB'000	Others RMB'000	Total 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

5 SEGMENT INFORMATION *(Continued)*

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	
	2016	2015
	RMB'000	*RMB'000*
Segment gross profit	**468,149**	389,970
Selling and distribution expenses, general and administrative expenses and finance costs, net	**(127,777)**	(124,423)
Other gains, net	**3,288**	2,235
Share of profits of associate, net	**11,072**	7,588
Profit before income tax	**354,732**	275,370
Income tax expense	**(48,875)**	(47,359)
Profit for the year	**305,857**	228,011

For the years ended at 31 December 2016 and 2015, over 95% of the Group's revenue are generated in China.

Notes to the Consolidated Financial Statements

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Electronic and communication equipment RMB'000	Furniture, office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
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	(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
Net book amount at 1 January, 2016	45,460	66,771	3,612	996	86	121	117,046
Additions	122	3,204	2,167	910	628	3,555	10,586
Transfers upon completion	86	108	–	–	–	(194)	–
Disposals	–	(204)	(24)	–	–	–	(228)
Depreciation	(2,959)	(12,060)	(1,344)	(782)	(172)	–	(17,317)
Net book amount at 31 December 2016	42,709	57,819	4,411	1,124	542	3,482	110,087
At 31 December 2016							
Cost	62,595	149,665	8,007	6,649	1,880	3,482	232,278
Accumulated depreciation	(19,886)	(91,846)	(3,596)	(5,525)	(1,338)	–	(122,191)
Net book amount	42,709	57,819	4,411	1,124	542	3,482	110,087

Note:

(i) Buildings with the net book value of RMB32,354,000 and RMB34,626,000 were pledged as collateral under borrowing agreements at 31 December 2016 and 2015, respectively (Note 21).

(a) Depreciation expense of RMB13,733,000 (2015: RMB14,661,000) has been charged in cost of sales, RMB3,584,000 (2015: RMB4,956,000) in general and administrative expenses in the consolidated income statements.

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Machinery includes the following amounts where the group is a lessee under a finance lease:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost – capitalised finance leases	**–**	49,476
Accumulated depreciation	**–**	(28,009)
Net book amount	**–**	21,467

(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 at 31 December 2016, the sale and leaseback agreement has been fulfilled.

As at 31 December 2015 and 2016, the finance lease liabilities were RMB3,900,000 and Nil respectively. There is no contingent rent and restriction imposed by lease arrangement.

	Minimum lease payments 2016	**Present values of minimum lease payments 2016**	Minimum lease payments 2015	Present values of minimum lease payments 2015
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within one year	**–**	**–**	3,961	3,900
In the second year	**–**	**–**	–	–
In the third year	**–**	**–**	–	–
Total	**–**	**–**	3,961	3,900
Less: amount repayable within one year	**–**	**–**	(3,961)	(3,900)
Long-term portion	**–**	**–**	–	–

Notes to the Consolidated Financial Statements

7 LEASE PREPAYMENT FOR LAND USE RIGHTS

The group's interests in land use rights represent payment for land use right and their net book value are analysed as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost		
At 1 January	**99,780**	12,878
Additions (i)	**40,786**	86,902
At 31 December	**140,566**	99,780
Accumulated amortization		
At 1 January	**(1,969)**	(1,567)
Amortization (Note 26)	**(2,268)**	(402)
At 31 December	**(4,237)**	(1,969)
Net book amount	**136,329**	97,811

As at 31 December 2016, Lease prepayment for land use rights with net book value of RMB136,329,000 (As at 31 December 2015: RMB11,053,000) were pledged as securities for bank borrowings (Note 21).

The Group'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	
	2016	2015
	RMB'000	*RMB'000*
General and administrative expenses (Note 26)	**2,268**	402

(i) On 11 August 2016, 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 19 September 2016, 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 RMB40,786,000.

8 INTANGIBLE ASSETS

	Computer software *RMB'000*
Net book amount at 1 January 2015	260
Additions	42
Amortization (Note 26)	(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	**93**
Amortization (Note 26)	**(159)**
Net book amount at 31 December 2016	**111**
At 31 December 2016	
Cost	**722**
Accumulated amortization	**(611)**
Net book amount	**111**

Amortization of intangible assets of the Group is analysed as follows:

	For the year ended 31 December	
	2016 *RMB'000*	2015 *RMB'000*
General and administrative expenses (Note 26)	**159**	125

9 INVESTMENTS IN SUBSIDIARIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Unlisted investments, at cost (Note 37)	**24,721**	24,721

The details of subsidiaries of the Company were set out in Note 37.

10 INVESTMENTS IN ASSOCIATE

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**40,113**	32,525
Share of profits for the year	**11,072**	7,588
At 31 December	**51,185**	40,113

Set out below is the associate of the Group as at 31 December 2016, which, in the opinion of the directors, is material to the Group. The associate as listed below is held directly by the Group, and the country of registration is also its principal place of business.

Nature of investment in associate as at 31 December 2016

Name of entity	**Place of business/country of incorporation**	**% of ownership interest**	**Measurement method**
Hebei Tieke Yichen New Material Technology Co., Ltd (Tieke Yichen) 河北鐵科翼辰新材科技有限公司	China	49%	Equity

As at 31 December 2016 the carrying amount of the Group's interest was RMB51,185,000 (31 December 2015: RMB40,113,000). 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.

10 INVESTMENTS IN ASSOCIATE *(Continued)*

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	
	2016	2015
	RMB'000	*RMB'000*
Current assets		
Cash and cash equivalents	**4,684**	15,079
Accounts receivable	**65,905**	3,253
Inventories	**21,330**	37,912
Other current assets	**2,486**	13,856
	94,405	70,100
Non-current assets	**30,538**	38,300
Current liabilities		
Other current liabilities	**20,484**	26,287
Non-current liabilities		
Other non-current liabilities	**–**	250
Net assets	**104,459**	81,863

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	
	2016	2015
	RMB'000	*RMB'000*
Opening net assets	**81,863**	66,377
Total comprehensive income	**22,596**	15,486
Closing net assets	**104,459**	81,863
Group's share in %	**49%**	49%
Carrying amount	**51,185**	40,113

Notes to the Consolidated Financial Statements

10 INVESTMENTS IN ASSOCIATE *(Continued)*

Notes: (Continued)

(ii) Summarized statements of comprehensive income

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**184,571**	171,549
Cost of sales	**(141,545)**	(141,459)
Other expenses	**(13,335)**	(8,980)
Other gains, net	**214**	–
Profit before income tax	**29,905**	21,110
Income tax expense	**(7,309)**	(5,624)
Profit for the year	**22,596**	15,486
Other comprehensive income	**–**	–
Total comprehensive income	**22,596**	15,486

11 DEFERRED INCOME TAX ASSETS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred income tax assets:		
– to be recovered after more than 12 months	**14,088**	12,131
– to be recovered within 12 months	**3,130**	2,539
	17,218	14,670

11 DEFERRED INCOME TAX ASSETS *(Continued)*

The movement in deferred income tax assets of the Group is as follows:

Deferred income tax assets	Provisions for impairment losses *RMB'000*	Accrued expenses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2015	13,445	2,743	2,489	18,677
Charged to statement of comprehensive income (Note 29)	(3,239)	(262)	(506)	(4,007)
At 31 December 2015	10,206	2,481	1,983	14,670
Credited to statement of comprehensive income (Note 29)	**3,372**	**649**	**(1,473)**	**2,548**
At 31 December 2016	**13,578**	**3,130**	**510**	**17,218**

12 INVENTORIES

	As at 31 December	
	2016 ***RMB'000***	2015 *RMB'000*
Raw materials	**20,828**	15,657
Work in progress	**73,191**	42,672
Finished goods	**76,916**	79,130
	170,935	137,459

The cost of inventories recognised as an expense and included in cost of sales for each of the years ended 31 December 2015 and 2016 amounted to RMB401,559,000 and RMB456,651,000, respectively.

13 ACCOUNTS RECEIVABLE

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables, gross (note(a))	**1,066,012**	803,817
Less: provision for impairment	**(85,445)**	(63,470)
	980,567	740,347
Notes receivable (note (b))	**8,443**	13,028
	989,010	753,375

(a) The ageing analysis, based on invoice date (or date of revenue recognition, if earlier), of trade receivables past due but not impaired is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current to 1 year	**801,076**	652,559
1 to 2 years	**175,682**	70,339
2 to 3 years	**32,083**	39,696
Over 3 years	**42,520**	26,522
	1,051,361	789,116

The individually impaired receivables mainly relate to some welding products customers, which are under litigation with the Company or in significant financial difficulties. 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:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current to 1 year	**–**	7,439
1 to 2 years	**7,439**	–
2 to 3 years	**–**	569
Over 3 years	**7,212**	6,693
	14,651	14,701

13 ACCOUNTS RECEIVABLE *(Continued)*

The provision of impairment of collectively assessed receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current to 1 year	**16,023**	13,052
1 to 2 years	**17,569**	7,034
2 to 3 years	**9,625**	11,908
Over 3 years	**27,577**	16,775
	70,794	48,769

For the year ended 31 December 2015 and 2016 movement on the provision for impairment of trade receivables is as follows:

	RMB'000
As at 1 January 2015	49,935
Provision for impairment	13,535
As at 31 December 2015	63,470
Provision for impairment	21,975
As at 31 December 2016	**85,445**

(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 31 December 2016, the Company factored receivables of RMB147,347,000 (31 December 2015: RMB89,013,000) (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 21(a).

(e) The creation and release of provision for impaired receivables have been included in 'General and administrative expenses' in the consolidated income statements (Note 26).

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 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**–**	–
Additions	**129,000**	–
Disposals	**–**	–
Net gains transfer to equity (Note 20)	**7,869**	–
At 31 December	**136,869**	–
Current portion	**136,869**	–

As at 31 December 2016, the available-for-sale financial assets held by the Company is unlisted securities with expected interest rate of 8% per annual and maturity date between November and December 2017. The available-for-sale financial assets is dominated in RMB.

The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities (2016: 8%; 2015: Nil). The fair values are within level 3 of the fair value hierarchy (see Note 3.3).

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available-for-sale.

None of these financial assets are either past due or impaired.

No available-for-sale financial assets are in shares of fellow subsidiaries.

16 OTHER RECEIVABLES AND PREPAYMENTS

(a) Current portion

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deposits for biddings and contracts	**17,111**	10,648
Prepayments to intermediaries for listing	**–**	8,324
Others	**5,746**	6,846
	22,857	25,818
Less: provision for impairment	**(4,954)**	(4,576)
	17,903	21,242

(b) Non-current Portion

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepayment for acquisition of land use rights	**–**	4,934
Prepayment for equipment	**2,429**	2,371
Prepayment for construction	**5,035**	–
Others	**–**	1,164
	7,464	8,469

17 RESTRICTED CASH

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Pledged deposits (Note i)	**44,824**	28,746
Term deposits with initial term of over three months (Note ii)	**–**	50,000
	44,824	78,746

(i) Pledged deposits include security deposit for letters of guarantee and deposits for issuance of bank acceptance notes.

(ii) As at 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.

As at 31 December 2016, all of the term deposits with initial term of over three months had been matured and received.

Notes to the Consolidated Financial Statements

18 CASH AND CASH EQUIVALENTS

Cash and bank were denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
HK$	**579,613**	–
RMB	**69,798**	85,518
US$	**25**	23
	649,436	85,541

19 CAPITAL

Registered, issued and fully paid:

	RMB'000
At 1 Janaury 2015	84,570
Addition (Note (i))	252,120
At 31 December 2015	336,690
Addition (Note (ii))	112,230
At 31 December 2016	**448,920**

(i) 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 20).

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 was completed upon the Listing.

(ii) On December 21, 2016, the Company completed its Global Offering by issuing 224,460,000 new shares with nominal value of RMB0.50 each at a price of HK$3.00 per share. Upon the completion of the Listing, the totals shares of the Company are 897,840,000 of RMB0.5 each. The Company's new shares were then listed on the Main Board of the Stock Exchange of Hong Kong.

20 OTHER RESERVES

	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Available-for-sale Investment *RMB'000*	Total *RMB'000*
At 1 January 2015	–	42,285	–	42,285
Transactions with owners				
Appropriation to capital reserves due to transformation to a joint stock limited liability company (Note 19)	385,781	–	–	385,781
Transfer to capital due to transformation to a joint stock limited liability company (Note 19)	–	(42,285)	–	(42,285)
Appropriation to statutory surplus reserves	–	10,939	–	10,939
At 31 December 2015	385,781	10,939	–	396,720
At 1 January 2016	**385,781**	**10,939**	**–**	**396,720**
Revaluation-gross (Note 15)	**–**	**–**	**7,869**	**7,869**
Transactions with owners				
Share premium from issuance of new shares upon initial public offering (Note 19)	**445,958**	**–**	**–**	**445,958**
Appropriation to statutory surplus reserves	**–**	**30,026**	**–**	**30,026**
At 31 December 2016	**831,739**	**40,965**	**7,869**	**880,573**

Notes to the Consolidated Financial Statements

21 BORROWINGS

(a) Bank borrowings

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current		
Bank borrowings		
– other bank loans (Note i)	**177,500**	105,000
– entrusted loan (Note ii)	**13,400**	–
– bank advance for factored receivables (Note iii)	**110,510**	66,755
– unsecured bank borrowings (Note iv)	**50,000**	50,000
	351,410	221,755
Non-Current		
Bank borrowings (Note v)	**20,000**	–
Total bank borrowings	**371,410**	221,755

Maturity of bank borrowings

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**351,410**	221,755
1 year to 2 years	**20,000**	–
Total bank borrowings	**371,410**	221,755
Weighted average annual interest rates		
Bank borrowings	**5.07%**	5.95%

21 BORROWINGS *(Continued)*

(a) Bank borrowings *(Continued)*

Maturity of bank borrowings (Continued)

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Currency denomination		
RMB	**371,410**	221,755

Notes:

(i) As at 31 December 2016, secured bank borrowings of RMB77,500,000, (31 December 2015: Nil) are secured by lease prepayment for land use rights and buildings of the Company.

As at 31 December 2016, secured bank borrowings of RMB100,000,000, (31 December 2015: Nil) are secured by lease prepayment for land use rights of the Company.

As at 31 December 2015, secured bank borrowings of RMB55,000,000, (31 December 2016: Nil) 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 31 December 2015, bank borrowing of RMB50,000,000, (31 December 2016: Nil) 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.

(ii) As at 31 December 2016, the company has entrusted loan of RMB13,400,000, (31 December 2015: Nil) from Gaochen City Lianzhou Town Management Service Station (藁城市廉州鎮經濟管理服務站) and the interest rate is fixed at 5.22% for 2016.

(iii) As at 31 December 2016, bank advance for factored receivables are RMB110,510,000. As at 31 December 2015, bank advance for factored receivables of RMB66,755,000 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 31 December 2016, short term bank borrowings of RMB50,000,000 were unsecured bank loans for factored accounts payables and bear interest rate of 7.2% per annum. As at 31 December 2015,short term bank borrowings of RMB50,000,000 was unsecured.

(v) As at 31 December 2016, long term bank borrowings of RMB20,000,000 (31 December 2015: Nil) were secured by lease prepayment for land use rights and buildings of the Company.

21 BORROWINGS *(Continued)*

(b) Other borrowings

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Borrowings from other party (i)	**–**	47,400
	–	47,400

Note:

(i) As at 31 December 2015, 1-year short-term borrowings of RMB47,400,000 (31 December 2016: 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 pledged by a deposit receipt of RMB50,000,000 (Note 17).

22 DEFERRED INCOME FROM GOVERNMENT GRANTS

Deferred income from government grants mainly include cash subsidies 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 2015 and 2016 are as follows:

	RMB'000
At 1 January 2015	6,571
Additions	–
Amortization	(233)
At 31 December 2015	6,338
Additions	**–**
Amortization	**(232)**
At 31 December 2016	**6,106**

23 ACCOUNTS PAYABLE

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables to associate and other related parties	**68,249**	5,536
Trade payables to third-parties	**160,212**	169,382
Notes payable	**30,232**	14,158
	258,693	189,076

Aging analysis, based on invoice dates, of trade payables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current to 1 year	**195,964**	163,365
1 year to 2 years	**26,733**	6,989
2 years to 3 years	**2,360**	1,912
Over 3 years	**3,404**	2,652
	228,461	174,918

Notes to the Consolidated Financial Statements

24 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages, salaries and other employee benefits	**4,170**	4,269
Royalty fee (Note (a))	**20,864**	16,477
Freight	**9,590**	7,927
Other taxes (Note (b))	**56,399**	25,794
Others	**1,442**	304
	92,465	54,771

Notes:

(a) The Group signed agreements with 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)("Academy of Railway Sciences ") in 2006, according to the agreements, the Group pays royalty fee to Academy of Railway Sciences per year at 2.5% of the revenue of certain products.

(b) These include payables of value-added tax, business tax, withholding tax and other taxes.

25 OTHER GAINS, NET

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Amortization of deferred income (Note 22)	**232**	233
Income related to government grants (Note (i))	**2,557**	1,206
(Loss)/gain on disposal of property, plant and equipment (Note 33 (b))	**(163)**	619
Others	**662**	177
	3,288	2,235

Note (i): Income related to government grants respects to the cash subsidies for well-known trademark, energy conservation and emissions reduction or other subsidies from local government.

26 EXPENSE BY NATURE

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials used	**484,956**	389,167
Changes in finished goods and work-in-progress	**(28,305)**	12,392
Employee benefit costs (Note 27)	**62,564**	63,623
Transportation and warehouse expenses	**24,471**	27,361
Depreciation on property, plant and equipment (Note 6)	**17,317**	19,617
Amortization on		
– land use rights (Note 7)	**2,268**	402
– intangible assets (Note 8)	**159**	125
Provision for impairment of receivables	**22,353**	14,265
Royalty fee	**12,376**	10,566
Utilities	**39,108**	44,305
Operating lease expenses	**973**	756
Office and travel expenses	**6,711**	5,835
Sales tax and levies	**14,822**	12,751
Car rental fee	**–**	2,227
Service fees and charges	**1,886**	2,474
Product examination costs	**1,556**	1,367
Listing expenses	**2,947**	1,131
Remuneration of the Company's auditor		
– Audit service	**2,170**	–
– Non-audit service	**330**	–
Others	**11,998**	13,387
Total cost of sales, selling and distribution expenses, and general and administrative expenses	**680,660**	621,751

27 EMPLOYEE BENEFIT COSTS

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages and salaries	**45,963**	52,202
Pension scheme and other social security costs	**14,775**	9,045
Others	**1,826**	2,376
	62,564	63,623

27 EMPLOYEE BENEFIT COSTS *(Continued)*

(a) Directors and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2015 is set out below:

	Fees *RMB'000*	Salaries *RMB'000*	Discretionary bonus *RMB'000*	Employer's contribution to a retirement benefit scheme *RMB'000*	Other benefits *RMB'000*	Total *RMB'000*
Directors						
Zhang Haijun (張海軍)	171	–	–	–	–	171
Zhang Chao (張超)(1)	77	–	–	6	–	83
Fan Xiulan (樊秀蘭) (1)	68	–	–	–	–	68
Zhang Lihuan (張力歡)(1)	86	–	–	6	–	92
Wu Jinyu (吳金玉)	133	–	–	6	–	139
Zhang Ligang (張立剛)	150	–	–	6	–	156
Zhang Xiaogeng (張小更)(2)	–	86	–	–	–	86
Independent non-executive Directors						
Jip Ki Chi (葉奇志)(3)	–	–	–	–	–	–
Wang Qi (王琦)(3)	–	–	–	–	–	–
Zhang Liguo (張立國)(3)	–	–	–	–	–	–
Supervisors						
Zhang Xiaosuo (張小鎖)	142	–	–	–	–	142
Zhou Encheng (周恩成)(1)	63	–	–	6	–	69
Liu Jiao (劉姣)(3)	56	–	–	6	–	62
Yang Lisong (楊力松)(2)	–	12	–	6	–	18
Zhou Congcong (周叢叢)(4)	–	14	–	5	–	19
	946	112	–	47	–	1,105

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.

27 EMPLOYEE BENEFIT COSTS *(Continued)*

(a) Directors and supervisors' emoluments *(Continued)*

The remuneration of each director and supervisor for the year ended 31 December 2016 is set out below:

	Fees *RMB'000*	Salaries *RMB'000*	Discretionary bonus *RMB'000*	Employer's contribution to a retirement benefit scheme *RMB'000*	Other benefits *RMB'000*	Total *RMB'000*
Directors						
Zhang Haijun (張海軍)	360	–	–	–	–	360
Zhang Chao (張超)	140	–	–	14	–	154
Fan Xiulan (樊秀蘭)	170	–	–	–	–	170
Zhang Lihuan (張力歡)	170	–	–	7	–	177
Wu Jinyu (吳金玉)	190	–	–	25	–	215
Zhang Ligang (張立剛)	230	–	–	7	–	237
Independent non-executive Directors						
Jip Ki Chi (葉奇志)	32	–	–	–	–	32
Wang Qi (王琦)	8	–	–	–	–	8
Zhang Liguo (張立國)	8	–	–	–	–	8
Supervisors						
Zhang Xiaosuo (張小鎖)	260	–	–	6	–	266
Zhou Encheng (周恩成)	110	–	–	7	–	177
Liu Jiao (劉姣)	80	–	–	7	–	87
	1,758	–	–	73	–	1,831

27 EMPLOYEE BENEFIT COSTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2015 and 2016 include 2 and 2 directors and supervisors respectively whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 and 3 individuals are as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and other benefits	**756**	631
Employer's contribution to a retirement benefit scheme	**1**	6
Discretionary bonus	**–**	–
	757	637

The emoluments of the remaining individuals fell within the following bands:

	For the year ended 31 December	
	2016	2015
	Number of individuals	*Number of individuals*
Emolument band (in HK dollar)		
Nil – HK$1,000,000	**3**	3

In the two years ended 31 December 2015 and 2016, the Group did not pay any compensation, as an inducement to join the group or join the Group rewards, or as compensation for loss of office, to any directors, supervisors or the five highest paid individuals (including directors, supervisors and employees). During the above two years, no directors waived any emoluments.

28 FINANCE COSTS, NET

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
Interest on bank deposits	**1,899**	1,137
Finance costs		
Interest expense on bank borrowings	**(14,084)**	(13,450)
Interest expense on financial lease	**(217)**	(409)
Interest expense on shareholders/key management' loans (Note 21(b))	**–**	(4,655)
Interest expense on other private loans	**–**	(363)
Exchange loss	**(134)**	–
Bank charges and others	**(1,859)**	(2,011)
	(16,294)	(20,888)
Finance costs, net	**(14,395)**	(19,751)

29 INCOME TAX EXPENSE

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**51,423**	43,352
Deferred income tax (Note 11)	**(2,548)**	4,007
	48,875	47,359

Provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 15% for the year 2015 and 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 had completed the preferential income tax filling and enjoyed the preferential income tax rate of 15%.

Notes to the Consolidated Financial Statements

29 INCOME TAX EXPENSE *(Continued)*

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	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**354,732**	275,370
Tax calculated at the statutory tax rate (15%)	**53,210**	41,306
Income not subject to tax	**(1,661)**	(1,138)
Expenses not deductible for tax purposes	**217**	151
Additional deduction on research and development expense	**(3,184)**	–
Re-measurement of deferred tax – change in the Company's tax rate	**–**	6,814
Others	**293**	226
Tax charge	**48,875**	47,359

30 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 RMB226,313,000 and RMB300,256,000 for each of the years ended 31 December 2015 and 2016, respectively.

31 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 year.

The basic earnings per share for the year ended 31 December 2015 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 336,690,000 shares issued upon the Company's transformation to a joint-stock company on 26 November 2015 and the share sub-division pursuant to a shareholders' resolution dated 30 November 2015 into 673,380,000 shares were issued throughout the year.

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**305,857**	228,069
Weighted average number of ordinary shares in issue (thousands)	**679,530**	673,380
Basic earnings per share (RMB per share)	**0.45**	0.34

There were no potential dilutive ordinary shares for the year ended 31 December 2015 and 2016. Diluted earnings per share were equal to basic earnings per share.

32 DIVIDENDS

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Dividends paid/declared (i)	**73,062**	10,000

(i) On 4 February 2016, the board of directors resolved to declare an annual dividend of RMB73,061,730 to its then existing shareholders (for the year ended 31 December 2015: RMB10,000,000).

(ii) Pursuant to the resolution of the board of directors on 22 March 2017, a dividend in respect of the year ended 31 December 2016 of RMB0.167 (tax inclusive) per share, amounting to a total dividend of RMB149,939,280, is to be proposed at the annual general meeting on 26 May 2017. These financial statements do not reflect this dividend payable.

33 CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**354,732**	275,370
Adjustments for:		
Share of profits of associate	**(11,072)**	(7,588)
Loss/(gain) on disposal of property, plant and equipment and intangible assets (Note (b))	**163**	(619)
Depreciation on property, plant and equipment	**17,317**	19,617
Amortization of		
– land use rights	**2,268**	402
– intangible assets	**159**	125
Provision for impairment of receivables	**22,353**	14,265
Finance costs, net	**14,395**	19,751
Amortization of deferred income	**(232)**	(233)
	400,083	321,090
Changes in working capital:		
– increase in accounts receivable	**(257,610)**	(130,199)
– increase in advances to suppliers, other receivables and prepayments	**(53,180)**	(11,212)
– (increase)/decrease in inventories	**(33,476)**	28,220
– increase in accounts payable	**64,265**	11,069
– decrease in advance from customers, other payables and accruals	**(4,381)**	(16,069)
– (increase)/decrease in restricted cash	**(16,078)**	19,873
	(300,460)	(98,318)
Net cash generated from operations	**99,623**	222,772

33 CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*

(b) Proceeds from disposals of property, plant and equipment comprise:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book amount (Note 6)	**228**	48,567
(Loss)/gain on disposals	**(163)**	619
Cash proceeds	**65**	49,186

34 COMMITMENTS

(a) Capital commitments

The Group have the following capital commitments not provided for as at 31 December 2015 and 2016, respectively.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment and lease prepayments for land use rights		
– contracted but not yet incurred	**4,352**	1,356

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 1 year	**1,060**	1,060
1 to 5 years	**618**	2,120
Over 5 years	**–**	–
	1,678	3,180

Notes to the Consolidated Financial Statements

35 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 37.

During the years ended 31 December 2015 and 2016, 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
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 consolidated financial statements, 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 2015 and 2016.

(a) Significant transactions with related parties:

	For the year ended 31 December	
	2016 *RMB'000*	2015 *RMB'000*
Sale of goods and materials to		
– Tieke Yichen	5,841	6,448
– Tielong Daocha (ii)	–	135
Purchases of goods and materials from		
– Tieke Yichen	137,220	86,278
– Tielong Daocha (ii)	113	43
Procurement of processing services		
– Longji Management	1,197	–
Procurement of comprehensive services and other services		
– Longji Management (i)	2,110	1,386
– Tieke Yichen	–	414
Leasing of properties from		
– shareholder (iii)	360	457
– Longji Management (i)	700	292

35 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Significant transactions with related parties: *(Continued)*

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sale of property, plant and equipment to		
– Tieke Yichen	–	307
– Longji Management (i)	–	49,186
Interest for loans from shareholders and key managements (Note 28)	–	4,655
Rental income from		
– Tieke Yichen	–	878
Expense for renting cars from shareholders and key managements	–	1,124
Key management compensations (not including the directors and supervisors' emoluments as set out in Note 27 to the consolidated financial statements)	**786**	549
Purchase of minority interests from a shareholder	–	2,760

(i) 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. The Company entered rental and comprehensive services agreements with Longji Management on 30 November 2015.

(ii) 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.

(iii) The Company had leased from Mr. Zhang Haijun (張海軍), an executive director of the Company, certain premises and carpark in Beijing, the PRC, of an aggregate gross floor area of approximately 321.75 square meters for use as dormitory of the Group's employees in Beijing and as carpark. The Company and Mr. Zhang Haijun entered into two tenancy agreements, each for a term of three years, commencing from 1 August 2015 to 31 July 2018, subject to the right of early termination by the Company by giving three-month notice in advance. Both tenancy agreements subsisted during the year ended 31 December 2016. The Company shall have the option to renew the tenancy upon expiry of the current term on normal commercial terms or better terms to the Company or, if there is any third party interested in leasing the premises, the Company shall have the right of first refusal to renew the tenancy on the same terms offered to that third party. Pursuant to the tenancy agreements, the total annual rental payables by the Company shall be RMB360,000 for the year ended 31 December 2016.

The aforementioned related party transactions including procurement of processing services from Longji Management, procurement of comprehensive services from Longji Management, leasing of properties from shareholders and leasing of properties from Longji Management constitute continuing connected transactions as defined in Chapter 14A of Listing Rules.

35 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant balances with related parties are listed below. Except for loans from shareholders/key management which terms are disclosed in Note 21(b), all other balances were unsecured, interest free and repayment on demand.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Assets		
Accounts receivable from		
– Tieke Yichen	**482**	2,865
– Tielong Daocha	**264**	264
Liabilities		
Accounts payable to		
– Tieke Yichen	**68,137**	3,834
– Tielong Daocha	**113**	–
– Longji Management	**–**	1,702
Prepayment to		
– Longji Management	**408**	–
Office rental fee payable to one shareholder	**360**	191

36 SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Same as disclosed elsewhere in this report, no significant subsequent events occurred.

37 PARTICULARS OF SUBSIDIARIES AND ASSOCIATE

Company name	Place and date of establishment/ incorporation	Kind of legal entity	Paid-up capital *(RMB'000)*	Attributable equity interest of the Group at 31 December 2016	Principal activities	Principal place of operation
Subsidiaries						
Directly held:						
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	The PRC 31 March 1994	Limited liability company	18,150	100%	Trading of scrap steel	China
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	The PRC 6 May 2011	Limited liability company	2,950	100%	Production and sales of engineering plastics	China
Hebei Yichen Trading Co.,Ltd 河北翼辰貿易有限公司	The PRC 27 September 2013	Limited liability company	3,000	100%	Trading of rail fastening system products and rubbers	China
Associate						
Hebei Tieke Yichen New Material Technology Co., Ltd 河北鐵科翼辰新材科技有限公司	The PRC 1 April 2013	Limited liability company	49,000	49%	Production and sales of rubbers	China

Notes to the Consolidated Financial Statements

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**109,354**	116,229
Lease prepayment for land use rights	**136,329**	97,811
Intangible assets	**111**	177
Investments in subsidiaries (Note 9)	**24,721**	24,721
Investments in an associate	**51,185**	40,113
Deferred income tax assets	**17,172**	14,670
Other receivables and prepayments (Non-current portion)	**7,464**	8,469
	346,336	302,190
Current assets		
Available-for-sale financial assets	**136,869**	–
Inventories	**170,429**	137,459
Accounts receivable	**984,814**	753,359
Advances to suppliers	**44,635**	11,496
Other receivables and prepayments (Current Portion)	**17,901**	21,242
Restricted cash	**44,824**	78,746
Cash and cash equivalents	**640,692**	72,823
	2,040,164	1,075,125
Total assets	**2,386,500**	1,377,315

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Statement of financial position of the company *(Continued)*

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
EQUITY			
Capital and reserves attributable to equity holders			
Capital		448,920	336,690
Other reserves	(a)	880,573	396,720
Retained earnings	(a)	295,624	98,456
Total equity		1,625,117	831,866
LIABILITIES			
Non-current liabilities			
Bank borrowings		20,000	–
Deferred income from government grants		6,106	6,338
		26,106	6,338
Current liabilities			
Accounts payable		280,509	206,873
Advances from customers		10,327	4,484
Other payables and accruals		92,236	54,699
Current income tax liabilities		795	–
Bank borrowings		351,410	221,755
Other borrowings		–	47,400
Finance lease liabilities		–	3,900
		735,277	539,111
Total liabilities		761,383	545,449
Total equity and liabilities		2,386,500	1,377,315

The statement of financial position of the Company was approved by the Board of Directors on 22 March 2017 and was signed on its behalf:

Zhang Ligang　　　　Wu Jinyu

38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserve movement of the Company

	Retained earnings *RMB'000*	Other reserves *RMB'000*
At 1 January 2015	488,698	42,285
Profit for the year	226,313	–
Transfer to capital	(209,835)	(42,285)
Appropriation to statutory surplus reserve	(10,939)	10,939
Appropriation to capital reserve	(385,781)	385,781
Dividends paid/declared	(10,000)	–
At 31 December 2015	98,456	396,720
Profit for the year	300,256	–
Other comprehensive income	–	7,869
Appropriation to statutory surplus reserve	(30,026)	30,026
Dividends paid/declared	(73,062)	–
Issuance of new share	–	445,958
At 31 December 2016	**295,624**	**880,573**

DEFINITIONS

"Articles" or "Articles of Association"	the articles of association of our Company, conditionally adopted on 30 November 2015 and as amended, supplemented or otherwise modified from time to time
"Auditor"	PricewaterhouseCoopers
"Board" or "Board of Directors"	the board of Directors of our Company
"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
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or the "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macao Special Administrative Region of the People's Republic of China and Taiwan, and "Chinese" shall be construed accordingly
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company", "our Company" or "Yichen Industrial"	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 annual report, refers to the controlling shareholder(s) of our Company, being Mr. Zhang Haijun (張海軍), 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 (張海軍), 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

Definitions

"CRCC"	China Railway Test & Certification Center (中鐵檢驗認證中心), an official certification authority of construction products of China Railway
"Director(s)"	the director(s) of our Company
"Domestic Shares"	domestic invested ordinary shares in our capital, with a nominal value of RMB0.5 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
"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 16 March, 2007 and became effective on 1 January, 2008
"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
"Global Offering"	the Hong Kong Public Offering and the International Offering as defined in the prospectus of the Company dated 9 December 2016
"Group", "we", "us" or "our"	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
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"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 listed on the Stock Exchange and traded in Hong Kong dollars
"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

"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
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"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
"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"	kilometer
"km/h"	kilometer per hour
"Listing"	listing of the H Shares on the Main Board
"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 8 June 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
"metro"	a passenger railway in an urban area with high capacity and frequency
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"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

Definitions

"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
"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
"railway"	the generic term for national railway and intercity railway. National railway includes normal-speed railway and high speed railway
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"sanctioned countries"	countries being internationally sanctioned, representing the countries in the sanction list of the European Union, the United States, Australia or the United Union
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary shares of RMB0.5 each in capital of our Company, comprising Domestic Shares and H Shares
"Shareholders"	holder(s) of the Share(s)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange" or "Hong Kong 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
"urban transit"	passenger trains in city, where most are underground trains and some are over ground trains
"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
"%"	per cent