# 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**

**ANNUAL REPORT 2017**

* For identification purpose only

# 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
*Certified Public Accountants*

# Corporate Information

## COMPLIANCE ADVISER
BOCOM International (Asia) Limited

## HONG KONG LEGAL ADVISER
Chiu & Partners

## PRC LEGAL ADVISER
Jingtian & Gongcheng

## REGISTERED OFFICE AND HEADQUARTERS
No. 1 Yichen North Street
Gaocheng District
Shijiazhuang City
Hebei Province
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## H SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE
1596

## WEBSITE
http://www.hbyc.com.cn

## INVESTOR AND MEDIA RELATIONS CONSULTANT
Porda Havas International Finance Communications (Group) Holdings Company Limited
Tel: 3150 6788
Fax: 3150 6728
Email: yichen.hk@pordahavas.com

# FINANCIAL SUMMARY

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Results (RMB'000)** | | | | | |
| Revenue | **965,898** | 1,035,427 | 907,049 | 854,777 | 609,318 |
| Cost of sales | **(625,656)** | (567,278) | (517,079) | (500,437) | (409,933) |
| Gross profits | **340,242** | 468,149 | 389,970 | 354,340 | 199,385 |
| Selling and distribution expenses | **(44,619)** | (48,654) | (50,525) | (41,364) | (38,722) |
| General and administrative expenses | **(65,401)** | (64,728) | (54,147) | (51,223) | (52,455) |
| Profit before income tax | **204,681** | 354,732 | 275,370 | 250,447 | 89,271 |
| Earnings attributable to equity holders of the Company | **176,080** | 305,857 | 228,069 | 188,410 | 67,171 |

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Assets and Liabilities (RMB'000)** | | | | | |
| Non-current assets | **462,171** | 322,394 | 278,286 | 267,051 | 263,631 |
| Current assets | **2,095,715** | 2,056,364 | 1,088,559 | 909,787 | 767,435 |
| Non-current liabilities | **16,374** | 26,106 | 6,338 | 10,455 | 19,791 |
| Current liabilities | **805,416** | 715,096 | 521,803 | 542,930 | 566,676 |
| Equities attributable to equity holders of the Company | **1,664,647** | 1,637,556 | 838,704 | 620,635 | 442,225 |

# 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 2017.

## 2017 REVIEW

In 2017, China's economy has gradually transformed from high growth to high quality development. Under the operating environment where the economy growth has slowed down and competition within industry has become more intense, the Company insists the business objectives of production diversification, continues to focus on providing quality products to satisfy customers' needs and maintain stable development of our businesses. For the year ended 31 December, 2017, the revenue of the Group amounted to approximately RMB965,898,000, representing a decrease of approximately 6.72% over the same period of last year; the net profit attributable to equity holders of the Company amounted to approximately RMB176,080,000, representing a decrease of approximately 42.43% over the same period of last year; earnings per share amounted to approximately RMB0.2, representing a decrease of approximately 55.56% over the same period of last year.

## 2018 OUTLOOK

As there was rapid development in railway (especially in the high-speed railway) in terms of technology innovation and manufacturing upgrade, the railway transportation capacity in the PRC has been increasing in recent years. As the construction related to "One Belt and One Road" has been deeply promoted, the PRC high-speed railway, which has been expanding in the world, has become the strategic platform for China's railway going global. According to the work plan for 2018 by the PRC government, it states that the investment in railway for the year amounted to approximately RMB732 billion. It is expected that the PRC government will exert its effort to promote the railway construction and accelerate the pace in benefiting the public in relation to the railway development. The increase in population with the urbanization as well as increase in demand for domestic transportation by tourists has further boosted the demand on the PRC railway construction industry and hence led to opportunities for positive developments of the Company.

Looking ahead, Yichen Industrial, being the leading rail fastening system provider in the PRC, will continue to seize the growing opportunities in the railway construction industry, determine to lead the business development of the Group in a more diversified way in order to achieve sustainable growth for business of the Group and reinforce the Group's leading position in market.

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 2017. 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, 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRIAL REVIEW AND ANALYSIS

2017 was the key year of the state's "13th Five Year Plan" and the year of intensification of the supply-side reform, which was China's critical stage of building a moderately prosperous society, and also a key year for the reform and development of China's railway. Under the new norm of economic development, the quality and efficiency of railway construction were both enhanced, the market-oriented operation in railway was promoted, the safety assurance system was further optimized and the new pattern for the open economy was established. All of these factors would play an important role as technical support. Looking back at China's railway development, the scope of railway network was under rapid expansion; a large number of high-speed railways have commenced operation; new technologies and equipment were widely applied; there were higher requirements for the standardization work and the strategies of standardization have been implemented. These are the key points of building China's intelligent high-speed railway for more fruitful results of the "Going Global" strategy of railway.

According to the Conference Meeting of China Railway Corporation for 2018, fixed asset investment on national railways for the year 2017 amounted to RMB801.0 billion, which maintained the scale of around RMB800.0 billion for the recent years. In particular, the national railway amounted to RMB760.6 billion, while the accumulated investment for railway infrastructure in the middle and western regions (including the three provinces in Northeast China) amounted to RMB396.4 billion. 35 projects were newly commenced, while the new investments amounted to RMB356.0 billion. The mileage of new railway line was 3,038 km. The construction of Four Vertical and Four Horizontal High Speed Railway Network was completed and was ready for operation.

As a series of strategies in the state's "13th Five Year Plan" and "Mid-to-Long Term Plan of Railway Network" had been implemented, and the "Eight Horizontal and Eight Vertical High-speed Railway Network" continued to advance, the total operational mileage of national railways will be around 150,000 km in 2020, that would generally cover cities with population of more than 200,000. In particular, the mileage of high-speed railway was approximately 30,000 km, covering more than 80% of major cities, while the mileage of railway in the middle and western regions (including the three provinces in Northeast China) was approximately 112,000 km, which would be a massive business opportunity for the Group. Meanwhile, there will be further development for the

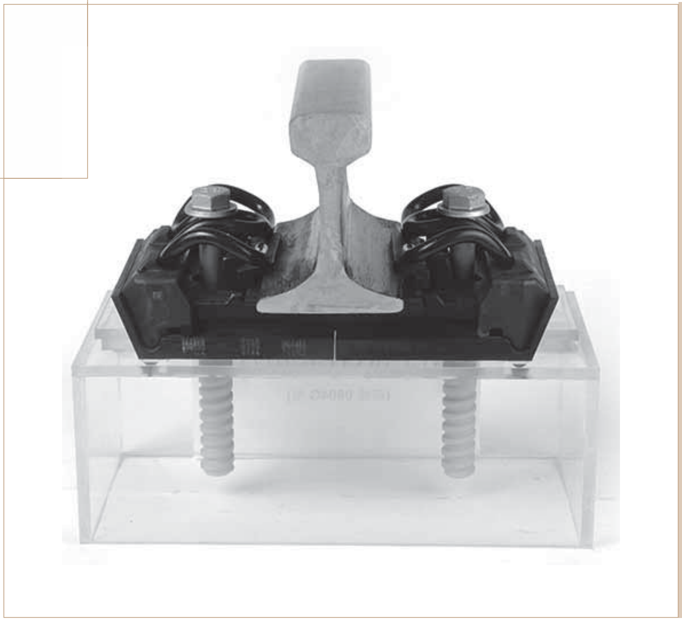
rail transit network in different cities. In the first-tier cities, the urban rail transit network will continue to be expanded while the construction of urban transit transportation network in the second – and third-tier cities will be gradually facilitated in order to satisfy the increasing mobility demand. Moreover, there will be a constant market demand for the Group in terms of repair and maintenance for all railways, as well as upgrade and replacement for old railways, of which the high-speed railways, heavy-haul railways and urban transit railways will be the main focus for the future railway construction. Driven by "One Belt and One Road", there would be more opportunities for the Group to participate in overseas railway construction projects.

## BUSINESS REVIEW

The Group is a leading rail fastening system provider in the PRC, with the major business focusing on two business segments, including 1) rail fastening system; and 2) welding material products. In 2017, the total revenue of the Group amounted to approximately RMB965.9 million, representing a decrease of approximately 6.72%.

### Rail Fastening System Products

For the year ended 31 December 2017, the revenue from rail fastening system products amounted to approximately RMB795.2 million, representing 82.33% of the Group's total revenue, and a decrease of approximately 17.06% when compared to the revenue of this segment over the last year which was amounted to approximately RMB958.8 million. It is attributable to delay in the progress of railway construction projects of the major customers, leading to decrease in sales of rail fastening system products.



During the Year under Review, cost of sales incurred by rail fastening system products decreased, mainly attributable to decrease in sales proportion of rail fastening system products, leading to decrease in the corresponding cost of sales. During the Year under Review, cost of sales incurred by rail fastening system products decreased by approximately 7.8% to approximately RMB467.0 million from approximately RMB503.5 million in 2016.

Because of decrease in sales volume and increase in the price level of steel material and iron, the major raw materials, in the PRC, gross profit of rail fastening system products decreased to approximately RMB328.2 million in 2017 from approximately RMB455.2 million in 2016. Gross profit margin decreased to approximately 41.3% in 2017 from approximately 47.5% in 2016.

During the Year under Review, the initial value of entering into agreements of supplying rail fastening system amounted to approximately RMB1,313.0 million, representing an increase of approximately 6.06% when compared to 2016, among which the initial value of entering into agreements of high speed rail fastening system amounted to approximately RMB714.0 million, representing a decrease of approximately 14.90% when compared to 2016; the initial value of entering into agreements of heavy haul rail fastening system amounted to approximately RMB146.0 million, representing an increase of approximately 33.94% when compared to 2016; the initial value of entering into agreements of metro series fastening system amounted to approximately RMB318.0 million, representing an increase of 95.1% when compared to 2016; the initial value of entering into agreements of traditional rail fastening system amounted to approximately RMB136.0 million, representing an increase of 7.1% when compared to 2016. As of 31 December 2017, the backlog of the Group amounted to approximately RMB1,582.5 million (Value-added Tax included).

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 there will be growth in the Group’s revenue from sales of rail fastening system.

### Welding Material Products

For the year ended 31 December 2017, the Group’s revenue from welding material products amounted to approximately RMB165.5 million, represented approximately 17.13% of total revenue of the Group, and an increase of approximately RMB96.6 million as compared to approximately RMB68.9 million in 2016. The change in revenue was mainly attributable to better performance in the welding material industry during the Year under Review, leading to increase in demand, while there was a general increase in unit price of welding material product industry, leading to increase in revenue in relation to welding materials.

During the Year under Review, cost of sales incurred by welding material products increased by approximately 170.2% to approximately RMB154.8 million in 2017 from approximately RMB57.3 million in 2016, mainly attributable to increase in both the cost of steel strip (as raw material of welding products), and sales of welding products for the year.

The Group’s revenue incurred by welding material products was mainly generated from the sales to 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 welding material products revenue in the future.

## PERFORMANCE ANALYSIS AND DISCUSSION

### Revenue

The Group's principal business are manufacturing and sales of rail fastening system. The above business has brought sustained and stable revenue to the Group. In 2017, the total revenue of the Group decreased to approximately RMB965.9 million from approximately RMB1,035.4 million in 2016, mainly attributable to the decrease in revenue from rail fastening system products.

Revenue generated from rail fastening system products decreased by approximately 17.1% to approximately RMB795.2 million in 2017 from RMB958.8 million in 2016, mainly attributable to delay in the progress of railway construction projects of the major customers, leading to decrease in sales of rail fastening system products.

Revenue generated from welding materials increased by approximately 140.0% to approximately RMB165.5 million in 2017 from approximately RMB68.9 million in 2016. 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 shipbuilding companies and trading companies operating in the shipbuilding industry. The better performance in the welding material industry in 2017 had led to increase in demand, while there was a general increase in unit price of welding material product industry, leading to increase in revenue in relation to welding materials.

Apart from revenue generated from sales of rail fastening system products and welding materials, the Group also received other operating revenue from sales of raw material, provision of product processing services as well as electricity sales business.

### Cost of sales

The Group's cost of sales increased by approximately 10.3% to approximately RMB625.7 million in 2017 from approximately RMB567.3 million in 2016, mainly attributable to the increase in the sales volume of welding products and relevant costs.

Cost of sales incurred by rail fastening system products decreased by approximately 7.3% to approximately RMB467.0 million in 2017 from approximately RMB503.5 million in 2016, mainly attributable to decrease in sales proportion of rail fastening system products, leading to decrease in the corresponding cost of sales.

Cost of sales incurred by welding products increased by approximately 170.2% to approximately RMB154.8 million in 2017 from approximately RMB57.3 million in 2016, mainly attributable to increase in cost of steel strip (as raw material of welding products), and increase in sales volume of welding products for the year.

### Gross profit

Based on the aforesaid reasons, the Group recorded gross profit of approximately RMB340.2 million in 2017, representing a decrease of approximately 27.3% from approximately RMB468.1 million in the corresponding period in 2016, which was mainly attributable to (1) the decrease in revenue from sales of rail fastening system products as a result of the delay in railway construction project schedule of customers, with whom the Group had entered into sales contracts or engagements for provision of railway fastening system products as the successful tenderer; and (2) there was a general increase in major raw materials (such as steel and iron) in the People's Republic of China ("China").

Gross profit of rail fastening system products decreased to approximately RMB328.2 million in 2017 from approximately RMB455.2 million in the corresponding period in 2016. Gross profit margin decreased to approximately 41.3% in 2017 from approximately 47.5% in the corresponding period in 2016, mainly attributable to decrease in sales volume and increase in costs of raw materials in 2017.

Management Discussion and Analysis

Gross profit of welding products decreased by approximately 7.8% to approximately RMB10.7 million in 2017 from approximately RMB11.6 million in the corresponding period in 2016. Gross profit margin decreased to approximately 6.5% in the corresponding period in 2017 from approximately 16.8% in 2016, mainly attributable to increase in costs of raw material of welding products and other costs.

### Selling and distribution expenses

Selling and distribution expenses of the Group decreased to approximately RMB44.6 million in 2017 from approximately RMB48.7 million in 2016. For the years ended 31 December 2016 and 2017, selling and distribution expenses as a percentage of total revenue were approximately 4.7% and 4.6%, respectively. Decrease in selling and distribution expenses was mainly attributable to the decrease in transportation and warehouse expenses and other costs.

### General and administrative expenses

General and administrative expenses of the Group increased by approximately 1.0% to approximately RMB65.4 million in 2017 from approximately RMB64.7 million in 2016. For the years ended 31 December 2016 and 2017, general and administrative expenses as a percentage of total revenue were approximately 6.3% and 6.8%, respectively. During the Year under Review, the increase in general and administrative expenses as a percentage of total revenue was mainly attributable to increase in employee remuneration, which was partially offset by decrease in provision of impairment of receivables.

### Operating profit

Based on the aforesaid reasons, the Group recorded operating profit of approximately RMB216.3 million in 2017, representing a decrease of approximately 39.6% from approximately RMB358.1 million in the corresponding period in 2016, mainly attributable to decrease in operating profit of rail fastening system products.

### Finance charges

In 2017, the Group incurred total net finance charges of approximately RMB20.4 million, representing an increase of approximately 41.8% from total net finance charges of approximately RMB14.4 million in 2016, of which the finance income decreased by approximately 56.4% to approximately RMB0.8 million from approximately RMB1.9 million in 2016, and finance charges increased by approximately 30.4% to approximately RMB21.2 million from approximately RMB16.3 million in 2016. Increase in finance charges was mainly attributable to the increase in loan and its loan interest rate.

In 2017, the Group realized foreign exchange losses of approximately RMB19.0 million; which was mainly due to appreciation of RMB against Hong Kong dollar, resulting an increase in foreign exchange losses during the process of the Group converting Hong Kong dollar obtained from the Global Offering of shares into RMB.

### Share of profits of an associate

In 2017, the Group's share of profits of an associate was approximately RMB8.8 million, representing a decrease of approximately 20.7% from approximately RMB11.1 million in the corresponding period in 2016 which was mainly attributable to decrease in profit of the associate incurred by decrease in its revenue.

### Income tax

Income tax expenses of the Group decreased by approximately 42.2% to approximately RMB28.2 million in 2017 from approximately RMB48.9 million in 2016, mainly attributable to the decrease in taxable income.

The applicable corporate tax rates for the Company were 15.0% for 2017 and 2016.

### Net profit

Based on the aforesaid reasons, net profit decreased by approximately RMB129.5 million or approximately 42.3% to approximately RMB176.4 million for the year ended 31 December 2017 from approximately RMB305.9 million for the year ended 31 December 2016. The net profit margin decreased to approximately 18.3% for the year ended 31 December 2017 from approximately 29.5% for the year ended 31 December 2016, which was attributable to (i) decrease in gross profit margin; (ii) increase in finance costs; and (iii) decrease in investment income.

### Profit attributable to equity holders of the Company

The Group recorded profit attributable to equity holders of the Company of approximately RMB176.1 million in 2017, representing a decrease of approximately 42.4% from approximately RMB305.9 million in 2016. Basic earnings per share amounted to approximately RMB0.20 in 2017, representing a decrease of approximately 55.6% from the basic earnings per share of approximately RMB0.45 in 2016. The decrease in profit attributable to equity holders of the Company was attributable to the decrease in net profit of the Group in 2017.

# Management Discussion and Analysis

## Financial resources and capital structure

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB289.8 million, accounts receivable of approximately RMB1,293.7 million, accounts payable of approximately RMB335.0 million, and outstanding borrowings of approximately RMB366.9 million. The above cash and cash equivalents included approximately RMB142.4 million equivalents of Hong Kong dollars.

As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB649.4 million, accounts receivable of approximately RMB989.0 million, accounts payable of approximately RMB258.7 million, and outstanding borrowings of approximately RMB371.4 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 2017, the outstanding borrowings of the Group included short-term borrowings and long-term borrowings of approximately RMB356.9 million and approximately RMB10.0 million, respectively. The Group will promptly repay the aforesaid borrowings at maturity.

## Total assets

As at 31 December 2017, the total assets of the Group were approximately RMB2,557.9 million, representing an increase of approximately RMB179.1 million or approximately 7.5% as compared with that as at 31 December 2016, mainly attributable to (i) the increase in assets of construction of new plant area after receipt of proceeds from listing; and (ii) increase in accounts receivable.

## Total liabilities

As at 31 December 2017, the total liabilities of the Group were approximately RMB821.8 million, representing an increase of approximately RMB80.6 million or approximately 10.9% as compared with that as at 31 December 2016, mainly attributable to increase in accounts payable.

## Total equity

As at 31 December 2017, the total equity of the Group was approximately RMB1,736.1 million, representing an increase of approximately RMB98.5 million as compared with that as at 31 December 2016, mainly attributable to increase in minority interests of the Group during the year. In 2017, the amount of transferring to statutory reserves was approximately RMB16.8 million, while the other comprehensive income incurred from the change in fair value of funds was approximately RMB2.0 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 as shown in the consolidated balance sheet) less cash and bank deposits. Total capital is calculated as total equity as shown in the consolidated balance sheet plus the aforementioned net debt.

As at 31 December 2017, the Group's gearing ratio was 4%, representing an increase of 24 percentage points from –20% as at 31 December 2016, mainly attributable to the decrease in bank deposit for the period.

## Employee and remuneration policies

As at 31 December 2017, the Group incurred total staff costs of approximately RMB71.3 million for 1,073 employees, representing an increase of approximately RMB8.7 million or approximately 13.9% when compared to 2016, mainly attributable to (i) the increase in basic salary for 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.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Zhang Haijun** (**張海軍**), aged 65, 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 45, 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 48, 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 32, 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 35, 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 64, 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 48, 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.

## Biographical Details of Directors, Supervisors and Senior Management

**Mr. Wang Qi** (**王琦**), aged 44, 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.

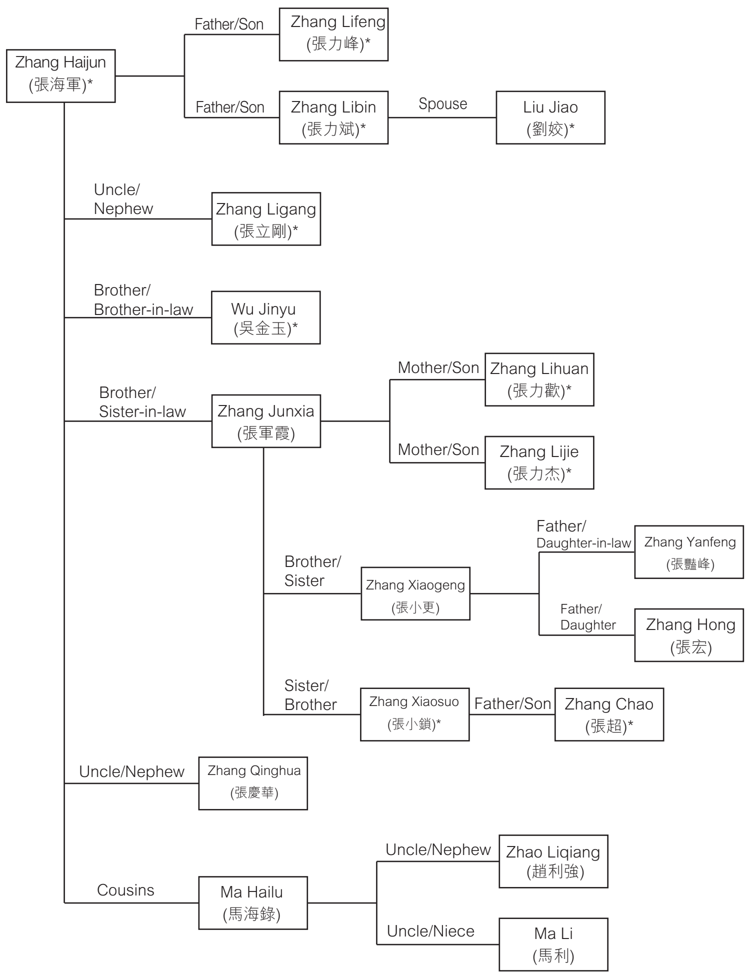
Since January 1999, Mr. Wang has been a designer, person in charge of projects, head of the first design institute, deputy chief engineer and deputy head of rail transport institute and head of Shijiazhuang branch institute of Beijing Urban Construction Design & Development Group Co., Limited (北京城建設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 60, 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 57, 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 28, 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 30, 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 64, 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 37, 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 38, 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 58, 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.

**Mr. Zhang Libin** (**張力斌**), aged 32, is our deputy general manager who is responsible for overall day-today management of capital operations department.

He graduated from University of Hertfordshire with profession of business management in 2013. He worked in international trade department of Hebei Yichen Industrial Group Corporation Limited from July 2013 to November 2013. He had been the assistant to the general manager of Hebei Tieke Yichen New Material Technology Co., Ltd from November 2013 to November 2016. He had served as the head of capital operations department of Hebei Yichen Industrial Group Corporation Limited since November 2016. He was appointed as deputy general manager since May 2017.

# REPORT OF THE BOARD OF DIRECTORS

## PRINCIPAL BUSINESS

For the year ended 31 December 2017, the Company is principally engaged in development and research, manufacturing and sale of rail fastening system and flux cored wire.

## SHARE CAPITAL

As of 31 December 2017, 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 2017 are set out in note 19 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2017.

## DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2017.

## 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 2017.

## 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.

## 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 2017, 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 2017 are set out in note 37 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 2017, 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 2017, 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.

Report of the Board of Directors

### Future Prospects

In 2018, fixed asset investment on railways is estimated to be RMB732.0 billion while the mileage of new railway to be operated is estimated to be 4,000 km. The Group will continue to focus on the railway fastening system and provide professional products and services for China's railway. Along with the further development of "Eight Horizontal and Eight Vertical High-speed Railway Corridors" pursuant to the "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》), and urban rail transit network as well as on-going expansion in the Group's production capacity, the Group shall focus mainly on the high speed railway fastening system, and continue 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 continue to accumulate our experience in the industry, expand the customer base and reinforce the Group's position in the industry of rail fastening system. With the continuous advancement in "One Belt and One Road", we hope to promote our advanced experiences, technologies and products in relation to high-speed railway fastening system with complying the PRC standard over the world through carrying on business.

In 2018, the Group will continue to enhance and upgrade the automated production facilities, optimize the production process, improve the information system, establish an efficient automated production line in order to further save the energy, reduce consumption and increase the profit. Moreover, the Group will actively seize the market opportunities and continue to actively explore the opportunities of acquiring high quality assets in relation to the rail fastening system in order to enhance the core competitiveness and profitability of the Group and reward for our shareholders and investors.

To satisfy the long-term capital need for the continuous development of the Group's business, facilitate the smooth implementation of development strategies and increase the capital resources, the Group recently considered and explored about the feasibility of application of listing of A shares in the Shanghai Stock Exchange or Shenzhen Stock Exchange, and such issue was discussed in the Board held on 22 March 2018. As of 27 March 2018, the Company has not made formal application of proposed listing of A Shares and/or proposed listing application to any relevant regulatory authorities. The Group will continue to conduct feasibility studies and preparation work on such proposal, and further announcement in respect of such proposal will be made in due course.

## ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") will be held on Monday, 21 May 2018. Shareholders should refer to details regarding the AGM in the notice of the AGM, reply slip and form of proxy to be despatched by the Company.

## FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.0197 (tax inclusive) per share for the year ended 31 December 2017 (the "2017 Final Dividend") with an aggregate net amount of approximately RMB17,687,448 to Shareholders of the Company whose names are listed on the Company's register of members as at 2 June 2018 subject to the approval by the shareholders at the forthcoming AGM to be held on 21 May 2018. The 2017 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 2017 Final Dividend is expected to be paid on or around 23 July 2018.

## 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 2017 Final Dividend 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 Saturday, 2 June 2018.

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 shares 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 2017 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 Saturday, 2 June 2018 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 Tentative Measures on Withholding and Payment of Individual Income Tax (《個人所得稅代扣代繳暫行辦法》), 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 20% individual income tax for the Company's individual H shareholders whose names appear on the register of members of H shares 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 2017 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 Saturday, 2 June 2018 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 mainland China 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 Saturday, 2 June 2018 (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 H Shareholders 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 H Shareholders in the distribution of the final dividend;

- For Individual H Shareholders 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 H Shareholders in the distribution of the final dividend. If relevant Individual H Shareholders 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 H Shareholders 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 H Shareholders in the distribution of the final dividend; and

- For Individual H Shareholders 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 H Shareholders 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 Saturday, 2 June 2018. 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 "Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties" (Guo Shui Fa [2015] No. 60) (《非居民納税人享受税收協定待遇管理辦法》國税發[2015]60號) 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 Monday, 21 May 2018, the register of members of the Company will be closed from Saturday, 21 April 2018 to Monday, 21 May 2018, 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 Monday, 21 May 2018 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. on Friday, 20 April 2018 (Hong Kong Time) for registration.

In order to determine the list of Shareholders who are entitled to receive the 2017 Final Dividend, the register of members of the Company will be closed from Monday, 28 May 2018 to Saturday, 2 June 2018, 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 Saturday, 2 June 2018 are entitled to receive the 2017 Final Dividend. In order for holders of H Shares of the Company to qualify for the 2017 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. on Friday, 25 May 2018 (Hong Kong Time) for registration.

Report of the Board of Directors

## 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 2017, 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.

## MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2017, the Group's revenue from operations attributed to our five largest customers and largest customer were 51.8% and 22.1%, respectively.

During the same period, the Group's total procurement expenses attributed to our five largest suppliers and largest supplier were 51.5% and 21.1%, 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.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY'S SHARES

The net proceeds raised from the initial public offering of the H shares of the Company amounted to approximately RMB579.8 million. As at 31 December 2017, the net proceeds had been utilised as follows according to the designated uses set out in the prospectus of the Company dated 9 December 2016:

| **Designated use of net proceeds** | **% of net proceeds allocated** | **Allocated amount** | **Utilised as at 31 December 2017** | **Unutilised as at 31 December 2017** |
|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Expansion of production capacity and fixed asset investments | 31.00% | 179,732 | 138,622 | 41,110 |
| Domestic and overseas acquisitions | 15.00% | 86,967 | – | 86,967 |
| Purchase of raw materials | 15.00% | 86,967 | 85,802 | 1,165 |
| R&D and testing of new products | 15.00% | 86,967 | 81,870 | 5,097 |
| Deposits for project bids | 10.00% | 57,978 | 57,978 | – |
| Working capital | 10.00% | 57,978 | 57,978 | – |
| Upgrade of information systems and automated production facilities | 4.00% | 23,191 | 8,461 | 14,730 |
| Total | 100.00% | 579,780 | 430,711 | 149,069 |

## THE UPDATE OF INVESTMENT PROJECTS

As at 31 December 2017, the construction of production workshop in our new production facilities and the main structures of warehouse has been completed, and the estimated time for completion would be in December 2018. The relevant production equipment has been ordered and the estimated time of commencement of operation would be in June 2019.

The construction of main structures of our new office building has been completed. The estimated time for completion would be in December 2018, and the estimated time of commencement of operation would be in June 2019.

## BANK LOAN AND OTHER BORROWINGS

Details of the bank loan and other borrowings for the Company and its subsidiaries on 31 December 2017 are set out in note 21 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company had distributable reserves denominated in RMB of approximately RMB899.39 million. The distributable reserves were calculated according to the Chinese laws and regulations and the International Financial Reporting Standards.

## CHARITABLE DONATION

For the charitable donation made by the Group during the year ended 31 December 2017, please refer to the section headed "B8. Community Investment" in "Environmental, Social and Governance Report".

## 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 2017, 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 2017 are set forth in Note 28 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 28 to the consolidated financial statements) for the year ended 31 December 2017 are as follows:

| Remuneration bands | Individual |
|---|---|
| RMB100,001 to RMB200,000 | 4 |
| 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 2017, 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 2017, 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 | | | | Total approximate percentage of shareholding in the relevant class | Total approximate percentage of shareholding in the total share capital of our Company |
|---|---|---|---|---|---|---|---|
| | | Personal interest | Spouse interest | Deemed interest pursuant to section 317 of the SFO | Total number | (%) | (%) |
| | | | | (Note 1) | | (Note 2) | (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 2017, 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 2017, 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% |

# Report of the Board of Directors

| 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 (Nominee) Company Limited (Note 17) | H Shares | Interest in controlled corporation | 33,669,000 | 15.00% | 3.75% |
| 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 | 17,833,000 | 7.94% | 1.99% |
| Bremwood Holdings Limited (Note 18) | H Shares | Interest in controlled corporation | 17,833,000 | 7.94% | 1.99% |
| Gauteng Focus Limited (Note 18) | H Shares | Interest in controlled corporation | 17,833,000 | 7.94% | 1.99% |
| Rentian Technology Holdings Limited (Note 18) | H Shares | Interest in controlled corporation | 17,833,000 | 7.94% | 1.99% |
| 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% |
| Beijing Infrastructure Investment (Hong Kong) Limited | H Shares | Beneficial owner | 38,102,000 | 16.97% | 4.24% |
| Beijing Infrastructure Investment Co., LTD (Note 20) | H Shares | Interest in controlled corporation | 38,102,000 | 16.97% | 4.24% |
| GUOKONG (HONG KONG) INVESTMENT CO., LIMITED | H Shares | Beneficial owner | 20,300,000 | 9.04% | 2.26% |
| Shijiazhuang Guo Kong Investment Group Company Limited | H Shares | Interest in controlled corporation | 20,300,000 | 9.04% | 2.26% |

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) Beijing Infrastructure Investment (Hong Kong) Limited is wholly owned by Beijing Infrastructure Investment Co., LTD. Under SFO, Beijing Infrastructure Investment Co., LTD is deemed to be interested in the H Shares beneficially owned by Beijing Infrastructure Investment (Hong Kong) Limited.

(21) GUOKONG (HONG KONG) INVESTMENT CO., LIMITED is wholly owned by Shijiazhuang Guo Kong Investment Group Company Limited. Under the SFO, Shijiazhuang Guo Kong Investment Group Company Limited is deemed to be interested in the H Shares beneficially owned by GUOKONG (HONG KONG) INVESTMENT CO., LIMITED.

Save as disclosed above, as at 31 December 2017, 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).

Report of the Board of Directors

## 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 2017.

## 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 2017, the continuing connected transactions of the Company were as follows:

| | For the year ended 31 December 2017 | |
|---|---|---|
| | **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 | 2,860 | 3,300 |
| Total | 6,030 | 7,320 |

The details of the continuing connected transactions regarding the procurement of processing services by the Company in 2017 are disclosed as follows:

(1) Date of transaction: December 2017

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

### 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 2017. 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.

## MAJOR LEGAL PROCEEDING

As of 31 December 2017, 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 2017, the Group had sales of welding materials to customers in three sanctioned countries, namely Russia, Indonesia and Egypt, amounting to approximately 0.24% 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' returns on investment, 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 2017 prepared in accordance with the IFRS.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2017 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 2018 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 2017 is set out on page 4 of this annual report.

By Order of the Board
*Chairman*
**Zhang Haijun**
Heibei, China

22 March 2018

# REPORT OF SUPERVISORY BOARD

In 2017, 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 draft of Report of the Board of Directors for the year 2016'" (《關於審議《2016年年度董事會報告草稿》的議案》), "Resolution on 'the draft of Report of the Board of Supervisors for the year 2016'" (《關於審議《2016年年度監事會報告草稿》的議案》), "Resolution on 'the Financial Budget Report for the Year 2017 and the Financial Report for the year 2016'" (《關於審議《2017年財務預算報告及2016年財務決算報告》的議案》), "Resolution on 'the audited financial statements and auditor's report for the year 2016'" (《關於審議《2016年經審核的財務報表及核數師報告》的議案》), "Resolution on 'the profit allocation of Hebei Yichen Industrial Group Corporation Limited for the year 2016'" (《關於審議《河北翼辰實業集團股份有限公司2016年度利潤分配》的議案》), "Resolution on the re-appointment of PricewaterhouseCoopers as the audit firm of Hebei Yichen Industrial Group Corporation Limited for the year 2017" (《關於審議《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2017年度審計機構》的議案》), and "Resolution on the annual remuneration for directors and supervisors of the Company for the year 2017 determined by the Board of Directors" (《關於審議《董事會釐定的本公司董事、監事2017年年度酬金的》議案》) were deliberated and approved by the annual Supervisory Board Meeting in 2017 convened on April 18, 2017.

2. "Resolution on the Interim Report and draft of interim result announcement for the year 2017" (《關於審議《2017年中期報告及中期業績公告的草稿》的議案》), "Resolution on the connected transactions for the first half of 2017" (《關於審議《2017年上半年度的關聯交易情況》的議案》) and "Resolution on the allocation of interim profit for the year 2017" (《關於《2017年中期利潤分配》的議案》) were deliberated and approved by the second Supervisory Board Meeting in 2017 convened on August 23, 2017.

   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 of the Company**

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 2017, 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 2017 annual report with unqualified opinion issued by PricewaterhouseCoopers was true and fair.

3. **Connected Transactions of the Company**

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 2017 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 2018

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company (the "Board") 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, formulate its business strategies and policies, 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 Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (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 of the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2017, the Company has complied with all the code provisions as set out in the CG Code except for Code Provision E.1.2 as explained in the paragraph headed "Communication with Shareholders and Investors/Investor Relations" below.

## DIRECTORS' SECURITIES TRANSACTIONS/MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code regarding securities transactions of the Company by the Directors and Supervisors of the Company.

Specific enquiry has been made of all the Directors of the Company and the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

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 of the Employees Written Guidelines by the employees was noted by the Company.

## 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 currently comprises the following Directors:

#### Executive Directors

Mr. Zhang Haijun *(Chairman)*
Mr. Zhang Ligang *(Chief Executive Officer)*
Mr. Wu Jinyu
Mr. Zhang Chao
Mr. Zhang Lihuan
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 pages 13 to 18 of the 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 is also required to hold meetings with the Independent Non-executive Directors without the presence of Executive Directors during the year. The Chairman held one meeting with the Independent Non-executive Directors without the presence of Executive Directors on 20 December 2017.

During the year 2017, the Board held 7 meetings and the Directors' attendance records are as follows:

| Name of Directors | Attendance |
|---|---|
| Mr. Zhang Haijun | 7/7 |
| Mr. Zhang Ligang | 7/7 |
| Mr. Wu Jinyu | 7/7 |
| Mr. Zhang Chao | 7/7 |
| Mr. Zhang Lihuan | 7/7 |
| Ms. Fan Xiulan | 7/7 |
| Mr. Jip Ki Chi | 7/7 |
| Mr. Wang Qi | 7/7 |
| Mr. Zhang Liguo | 7/7 |

### 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

During the year ended 31 December 2017, 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 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 the Company in accordance with the applicable laws of The People's Republic of China 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 direction 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 should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2017 are summarized as follows:

| Directors | Type of Training Note |
|---|---|
| ***Executive Directors*** | |
| Mr. Zhang Haijun | B |
| Mr. Zhang Ligang | A & B |
| Mr. Wu Jinyu | A & B |
| Mr. Zhang Chao | A |
| Mr. Zhang Lihuan | A & B |
| Ms. Fan Xiulan | A & B |
| ***Independent Non-Executive Directors*** | |
| Mr. Jip Ki Chi | A & B |
| Mr. Wang Qi | A & B |
| Mr. Zhang Liguo | A & B |

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

## 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

The Audit Committee held four meetings to review, in respect of the year ended 31 December 2017, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

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 2017.

The attendance records of the members of the Audit Committee are as follows:

| Name of Members of the Audit Committee | Attendance |
|---|---|
| Mr. Jip Ki Chi | 4/4 |
| Mr. Wang Qi | 4/4 |
| Mr. Zhang Liguo | 4/4 |

### Remuneration Committee

The Remuneration Committee consists of three members, including 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

The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Executive Directors and senior management and other related matters.

The attendance records of the members of the Remuneration Committee are as follows:

| Name of Members of the Remuneration Committee | Attendance |
|---|---|
| Mr. Wu Jinyu | 1/1 |
| Mr. Jip Ki Chi | 1/1 |
| Mr. Zhang Liguo | 1/1 |

### Nomination Committee

The Nomination Committee consists of three members, including 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.

The Nomination Committee will meet at least once a year to review the structure, size and composition of the Board and the independence of the independent non-executive directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance records of the members of the Nomination Committee are as follows:

| Name of Members of the Nomination Committee | Attendance |
|---|---|
| Ms. Fan Xiulan | 1/1 |
| Mr. Wang Qi | 1/1 |
| Mr. Zhang Liguo | 1/1 |

### Corporate Governance Committee

The Corporate Governance Committee consists of three members, including 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.

During the year 2017, the Corporate Governance Committee met once to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## 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, including project management, sales and leasing, financial reporting, human resources and information technology.

It is the responsibility of the 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 ongoing 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 welding material 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 division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored 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 for the year ended 31 December 2017. The Board has reviewed the risk management and internal control systems for the year ended 31 December 2017.

# Corporate Governance Report

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.

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' RESPONSIBILITY 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 2017.

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 Auditors' Report on pages 60 to 64.

## AUDITORS' REMUNERATION

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch as the auditor of the Company's 2017 consolidated financial statements prepared under IFRSs and China Accounting Standards, respectively.

The remuneration for the year 2017 paid or payable to the Company's auditors, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, for audit services and interim review service amounted to RMB3,450,000 (including value added tax) and for non-audit services fee amounted to RMB500,000 (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 and Mr. Zhang Chao have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the 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 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, 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 Headquarter:
No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, The People's Republic of China

Principal Place of Business 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.

Code provision E.1.2 of the CG Code stipulates that, among others, the chairman of the Board shall attend the annual general meeting of the listed issuers and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.

Mr. Zhang Haijun (Chairman of the Board) was unable to attend the annual general meeting of the Company held on 26 May 2017 (the "2017 AGM") due to other important business engagements. In order to ensure smooth transaction of business at the 2017 AGM, Mr. Zhang Ligang (executive director) chaired the 2017 AGM.

| Name of Directors | Attendance |
|---|---|
| Mr. Zhang Haijun | 0/1 |
| Mr. Zhang Ligang | 1/1 |
| Mr. Wu Jinyu | 1/1 |
| Mr. Zhang Chao | 1/1 |
| Mr. Zhang Lihuan | 1/1 |
| Ms. Fan Xiulan | 1/1 |
| Mr. Jip Ki Chi | 1/1 |
| Mr. Wang Qi | 1/1 |
| Mr. Zhang Liguo | 1/1 |

During the year under review, the Company has not made any changes to its Articles of Association. 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 2017, 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 an understanding in our environmental, social and governance policies, measures and performances other than the Company's financial results and business operations.

The report covers the relevant information of management directions and strategies on the Company's environmental, social and governance from 1 January 2017 to 31 December 2017 (the "Reporting Period") and highlights the information related to the environmental aspects (emissions, use of resources, environment and natural resources) and social aspects (employment, health and safety, development and training, labour standards, supply chain management, responsibility of products, anti-corruption and community investment) of the Company. We have arranged our management and employees 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. The data disclosed in this report covers both the headquarters of the Company and its production base.

## A. ENVIRONMENT

### A1. Emissions

The Company is a leading rail fastening system provider to the PRC railway industry. The production of rail fastening system and flux cored wire would produce certain amount of exhaust gases and discharge solid wastes, among which the main pollutant of exhaust gases is dust, while the solid wastes mainly include the sieved floor sand blocks, dust-ash and trace of domestic solid wastes. The wastewater discharged by the Company is mainly the sanitary sewage, which would be recycled and would not be discharged directly.

During the reporting period, the Company mainly emitted greenhouse gas as a result of consumption of electricity, natural gas, water, unleaded gasoline and diesel, and produced wastes due to production activities such as casting. The Company has paid close attention to and strictly complied with the national environmental laws and regulations (including but not limited to the requirements as stated in 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 details of emissions of exhaust gases and greenhouse gases, production and disposal of hazardous and non-hazardous wastes related to the Company's environmental aspects in 2017 are summarized as follows:

*A1.1 Details of emissions*

| Type of emissions | Sources of emission | Emissions (kg) |
|---|---|---|
| Nitrogen oxide (NOx) | • natural gas<br>• Company's vehicles | 200.8 |
| Sulphur dioxide (SOx) | • natural gas<br>• Company's vehicles | 4.29 |
| Particulate matter (PM) | • natural gas<br>• Company's vehicles | 4.46 |

The particulate matter mentioned in the table above is mainly attributable to natural gas consumption due to heating by the Company and fuel consumption by the Company's vehicles. Certain amount of dust (i.e. Particulate matter (PM)) is also produced during the casting process of the Company, but it can be fundamentally guaranteed that no dust would be discharged after processed by the dust removal devices. Moreover, the remaining dust, which may be randomly discharged, cannot be accurately measured and hence it is not included in the table above.

*A1.2 Emission of greenhouse gases*

| Emission scope of greenhouse gases | Source of emission | Emissions (Tonnes) | Total emissions (percentage) | Density of emission (emissions (tonnes)/ production volume (tonnes)) |
|---|---|---|---|---|
| **Scope 1** Direct emission | • Consumption of natural gas<br>• Unleaded gasoline and diesel consumed by vehicles<br>• Refrigerant | 1,269.58 | 1.56% | 0.02 |
| **Scope 2** Indirect emission | • Consumption of purchased electricity | 79,912.36 | 98.38% | 1.13 |
| **Scope 3** Other indirect emission | • Flight for business travel<br>• Government's sewage treatment | 44.51 | 0.06% | 0.001 |
| Total | | 81,226.45 | 100.00% | 1.15 |

As electricity is the major energy consumption of the Company, and the Company does not use other energy such as coal, hence the direct carbon emission is relatively low, among which carbon emission caused by consumption of unleaded gasoline and diesel in the Company's vehicles belongs to the mobile sources of greenhouse gas emission. The Company encourages employees to travel in energy-saving way. The Company's vehicles are under unified management by the Administrative Division. The duration and route of drive shall be reasonably arranged after approval of application.

The Company's indirect carbon emission for the year amounted to 79,912.36 tonnes, which was caused by consumption of purchased electricity during the electro-mechanic processing by using electric furnace. To reduce the consumption of electricity generated by thermal power plants, the Company has invested in photovoltaic power generating units which are installed on the roof of idle plants. The power generated by such solar power electricity generating units for the year was 734,289.6 KWH, and reduced the indirect carbon emission of 820.27 tonnes.

The Company's other indirect emission is mainly attributable to the indirect carbon emission generated from employees taking the flight for business travel and the sewage treatment by the government. The Company has already adopted the electronic office system, and posts slogans of conserving power and water in offices and production workshops in order to develop employees' awareness in saving. The Company also requests employees to reduce unnecessary business travel in order to reduce the indirect carbon emission.

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, and facilitates clean production. During the year, several dust removal devices were installed in the welding material workshop with an aim to control the dust during the wire-drawing procedure, further enhance the overall efficiency and effect of dust removal in the factory and control the random discharge of dust. At the same time, the Company changed to use sweepers (equipped with functions of both sweeping and spraying water) during the year in order to replace manpower to clean the plant area (including workshops). The result of stopping flying particles was significant and could further improve the working environment in the plant. Moreover, fume separators were added into several working positions for heat treatment (such as cold headers) in order to control fume pollution.

## Environmental, Social and Governance Report

### *A1.3 Hazardous wastes*

The figures of volume of hazardous and non-hazardous wastes generated by the Company for the year are as follows:

| Hazardous wastes | Volume generated (tonnes) | Density Volume generated (tonnes)/ production volume (tonnes) |
|---|---|---|
| Spent motor oils | 0.3 | 0.000004 |

The Company does not consume excessive motor oils during production and such motor oils can be reused. The overall volume of spent motor oils generated is relatively low. The spent motor oils generated are unified and collected by the Company, and shall be irregularly delivered to third-party company which is qualified for treatment of hazardous wastes according to situation of collection for recycling and treatment.

### *A1.4 Non-hazardous wastes*

| Hazardous wastes | Volume generated (tonnes) | Density Volume generated (tonnes)/ production volume (tonnes) |
|---|---|---|
| Waste sand | 8,226.80 | 0.12 |

The non-hazardous wastes generated by the Company are mainly waste sand generated from production, office and domestic waste. As domestic waste is treated by sanitation department and its weight is not recorded, hence it is not included in the table above. The waste sand generated in casting by the Company is sold externally to recycling suppliers as the raw material of bricks and hence can minimize the impact on the environment.

### A2. Use of resources

The Company consistently pays high attention to energy conservation, complies with the requirements of the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), and encourages reusing and recycling the used resources (such as trimming materials and motor oils) during the course of production, for the purpose of protecting the environment and enhancing the operational efficiency.

The details of the Company's resource consumption (energy, water and other raw materials) in 2017 are as follows:

### *A2.1 Total energy consumption and density*

| Type of energy consumed | Consumption | Density consumption/ production volume |
|---|---|---|
| Electricity (Kilowatt-hour, "KWH") | 72,269,837.60 | 1,023.92 KWH/tonnes |
| Including: purchased electricity | 71,535,548.00 | – |
| Self-power generation (Note 1) | 734,289.60 | – |
| Natural gas ($m^3$) | 216,623.00 | 3.07$m^3$/tonnes |
| Gasoline (litres) | 79,216.59 | N/A |
| Diesel (litres) | 64,830.90 | N/A |

Note 1: Method of self-power generation：by solar power.

During the year, for enhancing power efficiency and saving electricity, the Company continued the harmonic management (Note 2) and grid transformation, commenced the upgrade and replacement of equipment suffering with high energy consumption as scheduled and eliminated all old motors with high energy consumption.

Note 2: the quality of electricity is governed by measures to minimize the impact on quality of industrial products

*A2.2 Total water consumption and density*

| | |
|---|---|
| **Total water consumption (tonnes)** | 1,936.00 |
| **Density (water consumption (tonnes)/production volume (tonnes)** | 0.03 |

Water used by the Company in production is the recycled cooled water which has less consumption and is not discharged externally. Certain amount of domestic sewage comes from office area. It is discharged to the municipal pipe network and collectively treated by the relevant department of the government. The Company encourages employees to use less water and reduce any unnecessary waste of water resources.

*A2.3 Consumption of packaging materials*

| Type | Consumption (tonnes) | Density (water consumption (tonnes)/ production volume (tonnes)) |
|---|---|---|
| Plastic | 873.13 | 0.01 |
| Paper | 759.00 | 0.01 |
| Metal | 0.13 | 0.000002 |
| Total | 1,632.25 | 0.02 |

Packaging on the Company's products is simple, effective and customer-friendly, and involves the use of simple bulk bags and cartons. After the products being transferred to railway construction sites, the packaging material, after unloading products, will be handled by workers at the field. Currently, the Company has commenced measures of recycling and reusing the bulk bags in certain districts.

**A3. Environment and Natural Resources**

The Company values environmental protection and has paid close attention to product manufacturing process, production practices, use of materials in production, 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.

During the year, the Company has built a new plant in Gaocheng, Hebei at the Company's premises. The Company also adopted measures such as sand cover, and reservation for environmental production facilities during construction for the purpose of minimizing the potential impacts on environment and natural resources due to plant construction and the subsequent commission.

Currently, the Company does not have any behaviour or factors which may have significant impact on the natural resources.

Environmental, Social and Governance Report

## B SOCIETY

### Employment and Labour Practices

### B1. Employment

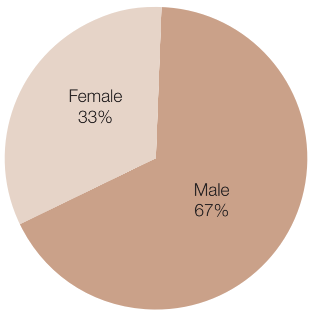
During the reporting period, the Company strictly observed the relevant requirements in laws and regulations such as the Labour Law and the Labour Contract Law, safeguarded the legitimate rights of employees, fairly treated all employees with different race, gender or age, and prohibited employment discrimination. Meanwhile, the Company continued to enhance employees' benefits for the purpose of reinforcing their sense of belonging.

The details of the overall structure and turnover of the Company's employees in 2017 are as follows:

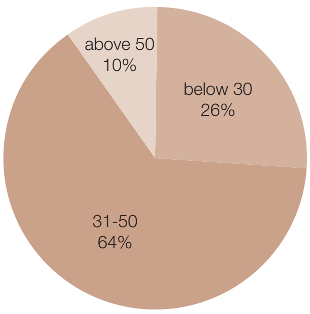
*B1.1 Total number of employees*

As of 31 December 2017, the Company has an aggregate of 1,073 employees, including 1,070 full-time employees and 3 part-time employees; 17 persons are senior management, and 32 persons are middle management.

**Employees' structure by gender**

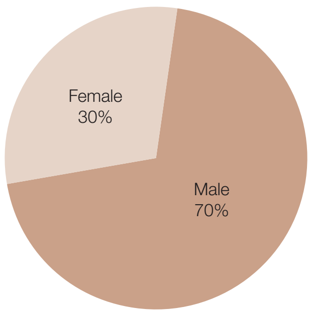



**Employees' structure by age**

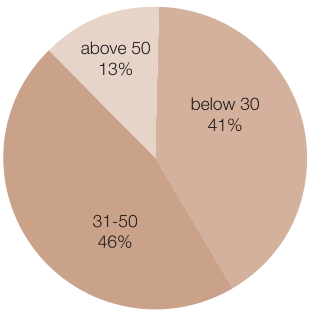



*B1.2 Turnover ratio of employees*

**Breakdown of turnover ratio of employees by gender**




**Breakdown of turnover ratio of employees by age**



The Company provides a competitive salary and benefits for employees and provides and a fairer remuneration structure. The Company has modified the administrative measures of remuneration, and comprehensive performance review mechanism, and given a salary rise to employees for the purpose of minimizing turmoil due to resignation of employees.

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, strives to protect staff from work accidents or occupational hazards, and strictly follows 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 the employees can work in a safe and healthy workplace.

During the year, the Company continued to maintain the operation of occupational health and safety mechanism. For instance, the Company arranged annual body checks for employees, organized different types of safety training every month, and promoted safety tips in routine announcement. Moreover, during the year, the Company has expanded the roles of safety staff that is entitled to vet, penalize and rectify immediately for potential safety risks such as irregularities, and improper wearing of labour protection supplies by employees during daily safety inspection.

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 believes that employees are the most valuable assets of the Company. For the purpose of improving the professional knowledge, skills and techniques for production that an employee in each workshop and department should have, as well as enhancing the quality of products and employees' working efficiency, the Company provided relevant training for employees in different functions, in which the training content is designed and arranged based on corporate regulations and systems, staff duties, and operating skill.

In 2017, the training courses organized by the Company covered various aspects such as safe production, quality management, financial management, operation management and marketing strategies, with a total of more than 2,600 participants and more than 9,000 hours of total training hours, and the particulars are shown in the table below:

*B3.1 Training hours*

| | 2017 |
|---|---|
| Average headcount of employees (person) | **1,077** |
| Total training hours (hour) | **9,524** |
| Average training hours per employee (hour/person) | **8.84** |
| Average training hours completed per employee by gender (hour/person) | |
| – Male | **8.38** |
| – Female | **9.77** |
| Average training hours completed per employee by employee category (hour/person) | |
| – Senior management | **18.12** |
| – Middle management | **8.06** |
| – Other employees | **8.71** |

## B4. Labour standard

The Company has formulated regulations on prevention of illegal employment and employment rules. All employment and recruitment strictly abide by the Labour Law and Labour Contract Law of the People's Republic of China. According to relevant laws, no company is allowed to hire child labour, no one shall sign a labour contract in violation of real intention of the party, and no employee shall be forced to work overtime.

During recruitment, the Company is responsible for providing truthful information of the job concerned, including job responsibility, working condition, working location, occupational health and safety, safety condition at production, and labour remuneration, etc. Meanwhile, the Human Resources Department of the Company is responsible to verify the authenticity of candidates provided information (resume, identity card and certificates). At the same time, as stipulated by the Company's human resource system, the hired employee shall take full responsibility for the authenticity of the information provided by their signatures.

The Company has made reasonable arrangement on staffs' working time in accordance with the statutory standard working time range, provides leave benefits such as paid leave and sick leave based on the Labour Law and prohibits forced labour in all form.

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

In selecting suppliers, the Company conducted long-term assessment, on-site inspection and qualification document review to evaluate their quality, costs, delivery and services. Qualified Suppliers will be short-listed into the Qualified Supplier Catalogue. For the suppliers of material resources, the Company has established strategic cooperation relationship with qualified suppliers to guarantee the quality of procurement.

During the reporting period, the Company had a total of 317 qualified suppliers, among which the material resources were come from strategic cooperation partners. The suppliers of the Company come from different provinces in China. As our material resources such as steel and packaging materials are affected by factors such as quality, transportation distance and pricing, the Company generally selects suppliers based on proximity for procurement.

## B6. Responsibility of products

The Company highly values safety and reliability of products, strictly complies with the relevant national, international and industrial standards, regulates the inspection and handling procedures of products quality, and protects the quality management system of the Company's products to ensure that the products would meet the generally accepted quality requirements in terms of safety, reliability, availability and maintainability.

During the reporting period, the Company did not sell or deliver products that needed to be recalled for safety and health reasons, nor received complaints about product quality or other issues.

The Company has established product returns and exchanges processing mechanism to satisfy customer's demands on returns and exchanges, with the specific treatment including acceptance on deviation, repair, exchange or return of goods. At the same time, the relevant department shall analyze the reasons and adopt the corresponding rectification or precautionary measures.

The Company has placed strong emphases on upgrading its production process and developing new products, and also actively maintained and protected the relevant intellectual property. During the reporting period, the Company has upgraded its infiltration furnace technology and welding technology, developed a new locking damper in five projects in relation to process upgrading and development of new products. During the year, the Company has obtained three new utility model patents.

## B7. Anti-corruption

The Company always complies with 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. The Company's Internal Audit Department is a permanent establishment of anti-corruption. The reporting hotline and mail address are open and available to public, and are used to receive and investigate the reported misconduct and illegal activities, such as reporting suspicious crime of corruption, bribery and fraud. In case of involving offence of the state's law, 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.

## B8. Community Investment

The Company actively participates in community charity. During the reporting period, the Company has made various donation through the General Charity Federation of Gaocheng District of Shijiazhuang City (石家莊市槁城區慈善總會) for the purpose of improving to the ecosystem of the community at the Company's premises. The Company also actively participates in supporting the poor and disabled, providing grants for poor students for their enrollment, and giving money exactly to those with genuine need:

- In January, June, July and October 2017, the Company has made 4 donations with an aggregate amount of RMB3.1million to the General Charity Federation of Gaocheng District of Shijiazhuang City, for supporting projects such as construction of Guozhuang Meili Village, Lianzhou County, Shijiazhuang, Hebei Province (河北省石家莊廉州鎮郭莊美麗鄉村), subsidizing the day care centres for the disabled in Gaochen District and providing scholarships for learning;

- In September 2017, the Company donated RMB0.3 million to Pingshan County for the "Supporting Jinggou Village, Guyue Town, Pingshan County" Project (平山縣古月鎮井溝村幫扶).

In conclusion, during the year, the Company has initiated a series of work in environment protection and community care. We shall further invest more in environment protection and continue to perform our responsibilities as a responsible corporate citizen in aspects of environment protection and society.

# 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 65 to 130, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- 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 2017, 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

- Provision for impairment of trade receivables

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Provision for impairment of trade receivables**<br><br>Refer to notes 4(c) and 13 to the consolidated financial statements.<br><br>As of 31 December 2017, trade receivables of the Group amounted to RMB1,250 million, net of provision for impairment of RMB103 million.<br><br>Management estimated provision for impairment of trade receivables as follows:<br><br>• Assessed whether objective evidence of impairment existed indicating that trade receivables were impaired for which individual provision was made.<br><br>• 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.<br><br>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 2017, we had placed our audit focus on this matter. | We evaluated and tested the controls over the impairment assessment of trade receivables.<br><br>On a sample basis, we sent confirmations to customers independently. For those not replied, we checked the related goods receipts signed by the customers.<br><br>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.<br><br>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.<br><br>We found that management's judgements made in assessing the impairment of trade receivables were supported by the evidence we obtained. |

## 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.

- 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.

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

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, 2018

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

| | | For the year ended 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | Note | ***RMB'000*** | *RMB'000* |
| Revenue | 5 | **965,898** | 1,035,427 |
| Cost of sales | 5,26 | **(625,656)** | (567,278) |
| **Gross profit** | | **340,242** | 468,149 |
| Selling and distribution expenses | 26 | **(44,619)** | (48,654) |
| General and administrative expenses | 26 | **(65,401)** | (64,728) |
| Other (losses)/gains, net | 25 | **(17,159)** | 3,288 |
| Other income | 27 | **3,250** | – |
| **Operating profit** | | **216,313** | 358,055 |
| Finance income | 29 | **828** | 1,899 |
| Finance costs | 29 | **(21,243)** | (16,294) |
| Finance costs, net | | **(20,415)** | (14,395) |
| Share of profits of an associate | 10 | **8,783** | 11,072 |
| **Profit before income tax** | | **204,681** | 354,732 |
| Income tax expense | 30 | **(28,240)** | (48,875) |
| **Profit for the year** | | **176,441** | 305,857 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **176,080** | 305,857 |
| Non-controlling interests | | **361** | – |
| | | **176,441** | 305,857 |
| **Basic and diluted earnings per share for profit attributable to equity holders of the Company (RMB)** | 32 | **0.20** | 0.45 |

The notes on pages 72 to 130 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **176,441** | 305,857 |
| **Other comprehensive income:** | | |
| Item that may be reclassified to income statement: | | |
| Change in value of available-for-sale financial assets | **2,038** | 7,869 |
| **Total comprehensive income for the year** | **178,479** | 313,726 |
| Attributable to: | | |
| Equity holders of the Company | **178,118** | 313,726 |
| Non-controlling interests | **361** | – |
| Total comprehensive income for the year | **178,479** | 313,726 |

The notes on pages 72 to 130 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Note | As at 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **231,457** | 110,087 |
| Lease prepayment for land use rights | 7 | **134,680** | 136,329 |
| Intangible assets | 8 | **80** | 111 |
| Investments in an associate | 10 | **59,968** | 51,185 |
| Deferred income tax assets | 11 | **17,902** | 17,218 |
| Other receivables and prepayments non-current portion | 16(b) | **18,084** | 7,464 |
| | | **462,171** | 322,394 |
| **Current assets** | | | |
| Available-for-sale financial assets | 15 | **141,155** | 136,869 |
| Inventories | 12 | **228,431** | 170,935 |
| Accounts receivable | 13 | **1,293,666** | 989,010 |
| Advances to suppliers | 14 | **20,256** | 47,387 |
| Other receivables and prepayments current portion | 16(a) | **22,602** | 17,903 |
| Restricted cash | 17 | **99,773** | 44,824 |
| Cash and cash equivalents | 18 | **289,832** | 649,436 |
| | | **2,095,715** | 2,056,364 |
| **Total assets** | | **2,557,886** | 2,378,758 |
| **EQUITY** | | | |
| **Share capital and reserves attributable to equity holders** | | | |
| Share capital | 19 | **448,920** | 448,920 |
| Other reserves | 20 | **898,304** | 880,573 |
| Retained earnings | | **317,423** | 308,063 |
| | | **1,664,647** | 1,637,556 |
| **Non-controlling interests** | | **71,449** | – |
| **Total equity** | | **1,736,096** | 1,637,556 |

The notes on pages 72 to 130 are an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position

As at 31 December 2017

| | | As at 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | Note | ***RMB'000*** | *RMB'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 21 | **10,000** | 20,000 |
| Deferred income from government grants | 22 | **6,374** | 6,106 |
| | | **16,374** | 26,106 |
| **Current liabilities** | | | |
| Accounts payable | 23 | **334,971** | 258,693 |
| Advances from customers | | **11,168** | 10,343 |
| Other payables and accruals | 24 | **94,788** | 92,465 |
| Current income tax liabilities | | **7,589** | 2,185 |
| Bank borrowings | 21 | **356,900** | 351,410 |
| | | **805,416** | 715,096 |
| **Total liabilities** | | **821,790** | 741,202 |
| **Total equity and liabilities** | | **2,557,886** | 2,378,758 |

The financial statements on pages 65 to 130 were approved by the Board of Directors on 22 March 2018 and were signed on its behalf.

Zhang Ligang

Wu Jinyu

The notes on pages 72 to 130 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share 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 | – | 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 33) | – | – | (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 72 to 130 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share 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 2017** | 448,920 | 880,573 | 308,063 | 1,637,556 | – | 1,637,556 |
| **Comprehensive income** | | | | | | |
| Profit for the year | – | – | 176,080 | 176,080 | 361 | 176,441 |
| **Other comprehensive income** | | | | | | |
| Change in fair value of available-for-sale financial assets | – | 2,038 | – | 2,038 | – | 2,038 |
| **Total comprehensive income for the year** | – | 2,038 | 176,080 | 178,118 | 361 | 178,479 |
| **Transactions with owners** | | | | | | |
| Non-controlling interests on acquisition of subsidiary (Note 20) | – | – | – | – | 70,000 | 70,000 |
| Share premium from non-controlling shareholder's injection to subsidiary (Note 20) | – | (1,088) | – | (1,088) | 1,088 | – |
| Dividends paid/declared (Note 33) | – | – | (149,939) | (149,939) | – | (149,939) |
| Appropriation to statutory surplus reserves | – | 16,781 | (16,781) | – | – | – |
| | – | 15,693 | (166,720) | (151,027) | 71,088 | (79,939) |
| **Balance at 31 December 2017** | 448,920 | 898,304 | 317,423 | 1,664,647 | 71,449 | 1,736,096 |

The notes on pages 72 to 130 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Note | For the year ended 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 34(a) | **(26,988)** | 99,623 |
| Interest paid | | **(19,485)** | (16,136) |
| Interest received | | **828** | 2,406 |
| Income tax paid | | **(22,835)** | (31,596) |
| Net cash (used in)/generated from operating activities | | **(68,480)** | 54,297 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(149,911)** | (13,743) |
| Purchase of intangible assets | | **–** | (93) |
| Payments for acquisition of land use right | | **(1,176)** | (35,852) |
| Purchase of available-for-sale financial assets | | **(38,000)** | (129,000) |
| Proceeds from sale of available-for-sale investment | | **37,500** | – |
| Interest received on available-for-sale financial assets | | **3,250** | – |
| Proceeds from disposals of property, plant and equipment | 34(b) | **87** | 65 |
| (Increase)/decrease of term deposits with initial term of over three months | | **(30,000)** | 50,000 |
| **Net cash used in investing activities** | | **(178,250)** | (128,623) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of ordinary shares | | **–** | 602,520 |
| Listing cost paid | | **(3,559)** | (36,288) |
| Proceeds from bank borrowings | | **459,468** | 513,146 |
| Repayments of bank borrowings | | **(463,978)** | (363,491) |
| Repayments of other borrowings | | **–** | (47,400) |
| Dividends and related withholding tax paid | | **(155,789)** | (28,000) |
| Payments of financing lease fee | | **–** | (2,132) |
| Cash received from capital contributions | 20 | **70,000** | – |
| Net cash (used in)/generated from financing activities | | **(93,858)** | 638,355 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(340,588)** | 564,029 |
| Cash and cash equivalents at 1 January | | **649,436** | 85,541 |
| Exchange losses on cash and cash equivalents | | **(19,016)** | (134) |
| **Cash and cash equivalents at 31 December** | 18 | **289,832** | 649,436 |

The notes on pages 72 to 130 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 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IFRS 12,
- Disclosure initiative – amendments to IAS 7.

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. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 34(c).

*(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 2017 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 has assessed the 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, and expect it will not have a significant impact.

## 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 statement of financial position, set out in note 35(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 RMB618,000 as at 31 December 2017, as set out in Note 35(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 has reviewed its financial assets and liabilities and its expecting the following impact from the adoption of the new standard on 1 January, 2018:

The available-for-sales assets held by the Group, with amount of RMB141,155,000 will be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value gains of RMB2,038,000 will be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January, 2018.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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. Based on the assessments undertaken to date, 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.

- There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 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 Consolidated statement 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 (losses)/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 (losses)/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.

*(b) 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.

*(c) 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

*(d) 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.

*(e) 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 statement 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.

## 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 the previous year or the 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 2017** | |
| HK$ | **12,107** |
| **At at and for the year ended 31 December 2016** | |
| HK$ | 49,267 |

A strengthing 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, which are all bank borrowings, are all at fixed rates.

At 31 December 2016 and 2017, if interest rates of borrowings had increased/decreased 30 basis points with all other variables held constant, the Group's profit after tax for the year ended 31 December 2016 and 2017 would have decreased/increased by approximately RMB733,870 and RMB939,261 respectively.

*(b) Credit risk*

As at 31 December 2016 and 2017, 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.

As at 31 December 2016 and 2017, the Group has net current assets of approximately RMB1,341,268,000 and RMB1,290,299,000 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.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk (Continued)*

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 2017** | | | | | |
| Bank borrowings | **368,050** | **600** | **11,355** | **–** | **380,005** |
| Accounts payable | **334,971** | **–** | **–** | **–** | **334,971** |
| Other payables and accruals (excluding payroll payable) | **89,382** | **–** | **–** | **–** | **89,382** |
| **At 31 December 2016** | | | | | |
| Bank borrowings | 358,512 | 20,167 | – | – | 378,679 |
| Accounts payable | 258,693 | – | – | – | 258,693 |
| Other payables and accruals (excluding payroll payable) | 88,295 | – | – | – | 88,295 |

### 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 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** | |
|---|---|---|
| | **2017** ***RMB'000*** | 2016 *RMB'000* |
| Total borrowings (Note 21) | **366,900** | 371,410 |
| Less: cash and cash equivalents (Note 18) | **289,832** | 649,436 |
| Net debt (Note 34(c)) | **77,068** | (278,026) |
| Total equity | **1,736,096** | 1,637,556 |
| Total capital | **1,813,164** | 1,359,530 |
| Gearing ratio | **4%** | –20% |

The increase in the gearing ratio during 2017 is mainly because part of the cash and cash equivalents raised from Hong Kong main board listing in 2016 was utilised by investing and financing activities, while the operating activities has a net cash flow out, as a result the cash and cash equivalents as at 31 December 2017 decreased by RMB359,604,000 compared with 31 December 2016.

Notes to the Consolidated Financial Statements

## 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 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 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized 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, 2017 | **–** | **–** | **141,155** | **141,155** |
| At December 31, 2016 | – | – | 136,869 | 136,869 |

## 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 recognized 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 recognized only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. This determination requires significant judgment regarding the realizability of deferred 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.

## 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:

## 5 SEGMENT INFORMATION *(Continued)*

| For the year ended 31 December 2017 | Rail fastening system products *RMB'000* | Welding materials *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| Total revenue | 795,189 | 165,483 | 5,226 | 965,898 |
| Inter-segment revenue | – | – | – | – |
| Revenue from external customers | 795,189 | 165,483 | 5,226 | 965,898 |
| Total cost of sales | 467,015 | 154,804 | 3,837 | 625,656 |
| Segment gross profit | 328,174 | 10,679 | 1,389 | 340,242 |
| Other profit & loss disclosure: | | | | |
| Depreciation and amortization | 14,457 | 2,586 | 4,658 | 21,701 |
| Provisions/(reversal) for impairment of receivables | 26,755 | (8,606) | 390 | 18,539 |
| Finance costs, net | – | – | 20,415 | 20,415 |

| 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 |

Notes to the Consolidated Financial Statements

## 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Segment gross profit | **340,242** | 468,149 |
| Selling and distribution expenses, general and administrative expenses and finance costs, net | **(130,435)** | (127,777) |
| Other (losses)/gains, net | **(17,159)** | 3,288 |
| Share of profits of associate, net | **8,783** | 11,072 |
| Other income | **3,250** | – |
| Profit before income tax | **204,681** | 354,732 |
| Income tax expense | **(28,240)** | (48,875) |
| Profit for the year | **176,441** | 305,857 |

For the years ended at 31 December 2017 and 2016, over 95% of the Group's revenue are generated in China.

## 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 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 |
| **Net book amount at 1 January, 2017** | 42,709 | 57,819 | 4,411 | 1,124 | 542 | 3,482 | 110,087 |
| Additions | 84 | 6,081 | 1,394 | 427 | 42 | 132,431 | 140,459 |
| Transfers upon completion | – | 3,206 | 6,415 | – | – | (9,621) | – |
| Disposals | (157) | (42) | – | (30) | (15) | – | (244) |
| Depreciation | (2,959) | (12,410) | (2,703) | (568) | (205) | – | (18,845) |
| **Net book amount at 31 December 2017** | 39,677 | 54,654 | 9,517 | 953 | 364 | 126,292 | 231,457 |
| **At 31 December 2017** | | | | | | | |
| Cost | 62,512 | 148,650 | 15,816 | 6,682 | 1,693 | 126,292 | 361,645 |
| Accumulated depreciation | (22,835) | (93,996) | (6,299) | (5,729) | (1,329) | – | (130,188) |
| Net book amount | 39,677 | 54,654 | 9,517 | 953 | 364 | 126,292 | 231,457 |

Note:

(i) Buildings with the net book value of RMB21,811,000 and RMB32,354,000 were pledged as collateral under borrowing agreements at 31 December 2017 and 2016, respectively (Note 21).

(a) Depreciation expense of RMB13,907,000 (2016: RMB13,733,000) has been charged in cost of sales, RMB4,938,000 (2016: RMB3,584,000) in general and administrative expenses in the consolidated income statements.

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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Cost** | | |
| At 1 January | **140,566** | 99,780 |
| Additions (i) | **1,176** | 40,786 |
| At 31 December | **141,742** | 140,566 |
| **Accumulated amortization** | | |
| At 1 January | **(4,237)** | (1,969) |
| Amortization (Note 26) | **(2,825)** | (2,268) |
| At 31 December | **(7,062)** | (4,237) |
| **Net book amount** | **134,680** | 136,329 |

As at 31 December 2017, Lease prepayment for land use rights with net book value of RMB89,333,000 (As at 31 December 2016: RMB136,329,000) 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| General and administrative expenses (Note 26) | **2,825** | 2,268 |

(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.On 13 June 2017, the Company paid additional fee for the land use rights with the cost of RMB1,176,000

## 8 INTANGIBLE ASSETS

| | Computer software *RMB'000* |
|---|---|
| **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 |
| **Net book amount at 1 January, 2017** | **111** |
| Additions | **–** |
| Amortization (Note 26) | **(31)** |
| **Net book amount at 31 December 2017** | **80** |
| **At 31 December 2017** | |
| Cost | **722** |
| Accumulated amortization | **(642)** |
| Net book amount | **80** |

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

| | For the year ended 31 December | |
|---|---|---|
| | **2017** *RMB'000* | 2016 *RMB'000* |
| General and administrative expenses (Note 26) | **31** | 159 |

Notes to the Consolidated Financial Statements

## 9 INVESTMENTS IN SUBSIDIARIES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted investments, at cost (Note 39) | **71,052** | 24,721 |

The details of subsidiaries of the Company were set out in Note 38.

## 10 INVESTMENTS IN ASSOCIATE

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **51,185** | 40,113 |
| Share of profits for the year | **8,783** | 11,072 |
| At 31 December | **59,968** | 51,185 |

Set out below is the associate of the Group as at 31 December 2017, 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 2017

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

As at 31 December 2017 the carrying amount of the Group's interest was RMB59,968,000 (31 December 2016: RMB51,185,000). 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** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Current assets** | | |
| Cash and cash equivalents | **24,979** | 4,684 |
| Accounts receivable | **55,225** | 65,905 |
| Inventories | **39,862** | 21,330 |
| Other current assets | **2,546** | 2,486 |
| | **122,612** | 94,405 |
| **Non-current assets** | **28,686** | 30,538 |
| **Current liabilities** | | |
| Other current liabilities | **28,914** | 20,484 |
| **Non-current liabilities** | | |
| Other non-current liabilities | **–** | – |
| **Net assets** | **122,384** | 104,459 |

Notes to the Consolidated Financial Statements

## 10 INVESTMENTS IN ASSOCIATE *(Continued)*

Notes: *(Continued)*

(i) **Summarized statements of financial position of material associate** *(Continued)*

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 | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| Opening net assets | 104,459 | 81,863 |
| Profit and total comprehensive income | 17,925 | 22,596 |
| Closing net assets | 122,384 | 104,459 |
| Group's share in % | 49% | 49% |
| **Carrying amount** | 59,968 | 51,185 |

(ii) **Summarized statements of comprehensive income**

| | For the year ended 31 December | |
|---|---|---|
| | 2017 RMB'000 | 2016 RMB'000 |
| Revenue | 152,651 | 184,571 |
| Cost of sales | (118,084) | (141,545) |
| Other expenses | (11,670) | (13,335) |
| Other gains, net | 959 | 214 |
| **Profit before income tax** | 23,856 | 29,905 |
| Income tax expense | (5,931) | (7,309) |
| **Profit for the year** | 17,925 | 22,596 |
| **Other comprehensive income** | – | – |
| **Total comprehensive income** | 17,925 | 22,596 |

## 11 DEFERRED INCOME TAX ASSETS

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| (a) Deferred income tax assets: | | |
| – to be recovered after more than 12 months | **16,792** | 14,088 |
| – to be recovered within 12 months | **2,858** | 3,130 |
| | **19,650** | 17,218 |
| – deferred tax liabilities pursuant to set-off provisions | **(1,748)** | – |
| Net deferred tax assets | **17,902** | 17,218 |

(i) 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 2016** | 10,206 | 2,481 | 1,983 | 14,670 |
| Charged/(credited) to statement of comprehensive income (Note 30) | 3,372 | 649 | (1,473) | 2,548 |
| **At 31 December 2016** | 13,578 | 3,130 | 510 | 17,218 |
| Charged/(credited) to statement of comprehensive income (Note 30) | **2,806** | **(271)** | **(103)** | **2,432** |
| **At 31 December 2017** | **16,384** | **2,859** | **407** | **19,650** |

Notes to the Consolidated Financial Statements

## 11 DEFERRED INCOME TAX ASSETS *(Continued)*

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| (b) Deferred income tax liabilities: | | |
| – change in fair value of available-for-sale financial assets | **1,748** | – |
| Total deferred tax liabilities | **1,748** | – |

(ii) The movement in deferred income tax liabilities of the Group is as follows:

| | **Available-for-sale financial assets** |
|---|---|
| | ***RMB'000*** |
| **At 1 January 2016** | – |
| Charged/(credited) to other comprehensive income | – |
| **At 31 December 2016** | – |
| Charged to other reserve | **1,748** |
| **At 31 December 2017** | **1,748** |

## 12 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **31,402** | 20,828 |
| Work in progress | **105,984** | 73,191 |
| Finished goods | **91,045** | 76,916 |
| | **228,431** | 170,935 |

The cost of inventories recognised as an expense and included in cost of sales for each of the years ended 31 December 2016 and 2017 amounted to RMB456,651,000 and RMB524,100,000, respectively.

## 13 ACCOUNTS RECEIVABLE

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables, gross (note(a)) | **1,353,175** | 1,066,012 |
| Less: provision for impairment | **(102,802)** | (85,445) |
| | **1,250,373** | 980,567 |
| Notes receivable (note (b)) | **43,293** | 8,443 |
| | **1,293,666** | 989,010 |

(a) The aging analysis of trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current to 1 year | **989,142** | 801,076 |
| 1 to 2 years | **228,926** | 176,552 |
| 2 to 3 years | **92,829** | 34,946 |
| Over 3 years | **42,278** | 53,438 |
| | **1,353,175** | 1,066,012 |

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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current to 1 year | **845,061** | 801,076 |
| 1 to 2 years | **228,926** | 175,682 |
| 2 to 3 years | **91,170** | 32,083 |
| Over 3 years | **35,175** | 42,520 |
| | **1,200,332** | 1,051,361 |

Notes to the Consolidated Financial Statements

## 13 ACCOUNTS RECEIVABLE *(Continued)*

(a) *(Continued)*

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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current to 1 year | **1,190** | – |
| 1 to 2 years | **–** | 7,439 |
| 2 to 3 years | **7,439** | – |
| Over 3 years | **133** | 7,212 |
| | **8,762** | 14,651 |

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current to 1 year | **18,773** | 16,023 |
| 1 to 2 years | **22,893** | 17,569 |
| 2 to 3 years | **21,570** | 9,625 |
| Over 3 years | **30,804** | 27,577 |
| | **94,040** | 70,794 |

For the year ended 31 December 2016 and 2017, movement on the provision for impairment of trade receivables is as follows:

| | ***RMB'000*** |
|---|---|
| **As at 1 January 2016** | 63,470 |
| Provision for impairment | 21,975 |
| **As at 31 December 2016** | 85,445 |
| Provision for impairment | 25,963 |
| Reversal of impairment | (8,606) |
| **As at 31 December 2017** | **102,802** |

## 13 ACCOUNTS RECEIVABLE *(Continued)*

(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 2017, the Company factored receivables of RMB120,000,000 (31 December 2016: RMB147,347,000) (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.

(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.

Notes to the Consolidated Financial Statements

## 15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **136,869** | – |
| Additions | **38,000** | 129,000 |
| Disposals | **(37,500)** | – |
| Net gains transfer to equity before tax (Note 20) | **3,786** | 7,869 |
| At 31 December | **141,155** | 136,869 |
| Current portion | **141,155** | 136,869 |

As at 31 December 2017, the available-for-sale financial assets held by the Company is unlisted securities with expected interest rate of 8% per annum and maturity date in 2018. The available-for-sale financial assets is denominated 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 (2017: 8%; 2016: 8%). 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.

Notes to the Consolidated Financial Statements

## 16 OTHER RECEIVABLES AND PREPAYMENTS

### (a) Current portion

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Deposits for biddings and contracts | **22,503** | 17,111 |
| Others | **6,235** | 5,746 |
| | **28,738** | 22,857 |
| Less: provision for impairment | **(6,136)** | (4,954) |
| | **22,602** | 17,903 |

### (b) Non-current Portion

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Prepayment for equipment | **17,284** | 2,429 |
| Prepayment for construction | **800** | 5,035 |
| | **18,084** | 7,464 |

## 17 RESTRICTED CASH

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Pledged deposits (Note i) | **69,773** | 44,824 |
| Term deposits with initial term of over three months (Note ii) | **30,000** | – |
| | **99,773** | 44,824 |

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

(ii) As at 11 August 2017, term deposits with initial term of over three months of RMB30,000,000 was deposited by the Minsheng Bank, Shijiazhuang Branch (中國民生銀行股份有限公司石家莊分行). The deposit interest rate is 1.95% per annum and the maturity date is 11 August 2018.

Notes to the Consolidated Financial Statements

## 18 CASH AND CASH EQUIVALENTS

Cash and bank were denominated in the following currencies

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| HK$ | **142,441** | 579,613 |
| RMB | **147,139** | 69,798 |
| US$ | **252** | 25 |
| | **289,832** | 649,436 |

## 19 SHARE CAPITAL

Issued:

| | ***RMB'000*** |
|---|---|
| At 1 January 2016 | 336,690 |
| Addition (Note(i)) | 112,230 |
| At 31 December 2016 | 448,920 |
| Addition | – |
| At 31 December 2017 | **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.

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.

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 2016** | 385,781 | 10,939 | – | 396,720 |
| Revaluation | – | – | 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 |
| **At 1 January 2017** | **831,739** | **40,965** | **7,869** | **880,573** |
| Net revaluation | **–** | **–** | **2,038** | **2,038** |
| **Transactions with owners** | | | | |
| Share premium from non-controlling shareholder's injection to subsidiary (Note(i)) | **(1,088)** | **–** | **–** | **(1,088)** |
| Appropriation to statutory surplus reserves | **–** | **16,781** | **–** | **16,781** |
| **At 31 December 2017** | **830,651** | **57,746** | **9,907** | **898,304** |

(i) As at 18 July 2017, the Company and Shijiazhuang State-owned Holding Investment Management Co., LTD, as the non-controlling shareholder, had injected additional capital to Shijiazhuang City Gaocheng District Yichen Railway Engineering Equipment Co., Ltd (the "subsidiary") with RMB46,331,400 and RMB70,000,000 respectively. Thereafter, the company's share of the subsidiary has been diluted to 51%, but not lose control of the subsidiary. The difference of the net assets that attribute to the Company before and after the capital injection, amounted to RMB1,088,000, has be recognized as capital surplus – share premium.

Notes to the Consolidated Financial Statements

## 21 BANK BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Current** | | |
| Bank borrowings | | |
| – other bank loans (Note i) | **138,500** | 177,500 |
| – entrusted loan (Note ii) | **13,400** | 13,400 |
| – bank advance for factored receivables (Note iii) | **90,000** | 110,510 |
| – unsecured bank borrowings (Note iv) | **115,000** | 50,000 |
| | **356,900** | 351,410 |
| **Non-Current** | | |
| Bank borrowings (Note v) | **10,000** | 20,000 |
| **Total bank borrowings** | **366,900** | 371,410 |

### Maturity of bank borrowings

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **356,900** | 351,410 |
| 1 year to 2 years | **–** | 20,000 |
| 2 years to 5 years | **10,000** | – |
| **Total bank borrowings** | **366,900** | 371,410 |
| **Weighted average annual interest rates** | | |
| Bank borrowings | **5.29%** | 5.07% |

## 21 BANK BORROWINGS *(Continued)*

### Maturity of bank borrowings *(Continued)*

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Currency denomination | | |
| RMB | **366,900** | 371,410 |

Notes:

(i) As at 31 December 2017, secured bank borrowings of RMB48,500,000, (31 December 2016: RMB77,500,000) were secured by lease prepayment for land use rights and buildings of the Company. As at 31 December 2017, secured bank borrowings of RMB60,000,000, (31 December 2016: RMB100,000,000) were secured by lease prepayment for land use rights of the Company.

As at 31 December 2017, short-term bank borrowings of RMB30,000,000 from Chongqing Fumin Bank (重慶富民銀行股份有限公司), were guaranteed by Hanhua Finance Limited Company (瀚華擔保股份有限公司) with counter-guarantee offered by 6 shareholders of the company. They are Zhang Haijun, Zhang Qiuju, Zhang Lifeng, Yang Yunjuan, Zhang Chao and Wu Jinyu, and the interest rate is 6.10% per annum.

(ii) As at 31 December 2017, the Company has entrusted loan of RMB13,400,000, (31 December 2016: RMB13,400,000) 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%.

(iii) As at 31 December 2017, bank advance for factored receivables are RMB90,000,000 (31 December 2016: RMB110,510,000).

(iv) As at 31 December 2017, short term bank borrowings of RMB90,000,000 from Shijiazhuang Branch, Minsheng Bank (中國民生銀行石家莊分行)were unsecured bank loans and borne interest rate of 6.60% per annum, and short term bank borrowings of RMB25,000,000 from Gaocheng Branch, China Construction Bank (中國建設銀行藁城支行) were unsecured bank loans and borne interest rate of 4.35% per annum. As at 31 December 2016, short term bank borrowings of RMB50,000,000 was unsecured.

(v) As at 31 December 2017, long term bank borrowings of RMB10,000,000 (31 December 2016: RMB20,000,000) were unsecured entrusted bank loans.

Notes to the Consolidated Financial Statements

## 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 2016 and 2017 are as follows:

| | *RMB'000* |
|---|---|
| At 1 January 2016 | 6,338 |
| Additions | – |
| Amortization | (232) |
| At 31 December 2016 | 6,106 |
| Additions | **500** |
| Amortization | **(232)** |
| At 31 December 2017 | **6,374** |

## 23 ACCOUNTS PAYABLE

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables to associate and other related parties | **50,163** | 68,250 |
| Trade payables to third-parties | **239,260** | 160,212 |
| Notes payable | **45,548** | 30,231 |
| | **334,971** | 258,693 |

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

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current to 1 year | **252,875** | 195,964 |
| 1 year to 2 years | **19,568** | 26,733 |
| 2 years to 3 years | **14,264** | 2,360 |
| Over 3 years | **2,716** | 3,405 |
| | **289,423** | 228,462 |

## 24 OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Wages, salaries and other employee benefits | **5,406** | 4,170 |
| Royalty fee (note (a)) | **19,056** | 20,864 |
| Freight | **12,318** | 9,590 |
| Other taxes (note (b)) | **57,533** | 56,399 |
| Others | **475** | 1,442 |
| | **94,788** | 92,465 |

Notes:

(a) The Group signed agreements with China Academy of Railway Sciences Railway Engineering Research Institute (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 (LOSSES)/GAINS, NET

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Amortization of deferred income (Note 22) | **232** | 232 |
| Income related to government grants (Note(i)) | **5,001** | 2,557 |
| Loss on disposal of property, plant and equipment (Note 34(b)) | **(157)** | (163) |
| Donation outlay | **(3,420)** | (72) |
| Net foreign exchange losses | **(19,016)** | (134) |
| Others | **201** | 868 |
| | **(17,159)** | 3,288 |

Note (i): Income related to government grants is mainly the local government's bonus for its successful listing on the Hong Kong main board.

Notes to the Consolidated Financial Statements

## 26 EXPENSE BY NATURE

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials used | **571,020** | 484,956 |
| Changes in inventories of finished goods and work-in-progress | **(46,922)** | (28,305) |
| Employee benefit costs (Note 28) | **71,254** | 62,564 |
| Transportation and warehouse expenses | **21,533** | 24,471 |
| Depreciation on property, plant and equipment (Note 6) | **18,845** | 17,317 |
| Amortization on | | |
| – land use rights (Note 7) | **2,825** | 2,268 |
| – intangible assets (Note 8) | **31** | 159 |
| Provision for impairment of receivables | **18,539** | 22,353 |
| Royalty fee | **8,362** | 12,376 |
| Utilities | **30,196** | 39,108 |
| Operating lease expenses | **1,034** | 973 |
| Office and travel expenses | **3,345** | 6,711 |
| Sales tax and levies | **11,946** | 14,822 |
| Service fees and charges | **3,144** | 1,886 |
| Product examination costs | **1,323** | 1,556 |
| Listing expenses | **–** | 2,947 |
| Remuneration of the Company's auditor | | |
| – Audit and review services | **3,255** | 2,170 |
| – Non-audit services | **486** | 330 |
| Others | **15,460** | 11,998 |
| Total cost of sales, selling and distribution expenses, and general and administrative expenses | **735,676** | 680,660 |

## 27 OTHER INCOME

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Interests of available-for sales financial assets held as investments | **3,250** | – |

## 28 EMPLOYEE BENEFIT COSTS

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Wages and salaries | **52,829** | 45,963 |
| Pension scheme and other social security costs | **15,577** | 14,775 |
| Others | **2,848** | 1,826 |
| | **71,254** | 62,564 |

### (a) Directors and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2017 is set out below:

| | Fees | Salaries | Discretionary bonus | Employer's contribution to a retirement benefit scheme | Other benefits | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Director** | | | | | | |
| Zhang Haijun (張海軍) | 360 | – | – | – | – | 360 |
| Zhang Chao (張超) | 140 | – | – | 23 | – | 163 |
| Fan Xiulan (樊秀蘭) | 170 | – | – | – | – | 170 |
| Zhang Lihuan (張力歡) | 170 | – | – | 7 | – | 177 |
| Wu Jinyu (吳金玉) | 190 | – | – | 31 | – | 221 |
| Zhang Ligang (張立剛) | 230 | – | – | 7 | – | 237 |
| **Independent non-executive Director** | | | | | | |
| Jip Ki Chi (葉奇志) | 157 | – | – | – | – | 157 |
| Wang Qi (王琦) | 40 | – | – | – | – | 40 |
| Zhang Liguo (張立國) | 40 | – | – | – | – | 40 |
| **Supervisor** | | | | | | |
| Zhang Xiaosuo (張小鎖) | 260 | – | – | 7 | – | 267 |
| Zhou Encheng (周恩成) | 110 | – | – | 7 | – | 117 |
| Liu Jiao (劉姣) | 80 | – | – | 7 | – | 87 |
| | 1,947 | – | – | 89 | – | 2,036 |

Notes to the Consolidated Financial Statements

## 28 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 |
|---|---|---|---|---|---|---|
| **Director** | | | | | | |
| 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 Director** | | | | | | |
| Jip Ki Chi (葉奇志) | 32 | – | – | – | – | 32 |
| Wang Qi (王琦) | 8 | – | – | – | – | 8 |
| Zhang Liguo (張立國) | 8 | – | – | – | – | 8 |
| **Supervisor** | | | | | | |
| Zhang Xiaosuo (張小鎖) | 260 | – | – | 6 | – | 266 |
| Zhou Encheng (周恩成) | 110 | – | – | 7 | – | 117 |
| Liu Jiao (劉姣) | 80 | – | – | 7 | – | 87 |
| | 1,758 | – | – | 73 | – | 1,831 |

## 28 EMPLOYEE BENEFIT COSTS *(Continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include 2 directors and supervisors whose emoluments are reflected in the analysis presented above (2016: 2). The emoluments payable to the remaining 3 (2016: 3) individuals are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and other benefits | **755** | 756 |
| Employer's contribution to a retirement benefit scheme | **34** | 1 |
| | **789** | 757 |

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

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***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 2016 and 2017, 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 two years ended 31 December 2016 and 2017, no directors waived any emoluments.

Notes to the Consolidated Financial Statements

## 29 FINANCE COSTS, NET

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Finance income** | | |
| Interest on bank deposits | **828** | 1,899 |
| **Finance costs** | | |
| Interest expense on bank borrowings | **(19,485)** | (14,084) |
| Interest expense on financial lease | **–** | (217) |
| Bank charges and others | **(1,758)** | (1,993) |
| | **(21,243)** | (16,294) |
| **Finance costs, net** | **(20,415)** | (14,395) |

## 30 INCOME TAX EXPENSE

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | **30,672** | 51,423 |
| Deferred income tax (Note 11) | **(2,432)** | (2,548) |
| | **28,240** | 48,875 |

Provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 15% for the year 2016 and 2017 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%.

## 30 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **204,681** | 354,732 |
| Tax calculated at the statutory tax rate (15%) | **30,702** | 53,210 |
| Income not subject to tax | **(1,317)** | (1,661) |
| Expenses not deductible for tax purposes | **183** | 217 |
| Additional deduction on research and development expense | **(140)** | (3,184) |
| Others | **(1,188)** | 293 |
| Tax charge | **28,240** | 48,875 |

## 31 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 RMB300,256,000 and RMB167,811,000 for each of the years ended 31 December 2016 and 2017, respectively.

## 32 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.

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the Company | **176,080** | 305,857 |
| Weighted average number of ordinary shares in issue (thousands) | **897,840** | 679,530 |
| Basic earnings per share (RMB per share) | **0.20** | 0.45 |

There were no potential dilutive ordinary shares for the years ended 31 December 2016 and 2017. Diluted earnings per share were equal to basic earnings per share.

## 33 DIVIDENDS

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Dividends paid/declared (i) | **149,939** | 73,062 |

(i) On 26 May 2017, the annual general meeting resolved to declare an annual dividend of RMB149,939,280 to its then existing shareholders (2016: RMB73,061,730).

(ii) Pursuant to the resolution of the board of directors on 22 March 2018, a dividend in respect of the year ended 31 December 2017 of RMB0.0197 (tax inclusive) per share, amounting to a total dividend of RMB17,687,448, is proposed and to be approved by at the annual general meeting on 21 May 2018. These financial statements do not reflect this dividend payable.

## 34 CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations:

| | For the year ended 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Profit before income tax | **204,681** | 354,732 |
| Adjustments for: | | |
| Share of profits of associate | **(8,783)** | (11,072) |
| Other income | **(3,250)** | – |
| Losses on disposal of property, plant and equipment and intangible assets (Note (b)) | **157** | 163 |
| Depreciation on property, plant and equipment | **18,845** | 17,317 |
| Amortization of | | |
| – land use rights | **2,825** | 2,268 |
| – intangible assets | **31** | 159 |
| Provision for impairment of receivables | **18,539** | 22,353 |
| Finance costs, net | **20,415** | 14,395 |
| Amortization of deferred income | **(232)** | (232) |
| | **253,228** | 400,083 |
| Changes in working capital: | | |
| – increase in accounts receivable | **(322,013)** | (257,610) |
| – decrease/(increase) in advances to suppliers, other receivables and prepayments | **13,810** | (53,180) |
| – increase in inventories | **(57,496)** | (33,476) |
| – increase in accounts payable | **76,279** | 64,265 |
| – increase/(decrease) in advance from customers, other payables and accruals | **34,153** | (4,381) |
| – increase in restricted cash | **(24,949)** | (16,078) |
| | **(280,216)** | (300,460) |
| Net cash (used in)/generated from operations | **(26,988)** | 99,623 |

Notes to the Consolidated Financial Statements

## 34 CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Net book amount (Note 6) | **244** | 228 |
| Losses on disposals | **(157)** | (163) |
| Cash proceeds | **87** | 65 |

(c) Net debt reconciliation:

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalents | **289,832** | 649,436 |
| Borrowings – repayable within one year | **(356,900)** | (351,410) |
| Borrowings – repayable after one year | **(10,000)** | (20,000) |
| Net debt | **(77,068)** | 278,026 |
| Cash and liquid investments | **289,832** | 649,436 |
| Gross debt – fixed interest rates | **(366,900)** | (371,410) |
| Gross debt – variable interest rates | **–** | – |
| Net debt | **(77,068)** | 278,026 |

## 34 CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Net debt reconciliation: *(Continued)*

| | Other assets | Liabilities from financing activities | | |
|---|---|---|---|---|
| | Cash and cash equivalents | Borrowings due-within-1-year | Borrowings due-after 1 year | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Net debt as at 1 January 2016** | 85,541 | (221,755) | – | (136,214) |
| Cash flows | 564,029 | (129,655) | (20,000) | 414,374 |
| Foreign exchange adjustments | (134) | – | – | (134) |
| Other non-cash movements | – | – | – | – |
| **Net debt as at 31 December 2016** | 649,436 | (351,410) | (20,000) | 278,026 |
| Cash flows | **(340,588)** | **(5,490)** | **10,000** | **(336,078)** |
| Foreign exchange adjustments | **(19,016)** | **–** | **–** | **(19,016)** |
| Other non-cash movements | **–** | **–** | **–** | **–** |
| **Net debt as at 31 December 2017** | **289,832** | **(356,900)** | **(10,000)** | **(77,068)** |

## 35 COMMITMENTS

### (a) Capital commitments

The Group have the following capital commitments not provided for as at 31 December 2016 and 2017, respectively.

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment and lease prepayments for land use rights – contracted but not yet incurred | **23,581** | 4,352 |

### (b) Operating lease commitments

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Up to 1 year | **618** | 1,060 |
| 1 to 5 years | **–** | 618 |
| | **618** | 1,678 |

Notes to the Consolidated Financial Statements

## 36 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 38.

During the years ended 31 December 2016 and 2017, 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 2016 and 2017.

(a) Significant transactions with related parties:

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Sale of goods and materials to | | |
| – Tieke Yichen | **5,947** | 5,841 |
| Purchases of goods and materials from | | |
| – Tieke Yichen | **66,437** | 137,220 |
| – Tielong Daocha (ii) | **–** | 113 |
| Procurement of processing services | | |
| – Longji Management | **2,860** | 1,197 |
| Procurement of comprehensive services and other services | | |
| – Longji Management(i) | **2,110** | 2,110 |
| Leasing of properties from | | |
| – shareholder(iii) | **360** | 360 |
| – Longji Management(i) | **700** | 700 |
| Key management compensations (not including the directors and supervisors' emoluments as set out in Note 28 to the consolidated financial statements) | **928** | 786 |

## 36 RELATED PARTY TRANSACTIONS *(Continued)*

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

(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. After the transaction, 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 2017. 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 2017.

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

Notes to the Consolidated Financial Statements

## 36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant balances with related parties are listed below. All balances were unsecured, interest free and repayable on demand.

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Accounts receivable from | | |
| – Tieke Yichen | **–** | 482 |
| – Tielong Daocha | **264** | 264 |
| **Liabilities** | | |
| Accounts payable to | | |
| – Tieke Yichen | **50,050** | 68,137 |
| – Tielong Daocha | **113** | 113 |
| Prepayment to | | |
| – Office rental fee to one shareholder | **210** | – |
| – Longji Management | **408** | 408 |
| Office rental fee payable to one shareholder | **–** | 360 |

## 37 SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

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

## 38 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 2017 | 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 | 12,643 | 51% (Note 20) | 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

## 39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### Statement of financial position of the Company

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **230,957** | 109,354 |
| Lease prepayment for land use rights | **134,680** | 136,329 |
| Intangible assets | **80** | 111 |
| Investments in subsidiaries (Note 9) | **71,052** | 24,721 |
| Investments in an associate | **59,968** | 51,185 |
| Deferred income tax assets | **17,794** | 17,172 |
| Other receivables and prepayments | | |
| Non-current portion | **18,084** | 7,464 |
| | **532,615** | 346,336 |
| **Current assets** | | |
| Available-for-sale financial assets | **141,155** | 136,869 |
| Inventories | **227,309** | 170,429 |
| Accounts receivable | **1,282,779** | 984,814 |
| Advances to suppliers | **15,661** | 44,635 |
| Other receivables and prepayments | | |
| Current Portion | **22,566** | 17,901 |
| Restricted cash | **99,773** | 44,824 |
| Cash and cash equivalents | **276,615** | 640,692 |
| | **2,065,858** | 2,040,164 |
| **Total assets** | **2,598,473** | 2,386,500 |

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

### Statement of financial position of the Company *(Continued)*

| | Note | As at 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Share capital and reserves attributable to equity holders** | | | |
| Share Capital | | 448,920 | 448,920 |
| Other reserves | (a) | 899,392 | 880,573 |
| Retained earnings | (a) | 296,715 | 295,624 |
| **Total equity** | | 1,645,027 | 1,625,117 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | | 10,000 | 20,000 |
| Deferred income from government grants | | 5,974 | 6,106 |
| | | 15,974 | 26,106 |
| **Current liabilities** | | | |
| Accounts payable | | 363,652 | 280,509 |
| Advances from customers | | 11,070 | 10,327 |
| Other payables and accruals | | 198,802 | 92,236 |
| Current income tax liabilities | | 7,048 | 795 |
| Bank borrowings | | 356,900 | 351,410 |
| | | 937,472 | 735,277 |
| **Total liabilities** | | 953,446 | 761,383 |
| Total equity and liabilities | | 2,598,473 | 2,386,500 |

The statement of financial position of the Company was approved by the Board of Directors on 22 March 2018 and was signed on its behalf:

Zhang Ligang

Wu Jinyu

## 39 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 2016** | 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 |
| Profit for the year | 167,811 | – |
| Other comprehensive income | – | 2,038 |
| Appropriation to statutory surplus reserve | (16,781) | 16,781 |
| Dividends paid/declared | (149,939) | – |
| **At 31 December 2017** | **296,715** | **899,392** |

# 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 |

# Definitions

| | |
|---|---|
| "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 |