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 2018

* For identification purpose only

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# CORPORATE INFORMATION

## 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

## SUPERVISORY BOARD

Mr. Zhang Xiaosuo *(Chairman)*
Ms. Liu Jiao
Mr. Hu Hebin

## 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. Zhang Ligang
Mr. Wang Qi

## STRATEGY COMMITTEE

Mr. Zhang Haijun *(Chairman)*
Mr. Zhang Ligang
Mr. Zhang Liguo

## 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

Confucius International CPA Limited
Certified Public Accountants
Room 1501-8, 15/F, Tai Yau Building
181 Johnston Road, Wanchai
Hong Kong

## HONG KONG LEGAL ADVISER

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

## PRC LEGAL ADVISER

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

## REGISTERED OFFICE AND HEADQUARTERS

No. 1 Yichen North Street
Gaocheng District
Shijiazhuang City
Hebei Province
PRC

# Corporate Information

## 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

## COMPANY WEBSITE

http://www.hbyc.com.cn

## INVESTOR AND MEDIA RELATIONS CONSULTANT

LBS Communications Consulting Limited
www.lbs-comm.com
ir@lbs-comm.com
Tel: (852) 3679 3671
Fax: (852) 3753 2899

# FINANCIAL SUMMARY

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Results (RMB'000)** | | | | | |
| Revenue | **1,111,460** | 965,898 | 1,035,427 | 907,049 | 854,777 |
| Cost of sales | **(777,963)** | (625,656) | (567,278) | (517,079) | (500,437) |
| Gross profits | **333,497** | 340,242 | 468,149 | 389,970 | 354,340 |
| Selling and distribution expenses | **(54,375)** | (44,619) | (48,654) | (50,525) | (41,364) |
| General and administrative expenses | **(62,289)** | (65,401) | (64,728) | (54,147) | (51,223) |
| Profit before income tax | **213,080** | 204,681 | 354,732 | 275,370 | 250,447 |
| Earnings attributable to equity holders of the Company | **180,169** | 176,080 | 305,857 | 228,069 | 188,410 |

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Assets and Liabilities (RMB'000)** | | | | | |
| Non-current assets | **587,276** | 462,171 | 322,394 | 278,286 | 267,051 |
| Current assets | **1,930,171** | 2,095,715 | 2,056,364 | 1,088,559 | 909,787 |
| Non-current liabilities | **35,641** | 16,374 | 26,106 | 6,338 | 10,455 |
| Current liabilities | **584,160** | 805,416 | 715,096 | 521,803 | 542,930 |
| Equities attributable to equity holders of the Company | **1,827,129** | 1,664,647 | 1,637,556 | 838,704 | 620,635 |

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to announce the annual results of the Group or "Yichen Industrial" for the year ended 31 December 2018.

## 2018 REVIEW

In 2018, the global economy tended to be in mild growth; however, the development momentum slowed down, international capital flows and financial market fluctuations intensified, trade protectionism and unilateralism were prevailing, all leading to major changes in economic landscape and evident differentiation among different economies. Though faced with complicated external environment, China's economy maintained a good development momentum featuring overall stability and steady progress, with a 6.6% GDP growth. Currently, China's economy is at an early stage of high-quality development, and is continuously optimizing its economic structure; therefore it still has a relatively strong development potential.

Looking back at the past year, the railway industry maintained a relatively fast growth pace, railway reform and the implementation of "converting road freight to rail freight" were further deepened, and the construction of urban rail transport sped up. The Company actively seized the market opportunities arising from industrial development, remained focused on railway as its core business, and increased the market share of flux cored wire; through creating diversified core advantages, we have strengthened our competitiveness and thus realized the synergistic development of all businesses. The Company continued to provide high-quality fastening products for China's railways so as to meet the national construction demand; stable growth in business was maintained in a new round of high-speed railway expansion. For the year ended 31 December 2018, the revenue of the Group amounted to approximately RMB1,111,460,000, representing an increase of approximately 15.1% over the same period of last year; the net profit attributable to equity holders of the Company amounted to approximately RMB180,169,000, representing an increase of approximately 2.3% over the same period of last year; and earnings per share amounted to approximately RMB0.20.

## 2019 OUTLOOK

With the continuous progression of urbanization in China, there has been fast development of China's railway (especially high-speed railway) in terms of technology innovation and manufacturing upgrade, with increasing railway transportation capacity and optimizing railway network layout. Enormous changes were brought into people's life; railway's advantage of driving regional economies has become increasingly prominent. Fixed asset investment on national railways for the year 2019 has continued to expand, with ongoing planning of railway network in the Yangtze River Delta, the Guangdong-Hong Kong-Macau Greater Bay Area, the Chengdu-Chongqing city cluster and Hainan Province. With the PRC government's deployment of urban integration in metropolitan areas, as well as its promotion of "integration of four networks", being artery railway network, inter-city railway network, urban (rural) railway network and urban rail transit network, the construction of intercity rail network in all cities will be accelerated, so as to adapt to the demand for larger and more efficient transport infrastructure networks in metropolitan areas.

Looking ahead, the Company, being the leading rail fastening system provider in the PRC, will proactively grasp new opportunities from industrial development, insist on the innovation and optimization of products and services, provide high-level, high-standard products and services for the high-quality development of China's railway, and strive to promote our advanced experience, technology and products in high-speed railway fastening system with Chinese standard across the world. In terms of business development, the Company will consolidate its market leading edge in railway fastening business, while constantly increasing the market share of flux cored wire, driving the diversified and synergetic business growth, realize sustainable business development, reinforce the Company's leading position in market and improve profitability.

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 2018. I also wish to extend my gratitude to our shareholders and business partners for their strong support over the past year.

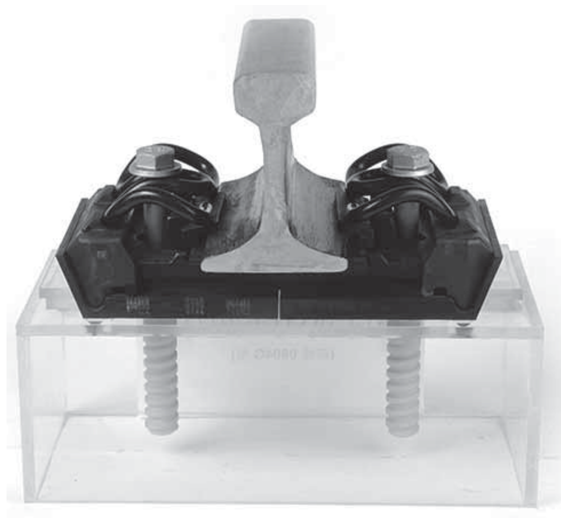
**Zhang Haijun**
*Chairman*
Hebei, 6 June 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRIAL REVIEW AND ANALYSIS

2018 was a key year of transition for the country's "13th Five-Year Plan", and also a year for commencing high-quality development. Looking back at the past year, China's economy saw progress amidst stability, where structural adjustments continued to deepen and the supply side structural reform was further promoted. Under the new norm of economic development, enhancing the quality and efficiency of railway construction, promoting the market-oriented operation of railway and further optimizing the safety assurance system are of great significance to the healthy development of the railway industry. Last year, the Hong Kong section of Guangzhou-Shenzhen-Hong Kong High-speed Railway commenced operation, which further upgraded the passenger transport network in the Great Bay Area and boosted the economic, social and cultural exchange and development within this area. In addition, China's high-speed railway layout was further optimized, as new high-speed rail routes such as Hangzhou-Huangshan High-speed Railway, Harbin-Jiamusi Rapid Railway and Harbin – Mudanjiang High-speed Railway were put into operation. In 2018, one would find rapid expansion of the railway network and multiple high-speed railway routes in operation. These, together with extensive application of new technologies and equipment, have raised higher requirements on standardization, a key strategy for China to build intelligent high-speed railways and obtain more extensive achievements in "Going Global".

Meanwhile, 2018 is also a fruitful year for China's railway construction. As pointed out in the 2019 Work Conference of China Railway Corporation, fixed asset investment on national railways amounted to RMB802.8 billion for the year 2018, with new investment amounting to RMB338.2 billion. Meanwhile, 26 new projects started construction and 4,683 km of new railway lines (including 4,100 km of high-speed railways) commenced operation. The actual investment scale, the new railway lines commencing construction, and the high-speed rail routes put into operation significantly exceeded the plan formulated at the beginning of the year.



# Management Discussion and Analysis


In Central and Western China, the construction of railway continued to strengthen; throughout the year, the railway infrastructure investment in Central and Western China amounted to RMB371.4 billion, which accounted for 66.7% of national railways, with 16 new projects commencing construction. As of the end of 2018, the operational mileage of national railways exceeded 131,000 km, including over 29,000 km of high-speed railways. The positive development environment of the railway industry has brought about enormous business opportunities for the Group. Meanwhile, the construction of rail transit network is speeding up in various cities. First-tier cities continue to extend their urban transit networks, which will grow into intercity railway networks; and second and third-tier cities will construct their urban transit networks step by step, to satisfy the increasing public demand for commuting. Moreover, there will be constant market demand for the Group in terms of repair and maintenance for all railways, as well as upgrade and replacement for old railways. In particular, high-speed, heavy-haul and urban-transit railways will be the main focus for future railway construction. Further driven by the “Belt and Road” initiative, there will 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 focused on two segments, including 1) rail fastening systems; and 2) flux cored wire products. In 2018, the total revenue of the Group amounted to approximately RMB1,111.5 million, representing an increase of approximately 15.1%.

### Rail Fastening System Products

For the year ended 31 December 2018, the revenue from rail fastening system products amounted to approximately RMB927.9 million, representing approximately 83.5% of the Group’s total revenue, and an increase of approximately 16.7% over the revenue of approximately RMB795.2 million from this segment for last year. This was mainly because the major customers requested for larger shipments this year.

# Management Discussion and Analysis

During the Year under Review, cost of sales relating to rail fastening system products increased, mainly attributable to an increase in both sales revenue and price of raw materials, leading to increase in the cost of sales correspondingly. During the Year, the cost of sales relating to rail fastening system products amounted to approximately RMB613.9 million, which represented an increase of approximately 31.4% from approximately RMB467.0 million in 2017.

Owing to cost increases, the gross profit of rail fastening system products decreased from approximately RMB328.2 million in 2017 to approximately RMB314.0 million in 2018; and the gross profit margin declined from approximately 41.3% in 2017 to approximately 33.8% in 2018.

During the year under review, the initial value of agreements signed by the Group for the supply of rail fastening systems amounted to approximately RMB1,145.0 million, representing a decrease of approximately 12.8% when compared to 2017, among which the initial value of agreements signed for high speed rail fastening systems amounted to approximately RMB606.1 million, representing a decrease of approximately 15.1% when compared to 2017; the initial value of agreements signed for heavy haul rail fastening systems amounted to approximately RMB35.4 million; the initial value of agreements signed for urban transit fastening systems amounted to approximately RMB363.5 million; the initial value of agreements signed for traditional rail fastening systems amounted to approximately RMB140.0 million. As of 31 December 2018, the backlog of the Group amounted to approximately RMB1,548.4 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", it is expected that there will be growth in the Group's revenue from sales of rail fastening systems.

### Flux Cored Wire Products

For the year ended 31 December 2018, the revenue from flux cored wire products amounted to approximately RMB169.5 million, representing approximately 15.2% of total revenue of the Group and an increase of approximately RMB4.0 million from approximately RMB165.5 million in 2017. The change in revenue was mainly attributable to the increase in demand due to better performance in the flux cored wire products industry during the Year under Review, and increase in revenue in relation to flux cored wire products due to general increase in unit price of flux cored wire industry.

During the Year under Review, cost of sales from flux cored wire products decreased by approximately 0.5% to approximately RMB154.1 million in 2018 from approximately RMB154.8 million in 2017.

The Group's revenue from flux cored wire 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 revenue of our flux cored wire products in the future.

## PERFORMANCE ANALYSIS AND DISCUSSION

### Revenue

The Group's main business operations comprise the manufacturing and sales of rail fastening system products. The above business has brought sustained and stable revenue to the Group. In 2018, the revenue of the Group increased by approximately 15.1% from approximately RMB965.9 million in 2017 to approximately RMB1,111.5 million, mainly attributable to the increase in revenue from rail fastening system products.

Revenue relating to rail fastening system products increased by approximately 16.7% to approximately RMB927.9 million in 2018 from approximately RMB795.2 million in 2017, mainly because the major customers requested for larger shipments in current year.

Revenue relating to flux cored wire products increased by approximately 2.4% from approximately RMB165.5 million in 2017 to approximately RMB169.5 million in 2018. Changes in revenue of flux cored wire products were primarily resulted from fluctuations in the sales volume and the selling price of such materials. The sales volume and selling price of our flux cored wire products reflected the demand from our main flux cored wire products customers, which were primarily shipbuilding companies and trading companies operating in the shipbuilding industry. The better performance in the flux cored wire products industry in 2018 had led to increase in demand, while there was a general increase in unit price of flux cored wire products industry, leading to increase in revenue in relation to flux cored wire products.

Apart from revenue generated from sales of rail fastening system products and flux cored wire products, 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 24.3% from approximately RMB625.7 million in 2017 to approximately RMB778.0 million in 2018, mainly attributable to the increase in the sales volume of rail fastening products and relevant costs.

Cost of sales relating to rail fastening system products increased by approximately 31.4% from approximately RMB467.0 million in 2017 to approximately RMB613.9 million in 2018, mainly attributable to a substantial increase in the price of steel for the year, leading to an increase in the cost of rail fastening products.

Cost of sales relating to flux cored wire products decreased by approximately 0.5% from approximately RMB154.8 million in 2017 to approximately RMB154.1 million in 2018.

### Gross profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB333.5 million in 2018, representing a decline of approximately 2.0% compared with the gross profit of approximately RMB340.2 million for the corresponding period in 2017, which was mainly attributable to the lower gross profit of rail fastening system products.

Gross profit of rail fastening system products decreased from approximately RMB328.2 million in the corresponding period of 2017 to approximately RMB314.0 million in 2018. Gross profit margin decreased from approximately 41.3% in 2017 to approximately 33.8% in the corresponding period of 2018, which was mainly attributable to the increase in cost of raw materials in 2018.

The gross profit of flux cored wire products increased by approximately 44.2% from approximately RMB10.7 million in 2017 to approximately RMB15.4 million in the corresponding period of 2018. Gross profit margin increased from approximately 6.5% in 2017 to approximately 9.1% in the corresponding period of 2018, which was mainly attributable to the increase in sales volume and unit price of flux cored wire products for the year 2018.

### Selling and distribution expenses

Distribution expenses of the Group increased to approximately RMB54.4 million in 2018 from approximately RMB44.6 million in 2017. For the years ended 31 December 2017 and 2018, selling and distribution expenses as a percentage of total revenue were approximately 4.6% and approximately 4.9%, respectively. The increase in selling and distribution expenses was mainly attributable to the increase in relevant transportation, warehousing expenses and staff benefit costs.

Management Discussion and Analysis

### General and administrative expenses

General and administrative expenses of the Group decreased by approximately 4.8% to approximately RMB62.3 million in 2018 from approximately RMB65.4 million in 2017. For the years ended 31 December 2017 and 2018, general and administrative expenses as a percentage of total revenue were approximately 6.8% and approximately 5.6% respectively, which was mainly due to the provision for impairment on trade receivables.

### Operating profit

Based on the aforesaid reasons, the Group recorded an operating profit of approximately RMB211.3 million in 2018, representing a decrease of approximately 2.3% from an operating profit of approximately RMB216.3 million in the corresponding period of 2017.

### Finance costs

In 2018, the Group incurred total net finance costs of approximately RMB16.6 million, representing a decrease of approximately 18.8% from total net finance costs of approximately RMB20.4 million in the corresponding period of 2017. Of the total amount, finance income increased by approximately 71.7% to approximately RMB1.4 million from approximately RMB0.8 million in 2017. Higher finance income were mainly attributable to the increase in interest income incurred by the higher deposits for the year. Finance costs decreased by approximately 15.3% to approximately RMB18.0 million from approximately RMB21.2 million in 2017, which was mainly attributable to fewer loans.

In 2018, the Group realised foreign exchange gains of approximately RMB3.6 million, which was mainly due to depreciation of RMB against Hong Kong dollar, resulting in an increase in foreign exchange gains incurred as the Group converted the proceeds from the global offering of shares from Hong Kong dollars into Renminbi.

### Profits of an associate

In 2018, the Group's share of profits of an associate was approximately RMB18.4 million, representing an increase of approximately 109.1% from share of profits of approximately RMB8.8 million in the corresponding period in 2017 which was mainly attributable to the increase in profit of the associate incurred by the increase in its revenue.

### Income tax

Income tax expenses of the Group increased by approximately 9.5% to approximately RMB30.9 million in 2018 from approximately RMB28.2 million in 2017, mainly attributable to the increase in taxable income.

The applicable corporate tax rates for the Company were 15% for both 2018 and 2017.

### Net profit

Based on the aforesaid reasons, net profit increased by approximately RMB5.7 million or approximately 3.2% to approximately RMB182.2 million for the year ended 31 December 2018 from approximately RMB176.4 million for the year ended 31 December 2017. Net profit margin decreased to 16.4% for the year ended 31 December 2018 from 18.3% for the year ended 31 December 2017, which was attributable to (i) increase in cost of sales and gross profit margin declines; and (ii) fair value loss on financial assets at fair value through profit or loss.

### Profit attributable to equity holders of the Company

The Group recorded profit attributable to equity holders of the Company of approximately RMB180.2 million in 2018, representing an increase of approximately 2.3% from approximately RMB176.1 million in 2017. Basic earnings per share amounted to approximately RMB0.20 in 2018, remained the same as the basic earnings per share of approximately RMB0.20 in 2017.

### Financial resources and capital structure

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB150.1 million, accounts receivable of approximately RMB1,275.8 million, accounts payable of approximately RMB407.3 million, and outstanding borrowings of approximately RMB124.8 million. As at 31 December 2018, the above cash and cash equivalents in Renminbi included approximately RMB68.4 million equivalents of Hong Kong dollars.

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 Group usually satisfies its daily working capital requirements through self-owned cash and borrowings. In December 2016, the Company completed the listing on the main board of the Hong Kong Stock Exchange and issued a total of 224,460,000 H shares. As at 31 December 2018, the outstanding borrowings of the Group included short-term borrowings and long-term borrowings of approximately RMB94.8 million and approximately RMB30.0 million, respectively. The Group will promptly repay the aforesaid borrowings at maturity.

### Total assets

As at 31 December 2018, the total assets of the Group were approximately RMB2,517.4 million, representing a decrease of approximately RMB40.4 million or approximately 1.6% as compared with that as at 31 December 2017, mainly attributable to (i) repayment of bank borrowings; and (ii) decrease in accounts receivable.

### Total liabilities

As at 31 December 2018, the total liabilities of the Group were approximately RMB619.8 million, representing a decrease of approximately RMB202.0 million or approximately 24.6% as compared with that as at 31 December 2017, mainly attributable to a decrease in bank borrowings.

### Total equity

As at 31 December 2018, the total equity of the Group was RMB1,897 million, representing an increase of approximately RMB161.5 million as compared with that as at 31 December 2017, mainly attributable to increase in net profits and retained earnings of the Group.

### 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 statement of financial position) less cash and bank deposits. Total capital is calculated as total equity as shown in the consolidated statement of financial position plus the aforementioned net debt.

As at 31 December 2018, the Group's gearing ratio was -1%, representing a decrease of 5 percentage points from 4% as at 31 December 2017, mainly attributable to the decrease in bank deposit and borrowings for the period.

### Employee and remuneration policies

As at 31 December 2018, the Group incurred total staff costs of approximately RMB82.2 million for 1,136 employees, representing an increase of approximately RMB11.0 million or approximately 15.4% compared to the same period of 2017, which was mainly attributable to (i) the increase in average salary for employees of the Group; and (ii) the increase in provision base for social insurance and housing provident fund.

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

### Future prospects

In 2019, fixed asset investment on railways is estimated to be around RMB800 billion while the mileage of new railway to be operated is estimated to be 6,800 km, among which the mileage of high-speed railway is 3,200 km. The Group will continue to focus on the rail fastening systems 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" (高速鐵路的八縱八橫) and urban rail transit

# Management Discussion and Analysis

network pursuant to the "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》), the Group will continue to expand its production capacity so as to meet the growing market demand, and shall focus mainly on the high-speed rail fastening systems, while continuing to increase its market share in heavy haul rail fastening systems, urban rail transit fastening systems and traditional rail fastening systems at the same time. The Group shall constantly accumulate our experience in the industry, expand our customer base and reinforce our position in the industry of rail fastening systems. With the continuous advancement of "One Belt and One Road", the Group hopes to promote our advanced experience, technologies and products in relation to high-speed rail fastening systems that meet the PRC standard over the world through carrying on business.

In 2019, the Group will continue to enhance and upgrade the automated production facilities, optimise the production process and the information system and establish an efficient automated production line in order to further reduce costs and enhance efficiency. Moreover, the Group will closely follow up with market trends, firmly seize the market opportunities and actively explore the opportunities of acquiring high quality assets in relation to the rail fastening systems, so as to enhance the core competitiveness and profitability of the Group and reward our shareholders and investors.

## Significant investment held

As at 31 December 2018, the financial assets at fair value through profit or loss held by the Company represented unlisted investment funds (William Financial Holding Merger and Acquisition Fund* (威廉金控併購基金)) amounting to approximately RMB128.8 million with expected interest rate of 8% per annum, which was no longer held by the Company as of the date of this report. There was a revaluation loss of approximately RMB12.4 million for the year ended 31 December 2018. The fair value was assessed by the management based on a valuation performed by an independent valuer engaged by the Group.

The scope of investments of the funds include various financial instruments, such as bonds (including government bonds, financial bonds, company bonds and corporate bonds traded through banks or exchanges), reverse repurchase bonds, bank deposits, sizeable negotiable certificates of deposit, currency market funds and other bank financial products, which have a low risk profile and high liquidity. The funds may also invest in investment products including trust beneficial rights, trust schemes, specified asset income rights (i.e. investment products such as income rights of entrusted loan assets, equity securities and credit assets), asset-backed securities, stakes in limited partnership, collective asset management schemes, targeted asset management schemes, specific asset management schemes launched by subsidiaries of funds and security dealers, private funds and stocks.

Since March 2019, the Company no longer held the William Financial Holdings Merger and Acquisition Fund. Save as disclosed above, there was no significant investment held by the Group for the year ended 31 December 2018.

* For identification purposes only

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Zhang Haijun (張海軍)**, aged 66, is the founder of the Company, executive Director and chairman of our Group who is responsible for the overall business development strategies of our Group. He is the chairman of Strategy Committee. 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 and was responsible for overall business and factory management. 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 46, is the executive Director of the Company and general manager of our Group who is responsible for the overall day-to-day marketing, sales and operational management of our Group. He is a member of Corporate Governance Committee and Strategy Committee. 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 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, 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 and was responsible for operational and financial management. From March 1996 to March 2001, he had been employed with Gaocheng City Railway Works

## Biographical Details of Directors, Supervisors and Senior Management

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 general manager in July 2015 with responsibilities for the overall business and operational management of our Company.

**Mr. Wu Jinyu** (**吳金玉**), aged 49, is the executive Director of the Company and chief financial officer of our Group who is responsible for the overall day-to-day financial management of our Group. He is a member of Remuneration Committee. 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 in the PRC with a diploma in accounting in July 1999. He then graduated from Hebei Province Chinese Accounting Correspondence 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. and was responsible for handling accounting matters. He had served as the head of finance of our Company responsible for the overall financial management and reporting matters since April 2001 and was appointed as the chief financial officer in January 2012.

**Mr. Zhang Chao** (**張超**), aged 33, is the executive Director of the Company, 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 36, is the executive Director of the Company 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 Yichen 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 65, is the executive Director of the Company who is responsible for the overall day-to-day management of the chairman's office and capital operations of our Group. She is a member of Nomination Committee. 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 Correspondence 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 49, is the independent non-executive Director of the Company, the chairman of Audit Committee and Corporate Governance Committee and a member of Remuneration Committee. 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 several 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 update 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 of 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 GEM of the Stock Exchange.

# Biographical Details of Directors, Supervisors and Senior Management

**Mr. Wang Qi** (**王琦**), aged 45, is the independent non-executive Director of the Company, the chairman of Nomination Committee and a member of Audit Committee and Corporate Governance Committee. 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) in 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 design institute, head of Shijiazhuang branch institute and vice president of the rail transit institute (軌道交通院) 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.

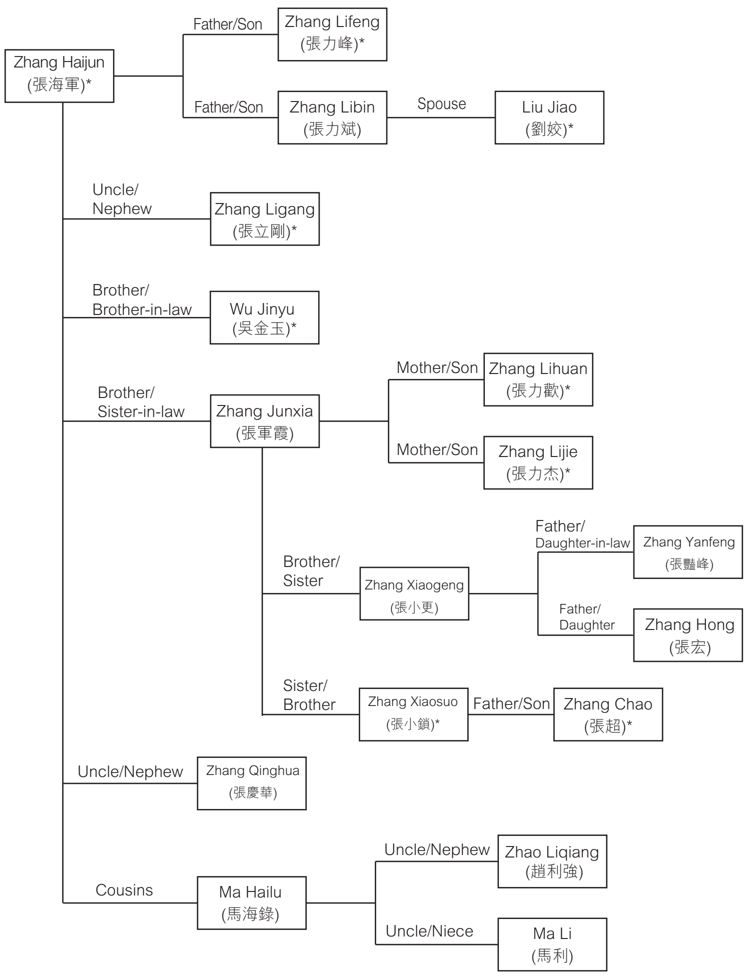
**Mr. Zhang Liguo** (**張立國**), aged 61, is the independent non-executive Director of the Company, the chairman of Remuneration Committee, a member of Audit Committee, Nomination Committee and Strategy Committee. Mr. Zhang was appointed as an independent non-executive Director on 30 November 2015. He 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)) in 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.

Since December 2017, Mr. Zhang has been the independent director of Zhejiang Tiantie Industry Co., Ltd. (浙江天鐵實業股份有限公司) (shares of which are listed on the ChiNext of the Shenzhen Stock Exchange, stock code: 300587). Since April 2018, Mr. Zhang has been the deputy chief engineer of CCCC Railway Consultants Group Co., Ltd (中交鐵道設計研究總院有限公司).

## FAMILY RELATIONSHIP AMONG MEMBERS OF THE BOARD

As at the date of the annual report, the family relationship among the members of the Board together 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 58, is the Supervisor and chairman of the Supervisory Board of the Company 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 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 with overall production management. He has served as our Supervisor since the establishment of our Company.

Biographical Details of Directors, Supervisors and Senior Management

**Ms. Liu Jiao** (劉姣), aged 31, is the Company's 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 of arts in Italian language in June 2011.

**Mr. Hu Hebin** (胡合斌), aged 42, is a Supervisor of the Company. Mr. Hu was elected at the staff representative meeting of the Company held on 15 November 2018. He served as the supervisor of the Company on 6 December 2018. Since January 2008, he has been serving as the chief engineer of the welding material department of the Group, responsible for the research and development, advancements in production method and quality control of flux cored wire products. He graduated from China University of Mining and Technology (中國礦業大學) with a bachelor's degree in materials science and engineering in July 1999 and received accreditation as a senior metallurgical engineer on 22 April 2013.

From August 1999 to July 2002, he was a quality controller of Zibo Feile Welding Company Limited* (淄博飛樂焊業有限公司), responsible for the quality control of flux cored wire products and participating in the research and development of new products.

From August 2002 to July 2004, he was the deputy head of the technical department of Qingdao Yizhong Welding Company Limited* (青島頤中焊業有限公司), responsible for the product research and development and quality control of flux cored wire.

From August 2004 to October 2006, he was the chief engineer of Hebei Yichen New Welding Materials Company Limited* (河北翼辰新型焊接材料有限公司), responsible for the research and development, advancements in production method and quality control of flux cored wire products.

From November 2006 to December 2007, he was the chief engineer of Ningbo Haobang Welding Company Limited* (寧波昊邦焊業有限公司), responsible for the product research and development, formulation of production process and quality control of flux cored wire products.

Mr. Hu has served as the chief engineer of the welding material department of the Group since January 2008, mainly responsible for the research and development, advancements in production method and quality control in respect of flux cored wire products during his term of service.

## SENIOR MANAGEMENT

**Mr. Zhang Fengxuan** (張風選), aged 65, is the Company's 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 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 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 appointed as our deputy general manager since January 2012.

**Mr. Zhang Lifeng** (張力峰), aged 38, is the Company's 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 in the PRC in July 2015.

**Mr. Zhang Lijie** (張力杰), aged 39, is the Company's 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 promoted to our deputy general manager since January 2012.

**Mr. He Jinxiang** (**和金祥**), aged 59, is the Company's chief engineer who is responsible for the overall day-to-day management of product quality control and technology projects of our Group. Mr. He is a qualified engineer in the PRC. He graduated from Taiyuan Heavy Machinery Institute (太原重型機械學院) (currently known as Taiyuan University of Science and Technology (太原科技大學)) in the PRC with a bachelor's degree in machinery specializing in casting technology and equipments in August 1983.

From July 1983 to December 2001, Mr. He had been a casting engineer and chief engineer of Xuanhua Mining Machinery Factory and Foundry* (宣化採掘機械廠及鑄造分廠), which was principally engaged in casting of metal, and was responsible for casting techniques and quality control. From January 2002 to August 2006, he had been the chief engineer of Beijing Shougang Jingshun Rolling Co., Ltd., Xuanhua Branch Factory* (北京首鋼京順軋輥有限公司宣化分廠), which was principally engaged in rolling of steel, and was responsible for casting techniques and quality control. He joined our Group as an engineer of our foundry division in September 2006 and was promoted to be the chief engineer in January 2010.

# REPORT OF THE BOARD OF DIRECTORS

## PRINCIPAL BUSINESS

For the year ended 31 December 2018, 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 2018, 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 RMB0.50 each. Details of movements of the Company's share capital during the year 2018 are set out in Note 34 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 2018.

## DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2018.

## 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 2018.

## 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 operation and development are under certain influence of individual 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 caused further expansion in production capacity of both Sino-foreign equity 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 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 adversely affected if competing rail fastening systems, domestic or foreign, gain a competitive advantage. The Company shall actively respond to the market challenges and utilise its advantages with quality products and professional services for markets and customers, and hence further consolidating and enhancing its industry position.

2. **Progress of Railway Construction Projects and Timing of Final Inspection and Acceptance of the Relevant Railway Construction Projects**

   Revenue from our rail fastening system products are recognised when our customers have completed inspection and accepted the products and recovery 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 them. 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) until the completion of their rail construction projects. 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 utilise 10% of the proceeds as deposits for project bids. Moreover, the Company will actively catch on the progress of railway construction projects and adjust its delivery arrangement based on such progress so to minimise any loss arising from delay of construction.

3. **Exchange Rate Risk**

   The Group's operation is concentrated in mainland China, and substantially all of its revenues and expenditures are denominated in Renminbi. A small portion of our revenues are generated outside China. Therefore, any fluctuation of exchange rate between Renminbi and any foreign currency would not affect our business. However, the fund raised by the Group from H Shares is denominated in Hong Kong dollars. The fluctuation of Renminbi 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 exposure to foreign exchange. 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, practises equal employment opportunities and prohibits any occupational discrimination. The Group reviews its remuneration policies of employees on a regular basis and awards bonuses and commission to employees based on their annual performance evaluation. Efforts have also been made to help employees in the aspects of housing, transportation and safety and health, 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 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 2018, a discussion about the Group's future business development and an analysis of the Group's performance using key financial 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 2018 are set out in Note 39 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 are the factor determining the Group's success, are included in the chapters and 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 a part of the "Business Review" as contained in the "Report of the Board of Directors".

For the financial year ended 31 December 2018, 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.

### Future Prospects

In 2019, fixed asset investment on railways is estimated to be around RMB800 billion while the mileage of new railway to be operated is estimated to be 6,800 km, among which the mileage of high-speed railway is 3,200 km. The Group will continue to focus on the rail fastening systems 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" (高速鐵路的八縱八橫) and urban rail transit network pursuant to the "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》), the Group will continue to expand its production capacity so as to meet the growing market demand, and shall focus mainly on the high-speed rail fastening systems, while continuing to increase its market share in heavy haul rail fastening systems, urban rail transit fastening systems and traditional rail fastening systems at the same time. The Group shall constantly accumulate our experience in the industry, expand our customer base and reinforce our position in the industry of rail fastening systems. With the continuous advancement of "One Belt and One Road", the Group hopes to promote our advanced experience, technologies and products in relation to high-speed rail fastening systems that meet the PRC standard over the world through carrying on business.

In 2019, the Group will continue to enhance and upgrade the automated production facilities, optimise the production process and the information system and establish an efficient automated production line in order to further reduce costs and enhance efficiency. Moreover, the Group will closely follow up with market trends, firmly seize the market opportunities and actively explore the opportunities of acquiring high quality assets in relation to the rail fastening systems, so as to enhance the core competitiveness and profitability of the Group and reward our shareholders and investors.

## ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") will be held on Monday, 29 July 2019. Shareholders may refer to the notice, reply slip and form of proxy of the AGM to be despatched by the Company for details regarding the AGM.

Particulars of important events affecting the Group that have occurred since the financial year ended 31 December 2018 are set out in Note 39 to the consolidated financial statements in this annual report.

## FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of RMB0.078 (tax inclusive) per Share for the year ended 31 December 2018 (the "2018 Final Dividend") with an aggregate net amount of RMB70,031,520 to the shareholders of the Company whose names are listed on the Company's register of members as at 11 August 2019, subject to approval by the Shareholders at the forthcoming AGM to be held on 29 July 2019. Once the relevant resolution is passed in the AGM, the 2018 Final Dividend is expected to be paid on or around 20 September 2019.

## DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review the dividend policy of the Company from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

## 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 laws and relevant requirements under taxation regulatory institutions of the PRC, the Company is required to withhold 10% enterprise income tax when it distributes the 2018 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 Sunday, 11 August 2019.

Pursuant to the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Exchanges Connectivity Mechanism" (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2014]81號)) (the "Shanghai-Hong Kong Stock Connect Tax Policy") jointly issued by the Ministry of Finance of the PRC, the State Taxation Administration 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 2018 final dividend pursuant to the register of members of domestic corporate investors as holders of H Shares of the Company as at Sunday, 11 August 2019 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税法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得税法實施條例》), the Tentative Measures on Withholding and Payment of Individual Income Tax (《個人所得税代扣代繳暫行辦法》), the Shanghai-Hong Kong Stock Connect Tax Policy (《滬港通税收政策》) 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 H Share register of members 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, it is subject to the individual income tax based on the same requirements in respect of such domestic individual investors.

As such, when distributing the 2018 final dividend pursuant to the register of members of domestic individual investors (including domestic securities investment funds) as holders of H Shares of the Company as at Sunday, 11 August 2019 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號檔廢止後有關個人所得稅徵管問題的通知》) issued by the State Taxation Administration 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 shall identify the residential status of Individual H Shareholders according to their registered addresses on the H Share register of members of the Company on Sunday, 11 August 2019 (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 residents of other 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 who are residents of 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 for 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 who are residents of 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 who are residents of 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 final excess amount of tax withheld and paid, the Individual Shareholder shall notify and provide relevant supporting documents to the Company on or before Monday, 5 August 2019. 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 and payment provisions and arrangements. Individual H Shareholders may either personally or appoint a representative to attend to the procedures in accordance with the relevant requirements under the "Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties" (Guo Shui Fa [2015] No. 60) (《非居民納稅人享受稅收協定待遇管理辦法》(國稅發[2015]60號)) if they fail to provide the relevant supporting documents to the Company before the time limit stated above.

Shareholders are recommended to consult their tax advisers regarding the 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, 29 July 2019, the register of members of the Company will be closed from Friday, 28 June 2019 to Monday, 29 July 2019, 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, 29 July 2019 are entitled to attend and vote at this AGM. Holders of H Shares of the Company intended to attend and vote at this AGM shall lodge all Share transfer documents together with the relevant H Share certificates 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 Thursday, 27 June 2019 (Hong Kong time) for registration.

In order to determine the list of Shareholders who are entitled to the 2018 final dividend, the register of members of the Company will be closed from Tuesday, 6 August 2019 to Sunday, 11 August 2019, 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 Sunday, 11 August 2019 are entitled to the 2018 final dividend. Holders of H Shares of the Company intended to receive the 2018 final dividend shall lodge all Share transfer documents together with the relevant H Share certificates with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 5 August 2019 (Hong Kong time) for registration.

## PRE-EMPTIVE RIGHTS

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

## NON-COMPETE UNDERTAKING

The Controlling Shareholders of the Company have given the irrevocable non-compete undertaking (as defined in the prospectus of the Company dated 9 December 2016) in favour of the Company (the "Non-compete Undertaking"). Each of the Controlling Shareholders has hereby confirmed and declared that, during the financial year ended 31 December 2018, he/she had 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 2018, the sales revenue from our five largest customers and the largest customer represented 39% and 11% of the Group's sales revenue, respectively.

During such period, the procurement expenses to our five largest suppliers and the largest supplier represented 41% and 14% of the Group's total procurement expenses, respectively.

To the knowledge of the Directors, none of the Directors of the Company, any of their close associates, or any shareholders (who, to the 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 five largest suppliers.

### Use of Proceeds from the Initial Public Offering of the Company's Shares

The net proceeds from the initial public offering of the H Shares of the Company amounted to approximately RMB579.8 million. As at 31 December 2018, the net proceeds had been utilised according to the designated uses set out in the prospectus of the Company dated 9 December 2016 as follows:

| **Designated uses of net proceeds** | **% of net proceeds allocated** | **Allocated amount** | **Utilised as at 31 December 2018** | **Unutilised as at 31 December 2018** |
|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Expansion of production capacity and fixed asset investments | 31.00% | 179,732 | 179,674 | 58 |
| Domestic and overseas acquisitions | 15.00% | 86,967 | – | 86,967 |
| Purchase of raw materials | 15.00% | 86,967 | 86,532 | 435 |
| R&D and testing of new products | 15.00% | 86,967 | 86,835 | 132 |
| 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 | 13,727 | 9,464 |
| Total | 100.00% | 579,780 | 482,724 | 97,056 |

## PROGRESS OF PROJECTS

As at 31 December 2018, the construction of production workshop in our new production facilities and warehouse has been completed. The estimated time of commencement of operation would be in September 2020. The construction of main structures of our new office building has been completed, and the estimated time of commencement of operation would be in September 2020.

## BANK BORROWINGS AND OTHER BORROWINGS

Details of the bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2018 are set out in Note 29 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had distributable reserves denominated in Renminbi of approximately RMB906.02 million. The reserves were calculated according to the PRC laws and regulations and the IFRSs.

## CHARITABLE DONATION

For the charitable donation made by the Group during the year ended 31 December 2018, please refer to the section headed “B8. Community Investment” in the “Environmental, Social and Governance Report” for details.

## 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 16 to the consolidated financial statements.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the year ended 31 December 2018, details of Directors, Supervisors and senior management of the Company 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/her 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 DIRECTORS AND SUPERVISORS

The Company has entered into a service contract or letter of appointment with each of our Directors, pursuant to which they agreed to act as Directors for a term commencing from 6 December 2018 and expiring on 5 December 2021 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 relevant provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

The Company has entered into a service contract with each of our Supervisors, pursuant to which they agreed to act as Supervisors for a term commencing on 6 December 2018 and expiring on 5 December 2021 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.

The Company has entered into a contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association of the Company and provision on arbitration with each of the Directors and Supervisors. Save as disclosed above, none of the Directors 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 2018 are set forth in Note 11(a) to the 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 distribution of remuneration of senior managements (other than Directors and Supervisors as disclosed in Note 38(a) to the consolidated financial statements) for the year ended 31 December 2018 is as follows:

| Remuneration bands | Number of individual |
|---|---|
| RMB100,001 to RMB200,000 | 2 |
| RMB200,001 to RMB300,000 | 2 |

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Apart from as disclosed under the section headed 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, either directly or indirectly, 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 2018, no 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 had any other conflict of interests with the Group.

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

As at 31 December 2018, so far as known to the Directors of the Company, the interests 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 are required 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 are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which are 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 Positions in the Domestic Shares of the Company:

| | | Number of Shares | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Capacity | Personal interest | Spouse interest | Deemed interest pursuant to Section 317 of the SFO (Note 1) | Total number | Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2) | Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3) |
| Mr. Zhang Haijun (張海軍) | Director | 130,008,992 | N/A | 457,543,782 | 587,552,774 | 87.25 | 65.44 |
| Mr. Zhang Ligang (張立剛) | Director | 27,034,580 | N/A | 560,518,194 | 587,552,774 | 87.25 | 65.44 |
| Mr. Wu Jinyu (吳金玉) | Director | 28,946,782 | N/A | 558,605,992 | 587,552,774 | 87.25 | 65.44 |
| Mr. Zhang Chao (張超) | Director | 18,726,392 | N/A | 568,826,382 | 587,552,774 | 87.25 | 65.44 |
| Mr. Zhang Lihuan (張力歡) | Director | 17,143,880 | N/A | 570,408,894 | 587,552,774 | 87.25 | 65.44 |
| Ms. Fan Xiulan (樊秀蘭) | Director | 923,132 | N/A | N/A | 923,132 | 0.14 | 0.10 |
| Mr. Zhang Xiaosuo (張小鎖) | Supervisor | 85,257,834 | N/A | 502,294,940 | 587,552,774 | 87.25 | 65.44 |
| Ms. Liu Jiao (劉姣) (Note 4) | Supervisor | N/A | 587,552,774 | N/A | 587,552,774 | 87.25 | 65.44 |

Notes:

(1) The relevant parties are members of the Controlling Shareholders Group. On 12 January 2018, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following the completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group together controlled approximately 65.44% 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 other members of the Controlling Shareholders Group.

(2) Based on the total number of 673,380,000 Domestic Shares in issue.

(3) 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 2018, none of the Directors, Supervisors or chief executives of the Company had an interest and short position in the Shares, underlying shares or debentures of the Company or 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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be 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 2018, 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 | Approximate percentage of shareholding in the relevant class of Shares (%) (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 | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhang Junxia (張軍霞) (Note 1) | Domestic Shares | Beneficial owner | 85,455,648 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 502,097,126 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhang Xiaoxia (張小霞) (Note 5) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Xiaogeng (張小更) (Note 1) | Domestic Shares | Beneficial owner | 85,060,020 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 502,492,754 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Ms. Sun Shujing (孫書京) (Note 6) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhang Xiaoxia (張曉霞) (Note 7) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhai Junping (翟軍平) (Note 8) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhang Weihuan (張偉環) (Note 9) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Lijie (張力杰) (Note 1) | Domestic Shares | Beneficial owner | 18,726,392 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 568,826,382 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Ms. Liu Lixia (劉麗霞) (Note 10) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Lifeng (張力峰) (Note 1) | Domestic Shares | Beneficial owner | 18,726,392 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 568,826,382 | | |
| | | | 587,552,774 | 87.25% | 65.44% |

## Report of the Board of Directors

| Name | Class of Shares | Capacity/ Nature of interest | Number of Shares | Approximate percentage of shareholding in the relevant class of Shares (%) (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 | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhang Yanfeng (張艷峰) (Note 1) | Domestic Shares | Beneficial owner | 18,726,392 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 568,826,382 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Weiwei (張偉衛) (Note 12) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Libin (張力斌) (Note 1) | Domestic Shares | Beneficial owner | 17,143,880 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 570,408,894 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Ms. Yin Yanping (尹彥萍) (Note 13) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Ning (張寧) (Note 1) | Domestic Shares | Beneficial owner | 17,143,880 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 570,408,894 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Ms. Huang Li (黃麗) (Note 14) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Ms. Zhang Hong (張宏) (Note 1) | Domestic Shares | Beneficial owner | 17,143,880 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 570,408,894 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Mr. Liu Chaohui (劉朝輝) (Note 15) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. Zhang Ruiqiu (張瑞秋) (Note 1) | Domestic Shares | Beneficial owner | 2,307,830 | | |
| | | Deemed interest pursuant to Section 317 of the SFO | 585,244,944 | | |
| | | | 587,552,774 | 87.25% | 65.44% |
| Ms. Gao Xiangrong (高香榮) (Note 16) | Domestic Shares | Interest of spouse | 587,552,774 | 87.25% | 65.44% |
| Mr. 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% |

| Name | Class of Shares | Capacity/ Nature of interest | Number of Shares | Approximate percentage of shareholding in the relevant class of Shares (%) (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% |
| North Ocean (Hong Kong) Holdings Ltd. | H Shares | Beneficial owner | 16,666,000 | 7.42% | 1.86% |
| Hebei Publishing and 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 (HONGKONG) 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 12 January 2018, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following the completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group together controlled approximately 65.44% 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) Based on the total number of 673,380,000 Domestic Shares in issue or 224,460,000 H Shares in issue.

(3) Based on the total number of 897,840,000 Shares in issue.

(4) Ms. Zhou Qiuju is the spouse of Mr. Zhang Haijun. Under the SFO, Ms. Zhou Qiuju 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. 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 is interested.

(6) Ms. Sun Shujing is the spouse of Mr. Zhang Xiaogeng. Under the SFO, Ms. Sun Shujing is deemed to be interested in the same number of Shares in which Mr. Zhang Xiaogeng is interested.

# Report of the Board of Directors

(7) Ms. Zhang Xiaoxia (張曉霞) is the spouse of Mr. Wu Jinyu. 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 is interested.

(8) Ms. Zhai Junping is the spouse of Mr. Zhang Ligang. Under the SFO, Ms. Zhai Junping is deemed to be interested in the same number of Shares in which Mr. Zhang Ligang is interested.

(9) Ms. Zhang Weihuan is the spouse of Mr. Zhang Chao. Under the SFO, Ms. Zhang Weihuan is deemed to be interested in the same number of Shares in which Mr. Zhang Chao is interested.

(10) Ms. Liu Lixia is the spouse of Mr. Zhang Lijie. Under the SFO, Ms. Liu Lixia is deemed to be interested in the same number of Shares in which Mr. Zhang Lijie is interested.

(11) Ms. Yang Yunjuan is the spouse of Mr. Zhang Lifeng. Under the SFO, Ms. Yang Yunjuan is deemed to be interested in the same number of Shares in which Mr. Zhang Lifeng is interested.

(12) Mr. Zhang Weiwei is the spouse of Ms. Zhang Yanfeng. Under the SFO, Mr. Zhang Weiwei is deemed to be interested in the same number of Shares in which Ms. Zhang Yanfeng is interested.

(13) Ms. Yin Yanping is the spouse of Mr. Zhang Lihuan. Under the SFO, Ms. Yin Yanping is deemed to be interested in the same number of Shares in which Mr. Zhang Lihuan is interested.

(14) Ms. Huang Li is the spouse of Mr. Zhang Ning. Under the SFO, Ms. Huang Li is deemed to be interested in the same number of Shares in which Mr. Zhang Ning is interested.

(15) Mr. Liu Chaohui is the spouse of Ms. Zhang Hong. Under the SFO, Mr. Liu Chaohui is deemed to be interested in the same number of Shares in which Ms. Zhang Hong is interested.

(16) Ms. Gao Xiangrong is the spouse of Mr. Zhang Ruiqiu. Under the SFO, Ms. Gao Xiangrong is deemed to be interested in the same number of Shares in which Mr. Zhang Ruiqiu 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.; and 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; and 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.

(19) Hebei Publishing and Media Group Co., Ltd. controls 70% equity interest of North Ocean (Hong Kong) Holding Ltd.; while Hebei Publishing and 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 and 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 the 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 2018, no person (other than a Director, Supervisor and chief executive of the Company, whose interests are set out in the section headed "Interests and Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares and Debentures" above), had registered any interest or short position in the Shares and underlying shares of the Company which are 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.

## INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of this report, the Company had bought effective Director insurance for current Directors, Supervisors and senior management.

## RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the reporting period, no right to subscribe the Shares 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 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

## MANAGEMENT CONTRACTS

The Company did not enter into or establish any management and administrative contracts relating to all or any material part of business with any individual in 2018.

## SIGNIFICANT CONTRACTS

Apart from as disclosed under the section headed "Continuing Connected Transactions" in this report, neither the Company nor any of its subsidiaries has signed significant contracts with the Controlling Shareholder or (if the Controlling Shareholder is a company) any 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 of its subsidiaries other than the Group.

## CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the continuing connected transactions of the Company were as follows:

| | **For the year ended 31 December 2018** | |
|---|---|---|
| | **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 | 708 | 708 |
| Procurement of comprehensive services from Longji | 2,110 | 2,640 |
| Purchase of steel beams (型鋼) from Longji | – | 1,580 |
| Procurement of processing services for the manufacturing of steel billets (鋼坯) from Longji | 6,090 | 6,180 |
| Total | 9,268 | 11,468 |

# Report of the Board of Directors

The details of the continuing connected transactions regarding the procurement of processing services by the Company in 2018 are disclosed as follows:

(1) Date of transaction: August 2018

(2) Description of parties to the transaction and their connected relationship: 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, the spouse of Mr. Zhang Haijun, an Executive Director and one of the Controlling Shareholders; (ii) 20% by Ms. Zhang Junxia, one of the Controlling Shareholders; (iii) 20% by Ms. Sun Shujing, the spouse of Mr. Zhang Xiaogeng, one of the Controlling Shareholders; and (iv) 20% by Ms. Zhang Xiaoxia (張小霞), the spouse of Mr. Zhang Xiaosuo, 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 (張小霞) and Ms. Liu Jiao (as daughter-in-law of Mr. Zhang Haijun and one of the Supervisors) is the director 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 28 August 2018, 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 favourable 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 Agreements commenced from 1 August 2018 and will expire on 31 December 2020 unless terminated earlier by our Company with three months' written notice to Longji.

and

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

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

### 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, as far as the Group is concerned, on terms no less favourable than the terms accepted or provided by independent third parties; and

(3) in accordance with the agreed terms of agreement related to the transactions, which 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 the "Assurance Engagements other than Audits or Reviews of Historical Financial Information" of Hong Kong Standard on Assurance Engagements 3000 (Revised) issued by the HKICPA and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The Board hereby confirmed that, the auditors have issued their letter containing their findings and conclusions in respect of the abovementioned continuing connected 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 conducted, 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 the 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 2018. In respect of all connected transactions and continuing connected transactions of the Group (including those set out in Note 35 to the consolidated financial statements 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

On 8 March 2019, the Board of the Company approved the proposal of acquiring 87.5% equity interest in Xingtai Juneng Railway Electrical Equipment Co. LTD (邢臺炬能鐵路電氣器材有限公司 (hereinafter referred to as "Xingtai Juneng")), a company incorporated in PRC engaged in the production and sales of railway sleepers. Pursuant to the equity transfer agreement entered on 9 March 2019 with a third party, the Group agreed to acquire from the third party 87.5% equity interest in Xingtai Juneng.

## COMPLIANCE WITH THE CG 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. For the year ended 31 December 2018 and up 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 section of Corporate Governance Report.

## MAJOR LEGAL PROCEEDINGS

As of 31 December 2018, 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 sanctions 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 sanctions 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 2018, the Group had sold flux cored wire to customers in four sanctioned countries, namely Russia, Egypt, Kuwait and Ukraine, amounting to approximately 0.58% of the total revenue of the Group for the year. Before the aforementioned sales were made, the ITAC had assessed the relevant sanctions risks, 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) based on the internal control procedures. The ITAC had checked the customers' names against various lists of restricted parties and countries maintained by the European Union, the United States of America, Australia or the United Nations to ascertain 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 and any other funds raised through the Stock Exchange by the Company, so as 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 or any sanctioned persons which are prohibited under international sanctions laws and regulations.

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, HKSCC or HKSCC Nominees Limited would not be subject to any risks or become a target of sanctions laws of the European Union, the United States of America, Australia or the United Nations as a result of such activities. Therefore, in order to maintain revenue and to maximise the Shareholders' interests, the Group will continue to legally carry out the above business activities in the sanctioned countries in accordance with the applicable international sanctions laws and regulations.

## AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Group's annual results and the consolidated financial statements for the year ended 31 December 2018 prepared in accordance with the IFRSs.

## CHANGES IN THE INFORMATION OF DIRECTORS AND SUPERVISORS

The changes in the information of Directors and Supervisors as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

1. Since December 2017, Mr. Zhang Liguo has been the independent director of Zhejiang Tiantie Industry Co., Ltd. (shares of which are listed on the ChiNext of the Shenzhen Stock Exchange, stock code: 300587), and since April 2018, he has been the deputy chief engineer of CCCC Railway Consultants Group Co., Ltd.

2. Since October 2014, Mr. Wang Qi has been the vice president of the rail transit institute of Shijiazhuang branch of Beijing Urban Construction Design & Development Group Co., Limited (stock code: 1599).

3. Mr. Hu Hebin was elected and served as the Supervisor of the Company on 6 December 2018 at the staff representative meeting of the Company held on 15 November 2018.

Except as disclosed above, during the period under review and up to the date of this report, there were no other changes in the information of Directors that were required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## AUDITORS

PricewaterhouseCoopers ("PwC") was reappointed as the auditor of the Company at the annual general meeting of the Company held on 21 May 2018, to hold office until the conclusion of the next annual general meeting of the Company, i.e. the AGM. Subsequently, PwC tendered its resignation as the auditor of the Company on 26 April 2019. On 8 May 2019, the Company appointed Confucius International CPA Limited (天健國際會計師事務所有限公司) ("Confucius") as its auditor to fill the vacancy arising from the resignation of PwC and audit the consolidated financial statements for the year ended 31 December 2018 prepared in accordance with the IFRS, and it shall hold office until the conclusion of the next annual general meeting of the Company.

The Board has resolved to nominate Pan-China Certified Public Accountant LLP (天健會計師事務所(特殊普通合夥)) ("PCCPA") as the candidate for the auditor position for election at the AGM. PCCPA is one of the largest and reputable domestic accounting firms in the PRC which has been approved by the MOF and the CSRC that is eligible to act as a reporting accountant and/or an auditor for PRC-incorporated companies listed in Hong Kong and is qualified to audit the accounts of the Company under CASBE. Subject to approval by the Shareholders, PCCPA shall hold office as the auditor of the Company from the conclusion of the AGM until the conclusion of the next annual general meeting of the Company.

## FINANCIAL SUMMARY

The summary of operating results, assets and liabilities of the Group for the year ended 31 December 2018 is set out on page 4 of this annual report.

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

6 June 2019

# REPORT OF SUPERVISORY BOARD

In 2018, 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 of the Company in strict accordance with laws such as the PRC Company Law (《中華人民共和國公司法》), regulations, rules, the Article of Associations, Rules of Procedure for Meetings of the Supervisory Board of Hebei Yichen Industrial Group Corporation Limited (《河北翼辰實業集團股份有限公司監事會議事規則》), and the relevant regulations of the Listing Rules of the Hong Kong Stock Exchange. Following is a report of the principal work during the reporting period:

## I. SUPERVISORY BOARD MEETINGS

1. "Resolution on the Consideration of the 'Draft of Annual Report and Draft of Annual Results Announcement for the Year 2017'" (《關於審議《2017年全年業績公告草稿及年報》的草稿》), "Resolution on the Consideration of the 'Connected Transactions for the Year 2017'" (《關於審議《2017年全年度的關連交易情況》的議案》) and "Resolution on the Consideration of the 'Profit Distribution for the Year 2017'" (《關於《2017年度利潤分配》的議案》) were deliberated and approved by the annual meeting of Supervisory Board in 2018 convened on 15 March 2018.

2. "Resolution on the Consideration of the 'Re-election of Supervisory Board and Nomination of Candidates for the Non-staff Representative Supervisor of the Second Session of the Supervisory Board of Hebei Yichen Industrial Group Corporation Limited'" (關於審議《關於河北翼辰實業集團股份有限公司監事會換屆選舉暨提名第二屆監事會非職工代表監事候選人的議案》) was deliberated and approved by the second meeting of Supervisory Board in 2018 convened on 20 September 2018.

3. "Resolution on the Consideration of the 'Election of Zhang Xiaosuo as Chairman of the Second Session of the Supervisory Board'" (關於審議《關於選舉張小鎖為第二屆監事會主席的議案》) was deliberated and approved by the first meeting of the second session of the Supervisory Board in 2018 convened on 6 December 2018.

   All the Supervisors had taken part in the above meetings.

## II. INDEPENDENT OPINIONS OF THE SUPERVISORY BOARD

The Supervisory Board expressed the following opinions on the supervision and inspection during the year:

### 1. Legal Operation of the Company

During the reporting period, the Supervisory Board attended all Board meetings and general meetings. The Supervisory Board also supervised and inspected the procedures for convening the Company's Board and general meetings and resolutions thereof, the Board's execution of resolutions made at general meetings, the performance of duties by senior management of the Company, the implementation of various management policies of the Company, and the Company's production and operational conditions. It believes that the Company has operated in compliance with required standards, made lawful and rational decisions, had a comprehensive corporate governance structure, and established a better internal control mechanism. Directors and senior management of the Company performed their duties with responsibility, integrity and diligence, and strictly executed the various resolutions and authorisations of the general meetings. The Supervisory Board did not find any act that was illegal or non-compliant with laws, regulations or the Article of Associations or damaged the interests of the Company or Shareholders.

2. **Financial Position of the Company**
The Supervisory Board carefully considered resolutions regarding the Company's periodic financial report and financial policies during the reporting period. It believes that the Company's financial internal control system was complete and is continuously being improved. The Supervisory Board believes all systems were strictly implemented and effectively guaranteed the successful functioning of the Company's production and operation. During 2018, the Company's financial position was sound with standardised financial management. The consolidated financial statements completely, objectively and truthfully reflected the Company's financial position and operational performance. The 2018 annual audit report with unqualified opinion issued by the Auditor was true and fair.

3. **Connected Transactions of the Company**
During the reporting period, the pricing principles of the connected transactions were in accordance with common business practices and the relevant requirements of policies, demonstrating the principles of fairness and equality. The Supervisory Board believes that, during the year 2018, there was no act damaging the interests of the Company or its shareholders, especially the minority interests, as a result of insider dealings.

4. **Internal Control System and Internal Control Management Structure**
The Supervisory Board considers the internal control system and internal control management structure as complete and continuously improving. Each system was executed strictly, thereby ensuring the smooth progress of the Company's production and operation activities.

5. **Execution of the Resolutions Passed at the General Meeting**
The Supervisory Board attended the general meeting for the year to review and supervise the resolutions at the general meeting. The Supervisory Board considers that the Board had effectively executed the resolutions of the general meeting.

**Zhang Xiaosuo**
*Chairman of the Supervisory Board*
Shijiazhuang

6 June 2019

# 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 (the "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 2018, the Company has complied with all the code provisions as set out in the CG Code.

## 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 and the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2018.

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 19 of this Annual Report.

### Board Meetings and Directors' Attendance Records

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

Apart from regular Board meetings, the Chairman is also required to hold meetings with 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 17 December 2018.

During the year ended 31 December 2018, the Board held six meetings and the Directors' attendance records are as follows:

| Name of Directors | Attendance |
|---|---|
| Mr. Zhang Haijun (Chairman) | 6/6 |
| Mr. Zhang Ligang | 6/6 |
| Mr. Wu Jinyu | 6/6 |
| Mr. Zhang Chao | 6/6 |
| Mr. Zhang Lihuan | 6/6 |
| Ms. Fan Xiulan | 6/6 |
| Mr. Jip Ki Chi | 6/6 |
| Mr. Wang Qi | 6/6 |
| Mr. Zhang Liguo | 6/6 |

### 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 2018, 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 his/her 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

Pursuant to Article 10.2 of 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.

The term of office of the First Session of the Board of Directors was expired on 17 November 2018.

In accordance with Article 10.3 of the Articles of Association, after expiration of its term of office, the First Session of the Board of Directors should continue to perform duties as Directors pursuant to the requirements under the laws, administrative regulations, departmental rules and the Articles of Association until the Second Session of the Board of Directors assumed office.

At the extraordinary general meeting held on 6 December 2018, the term of office of the Second Session of the Board of Directors, being three years commencing on the date on which the ordinary resolutions approving the re-election of Directors were passed by the Shareholders.

Accordingly, the executive Directors had each enter into a separate service agreement and the Company had issued a separate appointment letter to each of the Independent Non-executive Directors.

# Corporate Governance Report

## 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 has 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 2018 are summarized as follows:

| Directors | Type of Training Note |
|---|---|
| ***Executive Directors*** | |
| Mr. Zhang Haijun | A&B |
| Mr. Zhang Ligang | A&B |
| Mr. Wu Jinyu | A&B |
| Mr. Zhang Chao | A&B |
| 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's Supervisory Board is composed of three members, namely Mr. Zhang Xiaosuo, Ms. Liu Jiao and Mr. Hu Hebin. Mr. Zhang Xiaosuo is the chairman of the Supervisory Board. The term of office of Mr. Zhou Encheng, the staff representative Supervisor of the First Session of the Board of Supervisors, was expired on 16 November 2018. Mr. Zhou Encheng decided not to offer himself for re-election and retired as the staff representative Supervisor on the same date. Mr. Hu Hebin was nominated as the candidate for the position as the staff representative Supervisor of the Second Session of the Board of Supervisors and was elected at the staff representative meeting of the Company held on 15 November 2018.

The Supervisory Board consists of two Shareholder representative Supervisors and one employee representative Supervisor. Directors and members of the senior management may not act as Supervisors. The employee representative Supervisors shall be democratically elected by the Company's employees at the employee representative assembly, general employee 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 five committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee, Corporate Governance Committee and Strategy 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, Nomination Committee and Strategy 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 has been modified on 6 December 2018 and 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 three meetings to review, in respect of the year ended 31 December 2018, 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 engagement of non-audit services and relevant scope of works, amendments of the terms of reference in light of the amendments to the Corporate Governance Code, and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

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 2018.

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 (Chairman) | 3/3 |
| Mr. Wang Qi | 3/3 |
| Mr. Zhang Liguo | 3/3 |

### 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.

Details of the remuneration of the senior management by band are set out in Note 11 to the consolidated financial statements for the year ended 31 December 2018.

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

| Name of Members of the Remuneration Committee | Attendance |
|---|---|
| Mr. Zhang Liguo (Chairman) | 1/1 |
| Mr. Jip Ki Chi | 1/1 |
| Mr. Wu Jinyu | 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, 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 |
|---|---|
| Mr. Wang Qi (Chairman) | 1/1 |
| Ms. Fan Xiulan | 1/1 |
| Mr. Zhang Liguo | 1/1 |

### Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

### Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board members have a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2018, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

### 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 develop, 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 ended 31 December 2018, no Corporate Governance Committee meeting was held and the Board had reviewed 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 the Corporate Governance Report.

### Strategy Committee

The Strategy Committee was established on 6 December 2018. The Strategy Committee consists of three members, including two Executive Directors, namely Mr. Zhang Haijun and Mr. Zhang Ligang, and one Independent Non-executive Director, namely Mr. Zhang Liguo. Mr. Zhang Haijun is the chairman of the Strategy Committee.

The principal duties of the Strategy Committee include:

- To conduct researches and make recommendations to the Board on the Group's mid-term and long-term strategies and their feasibility

- To conduct research on and make recommendations to the Board on the Group's investment plans, major business decisions and investment earnings forecast

- To evaluate and monitor the implementation of the strategy, plans and measures adopted by the Committee

The Strategy Committee will meet at least twice a year to perform duties as set out in its terms of reference. No meeting of the Strategy Committee was held in respect of the year ended 31 December 2018.

## 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

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 flux cored wire products, we established the Regulation and Sales Procedures of Welding Materials which stipulates the process of customer identification verification, credit assessment, agreement approval and accounts receivable management.

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

The management, in co-ordination 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 2018. The Board has reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experience and relevant resources.

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 2018.

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 77 to 78.

## AUDITORS' REMUNERATION

The Company has appointed Confucius International CPA Limited, Certified Public Accountants as the auditor of the Company's 2018 consolidated financial statements prepared under IFRSs.

The remuneration for the year ended 31 December 2018 paid or payable to the Company's auditors, Confucius International CPA Limited and the Shenzhen Branch of Pan-China Certified Public Accountant LLP, Certified Public Accountants for audit services amounted to RMB2.3 million (including value added tax) and for non-audit services fee amounted to RMB Nil (including value added tax).

## COMPANY SECRETARY

Ms. Lo Yee Har Susan of Tricor Services Limited, an external service provider, 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. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an Extraordinary General Meeting

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

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

### Putting Forward Proposals at Annual General Meetings

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

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

### Putting Forward Enquiries to the Board

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

### Contact Details

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

Registered Office and Headquarters:
No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, The 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 indicating "To the Board or Company Secretary" 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.

During the year ended 31 December 2018, the Company held the annual general meeting on 21 May 2018 and the extraordinary general meeting on 6 December 2018, separate resolutions are proposed at the general meetings for each substantial issue, including the re-election of retiring Directors and Supervisors.

Independent Non-executive Directors have attended general meetings to gain and develop a balanced understanding of the view of Shareholders. The Directors' attendance records are as follows:

| Name of Directors | AGM Attendance | EGM Attendance |
|---|---|---|
| Mr. Zhang Haijun | 1/1 | 1/1 |
| Mr. Zhang Ligang | 1/1 | 1/1 |
| Mr. Wu Jinyu | 1/1 | 1/1 |
| Mr. Zhang Chao | 1/1 | 1/1 |
| Mr. Zhang Lihuan | 1/1 | 1/1 |
| Ms. Fan Xiulan | 1/1 | 1/1 |
| Mr. Jip Ki Chi | 1/1 | 1/1 |
| Mr. Wang Qi | 1/1 | 1/1 |
| Mr. Zhang Liguo | 1/1 | 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 2018, 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

## I. OUR COMMITMENTS AND DIRECTIONS ON ENVIRONMENT, SOCIETY AND GOVERNANCE

Hebei Yichen Industrial Group Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") fully acknowledge the importance of effective environmental, social and governance ("ESG") initiatives to operation. The direction of the Company's ESG work is governed by the Board of Directors (the "Board") of the Company to ensure that the ESG strategies reflect the core values of the Company. While working together to improve the Company's value and performance, the Board and the management also take the responsibility for assessing and identifying risks in relation to ESG matters to ensure relevant risk management and internal control system to be implemented appropriately and effectively.

## II. REPORTING STANDARD, PERIOD AND SCOPE

This Environmental, Social and Governance Report (the "ESG Report") is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), for the purpose of helping stakeholders and business-related persons to have an understanding in our ESG 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 environment, society and governance from 1 January 2018 to 31 December 2018 (the "Reporting Period"), with details given in relevant parts (environment, staff, service and community investment) within this report. The Company's headquarters, its subsidiaries and its production bases have a total of 1,136 employees. The scope of this ESG Report covers only locations where major business processes of the Company are situated, which have 1,131 employees.

Those aspects and key performance indicators (KPIs) defined in the ESG Reporting Guide and considered to be relevant and important to the Company's operation will be introduced under four subject areas, namely "Our Environment", "Our Staff", "Our Service" and "Our Community".

## III. STAKEHOLDERS AND MATERIALITY ASSESSMENT

The Company continues to establish diverse communication channels with our stakeholders (including shareholders, customers, staff, suppliers, regulators and the public) to safeguard their interests, which will help to make clear the long-term development direction of the Company and maintain a close relationship with them.

Below shows groups of stakeholders, their expectations and typical communication channels with the Company:

| Stakeholders | Expectations | Communication Channels |
|---|---|---|
| Governments and regulators | ◇ Legal and compliance regulation<br>◇ Tax payment<br>◇ Business and economic development<br>◇ Safe operation<br>◇ Social contribution | • Financial reports, announcements, notices and other public information<br>• Direct communication by e-mail and phone call<br>• Meeting/seminar participation<br>• Meeting with government officials |
| Shareholders and investors | ◇ Investment return<br>◇ Information disclosure<br>◇ Protection of shareholders' interests<br>◇ Compliance operation and management<br>◇ Anti-corruption | • Financial reports, announcements, notices and other public information<br>• General meeting<br>• Roadshow/telephone conference/conference with investors/shareholders<br>• Enquiry through phone call/e-mail<br>• On-site visits of investors<br>• Information disclosure on the websites of the Stock Exchange and the Company |

Environmental, Social and Governance Report

| Stakeholders | Expectations | Communication Channels |
|---|---|---|
| Customers | ◇ Product quality<br>◇ Service quality<br>◇ Fair and reasonable price<br>◇ Contract performance<br>◇ Smooth channel for complaint | • Daily communications<br>• Meeting with customers<br>• On-site inspection<br>• E-mails |
| Suppliers | ◇ Fair Competition<br>◇ Long-term business relationship<br>◇ Fair and reasonable price<br>◇ Contract performance | • Daily communications<br>• Meeting with suppliers<br>• On-site inspection<br>• E-mails |
| Staff | ◇ Protection of staff interests<br>◇ Occupational health and safety<br>◇ Staff welfare improvement<br>◇ Training and occupational development space<br>◇ Occupational development and opportunity | • Staff activities<br>• Staff forum<br>• Staff regular memoranda<br>• Collection of staff opinions through direct communication<br>• Staff training, seminar and briefing<br>• Team building and other cultural events |

| Stakeholders | Expectations | Communication Channels |
|---|---|---|
| Local community, NGO, potential customers and the public | ◇ Employment opportunity<br>◇ Ecological environment<br>◇ Community development<br>◇ Social complex<br>◇ Enthusiasm for public welfare<br>◇ Charitable donation<br>◇ Reduction of pollutant emission | • Charity events<br>• Community investment and service<br>• Stakeholder engagement<br>• Environmental protection activity |
| Media | ◇ Information transparency<br>◇ Sound relationship with media | • Information disclosure on the websites of the Stock Exchange and the Company<br>• Financial reports, announcements, notices and other public information |

# Environmental, Social and Governance Report

The issues below are identified as the issues of importance to the Company after comprehensive assessment of ESG risk level and discussion with our stakeholders:

| **Issues that are of importance to the Company in the ESG Reporting Guide:** | | | | |
|---|---|---|---|---|
| A Environment | A1. | Emissions | A2. | Use of Resources |
| | A1.1 | Details of emissions | A2.1 | Total energy consumption and density |
| | A1.2 | Emission of greenhouse gases | A2.2 | Total water consumption and density |
| | A1.3 | Hazardous wastes | A2.3 | Consumption of packaging materials |
| B Social | B1. | Employment | B4. | Labour Standard |
| | B1.1 | Total number of employees | B5. | Supply Chain Management |
| | B1.2 | Turnover ratio of employees | B6. | Responsibility of Products |
| | B2. | Health and Safety | B7. | Anti-corruption |
| | B3. | Development and Training | B8. | Community Investment |
| | B3.1 | Training hours | | |

Given these results, the Company will constantly improve its ESG performance to meet the expectations of our stakeholders. Details on our ESG work during the Reporting Period will be presented in chapters below.

## IV. OUR ENVIRONMENT

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.

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》)).

KPI results on the disposal of emissions and wastes as well as the use of energy and resources of the Company are as presented in the following paragraphs.

## A1: Emissions and Wastes

*Air and Greenhouse Gas Emissions*

Details of emissions of air pollutants and greenhouse gases produced by the Company for the year are summarized as follows:

| **(Unit: kg)** | | **2018** | | 2017 (Note 3) | |
|---|---|---|---|---|---|
| **Type of air emissions** | **Sources of emission** | **Emissions** | **Density (Note 1)** | Emissions | Density (Note 1) |
| Nitrogen oxides (NOx) | • Natural gas<br>• Company's vehicles | **453.53** | **0.41** | 200.80 | 0.19 |
| Sulphur dioxides (SOx) | • Natural gas<br>• Company's vehicles | **7.39** | **0.01** | 4.29 | <0.01 |
| Particulate matter (PM) (Note 2) | • Company's vehicles | **67.22** | **0.06** | 28.37 | 0.03 |

| **(Unit: Tonne of $CO_2e$) (Note 4)** | | **2018** | | 2017 | |
|---|---|---|---|---|---|
| **Emission scope of greenhouse gases** | **Sources of emission** | **Emissions** | **Density (Note 1)** | Emissions | Density (Note 1) |
| **Scope 1**<br>Direct emission | • Consumption of natural gas<br>• Unleaded gasoline and diesel consumed by vehicles<br>• Refrigerant | **1,803.70** | **1.65** | 1,269.58 | 1.18 |
| **Scope 2**<br>Indirect emission | • Consumption of electricity | **101,740.09** | **93.06** | 79,912.36 | 74.19 |
| **Scope 3**<br>Other indirect emission | • Flight for business travel<br>• Government's sewage treatment | **75.71** | **0.07** | 44.76 | 0.04 |
| Total | | **103,619.50** | **94.78** | 81,226.71 | 75.41 |

Note1: Density is calculated by dividing the total emissions by the number of staff of the year.

Note2: It 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.

Note3: Figures of 2017 have been restated to compare with that of the current year.

Note4: $CO_2e$ (tonne) represents a unit of measurement based on the greenhouse effect produced per tonne of $CO_2$ to measure and compare the greenhouse effect produced by emissions of different greenhouse gases, including carbon dioxide($CO_2$), methane ($CH_4$) and nitrous oxide ($N_2O$).

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As natural gas and electricity are the major energy consumption of the Company, the direct greenhouse gas emission is relatively low, among which emission caused by consumption of unleaded gasoline and diesel in the Company's vehicles belongs to the mobile sources of greenhouse gas emission.

The increase in greenhouse gas emission as compared to the previous year was mainly due to the increase of production, among which the increase of approximately 5,368 litres in diesel consumption was attributable to increased production, new factories under construction and more frequent use of devices of high oil consumption such as forklift. Emission density has little changes as both emissions and production registered a year-on-year increase.

The Company's indirect greenhouse gas emission for the year amounted to approximately 101,740 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's photovoltaic power generating units which are installed on the idle rooftops of plants generated power electricity totaling about 778,770 kWh for the year, and reduced the indirect carbon emission of approximately 825 tonnes. Furthermore, during the year, the Company also planted 68 apricot trees in new factories which reduced the indirect carbon emission of approximately 2 tonnes.

Other indirect emission under Scope 3 is mainly attributable to the indirect greenhouse gas emission generated from employees taking the flight for business travel and the sewage treatment by the government. Greenhouse gas emission increased by 70% in 2018 as compared to the previous year, which was due to more staff on a business trip as a result of business operation of the marketing department.

Details on the Company's emission reduction measures will be summarized in the part headed "Environmental Protection Measures" below.

*Hazardous and Non-hazardous Wastes*

The summary of hazardous and non-hazardous wastes generated by the Company for the year is as follows:

| **(Unit: tonnes)** | | **2018** | | 2017 | |
|---|---|---|---|---|---|
| **Type of waste** | **Hazardous/non-hazardous** | **Volume generated** | **Density (Note 1)** | Volume generated | Density (Note 1) |
| Spent motor oils | Hazardous | **2.2** | **<0.01** | 0.3 | <0.01 |
| Waste sand | Non-hazardous | **6,327.2** | **5.79** | 8,226.8 | 7.64 |

Note 1: Density is calculated by dividing total emissions by annual average number of employees.

Solid wastes generated by the Company mainly include agglomerated sand (waste sand) from sieving, domestic waste, etc. Domestic waste is treated by municipal environmental services department and not recorded for its immaterial quantity. The waste sand generated in casting by the Company is sold externally to recycling suppliers as the raw material of bricks and hence can be recycled. The spent motor oils generated are collectively collected by the Company, and shall be irregularly delivered to a third party company which is qualified for treating hazardous wastes when a certain amount of collection is reached.

Details for the treatment measures concerning the general wastes of the Company are illustrated in the following section headed “Environmental Protection Measures”.

## A2: Use of Resources and Energy

The Company has always paid great attention to energy conservation and complied with the requirements of the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) for the purpose of protecting the environment and enhancing the operational efficiency.

The details of energy and water consumption during the year and the previous year are as follows:

| Type of energy | Unit | 2018 Volume consumed | 2018 Density (Note 1) | 2017 Volume consumed | 2017 Density (Note 1) |
|---|---|---|---|---|---|
| Electricity | MWh | **91,814** | **83.98** | 72,270 | 67.10 |
| Including: | | | | | |
| Purchased electricity | MWh | **91,075** | **83.30** | 71,536 | 66.42 |
| Self-generated power (Note 2) | MWh | **739** | **0.68** | 734 | 0.68 |
| Natural gas | $m^3$ | **539,562** | **493.54** | 216,623 | 201.12 |
| Petrol | litres | **73,312** | **67.06** | 79,217 | 73.55 |
| Diesel | litres | **70,199** | **65.17** | 64,831 | 60.19 |

| | Unit | 2018 | 2017 |
|---|---|---|---|
| Total water consumption | tonnes | **2,827.00** | 1,936.00 |
| Density (Note 1) | tonnes | **2.58** | 1.80 |

Note1: Density is calculated by dividing total emissions by annual average number of employees.

Note 2: Method of self-power generation: by solar power.

Energies consumed by the Company during its course of production are mainly natural gas and electricity. The increase in electricity consumed compared to the last year is mainly attributable to the increase in production. Though the cooling system during the course of production requires a substantial amount of water, the coolant could be recycled instead of being discharged in the system, contributing to a lower consumption. Water is also consumed in office area, leading to a small amount of domestic sewage, which is discharged to the municipal pipe network and collectively treated by the relevant government departments.

The details of packing materials consumption during the year and the previous are as follows:

*Packing materials*

| **(Unit: tonnes)** | **2018** | | 2017 | |
|---|---|---|---|---|
| **Type** | **Consumption** | **Density (Note 1)** | Consumption | Density (Note 1) |
| Paper | **1,081** | **0.99** | 759 | 0.70 |
| Plastic | **1,188** | **1.09** | 873 | 0.81 |
| Total | **2,269** | **2.07** | 1,632 | 1.52 |

Note1: Density is calculated by dividing total emissions by annual average number of employees.

Significant increase was seen in the consumption of plastic and paper. Plastic and paper are mainly used for product packaging. As the production of the year is higher than last year, there was a significant increase in the consumption of plastic packing materials. Increase in documentation has also lead to an increase in the consumption of paper.

Details for conservation measures regarding energy, water and packing materials of the Company are illustrated in the following section headed "Environmental Protection Measures".

**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.

*Environmental Protection Measures*

1. Post indicative slogans on bulletin board and in public areas to encourage employees to save water. Specific measures include setting saving paper slogans in office, production workshop and washroom to improve employees and visitors' environmental protection awareness;

2. Set up recycling bins in office and remind employees of strictly separating recycled and non-recycled wastes;

3. Regularly update policies and procedures of the Company and introduce the rules and guidelines of environmental protection in daily work process. By adopting such policies and procedures, we encourage employees to adopt the below behavorial work methods to save energy, resources and reduce greenhouse gas emission:

    (i) Turn off electronic equipment to save energy when they are not in use or when people leave office;

    (ii) Advocate green travel and car-sharing for business trips to reduce carbon emission wherever possible, the Company's vehicles are under the unified management of the Administration Department, which will make reasonable arrangement for vehicle time and route after its approval of application;

    (iii) Regularly examine electronic equipment to guarantee the security and efficiency of operation. For enhancing power efficiency and saving electricity, the Company continued the harmonic management (the quality of electricity is governed by measures to minimize the impact on quality of industrial products) 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;

    (iv) The procurement department is required to give priority to high-efficient and energy-saving products when purchasing electric appliances, such as energy-saving motors, energy-saving lamps, energy-saving air conditioner, etc. Electric appliances, such as computers, printers, electric water heaters, are completely shut down when they are not in use to save energy and reduce emissions;

4. The Company uses an electronic office system to minimize unnecessary travel;

5. 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;

6. Encourages reusing and recycling the used resources (such as trimming materials and motor oils) during the course of production;

7. 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 materials, after unloading products, will be handled by workers at the field. Measures for recycling and reusing the bulk bags implemented by the Company in certain districts also saved some packaging materials.

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

## V. EMPLOYEES

### B1: Employment

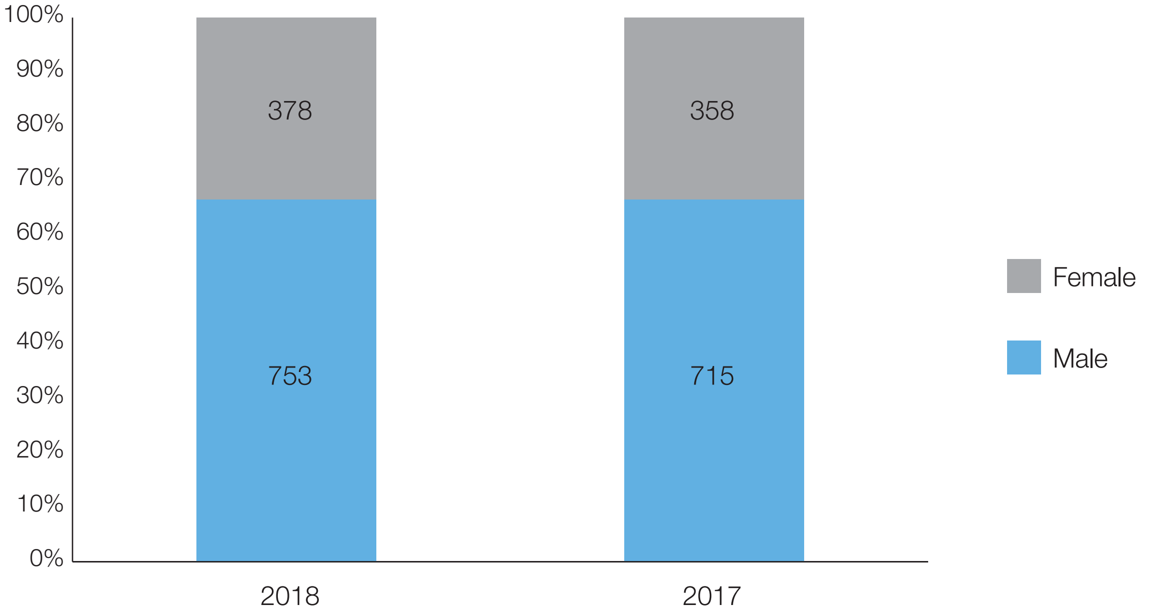
During the reporting period, the Company strictly observed the relevant requirements in laws and regulations such as the Labour Law of the PRC and the Labour Contract Law of the PRC, safeguarded the legitimate rights of employees, fairly treated all employees with different race, gender or age, and prohibited 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 2018 compared to 2017 are as follows:

*Labour*

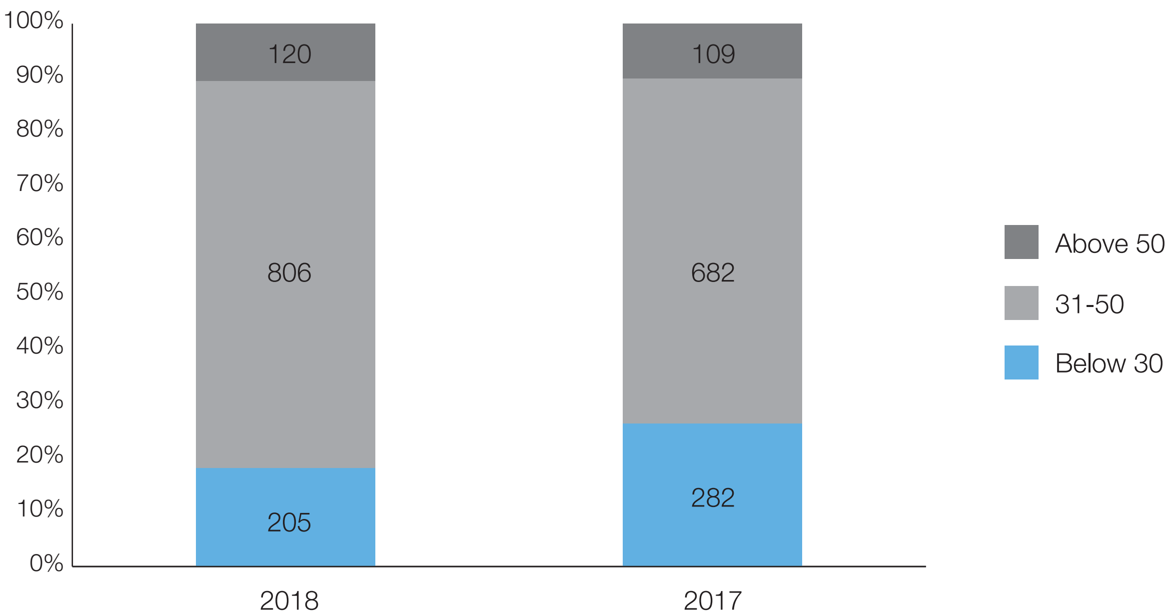
As of 31 December 2018, a total of 1,131 employees were within the scope of the ESG Report (2017: 1,073), including 1,128 fulltime employees (2017: 1,070) and 3 part-time employees (2017: 3); 17 senior management personnel (2017: 17), and 39 middle management personnel (2017: 32).

**Breakdown of number of employees by gender**




The proportion of personnel in 2017 and 2018 is almost the same.

**Breakdown of number of employees by age**

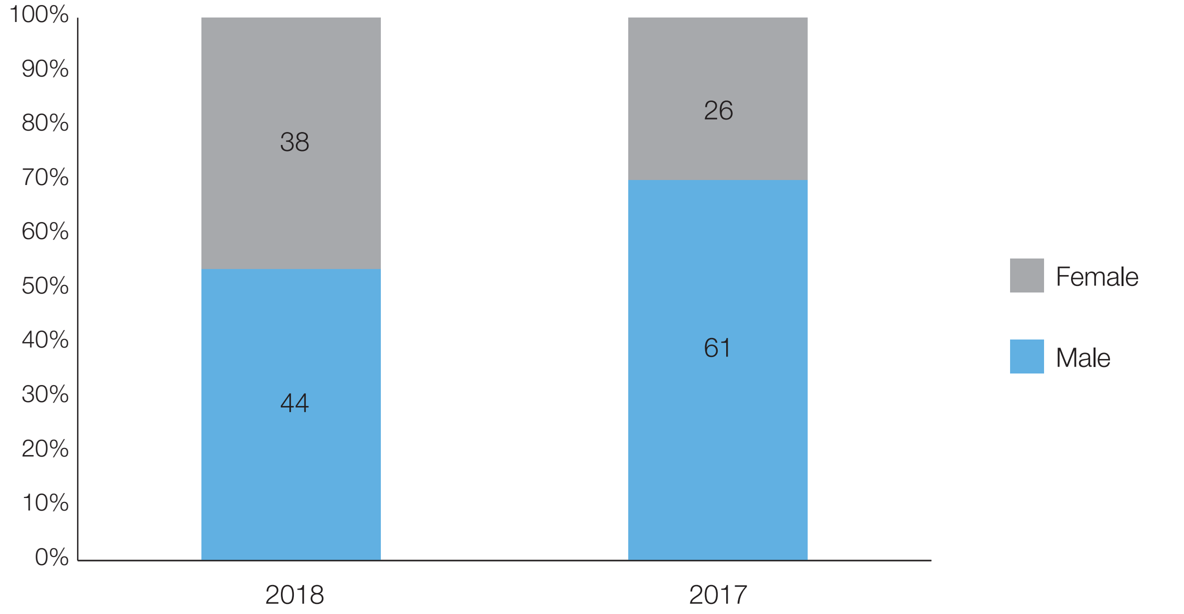



The proportion of personnel in 2017 and 2018 is almost the same.

# Environmental, Social and Governance Report

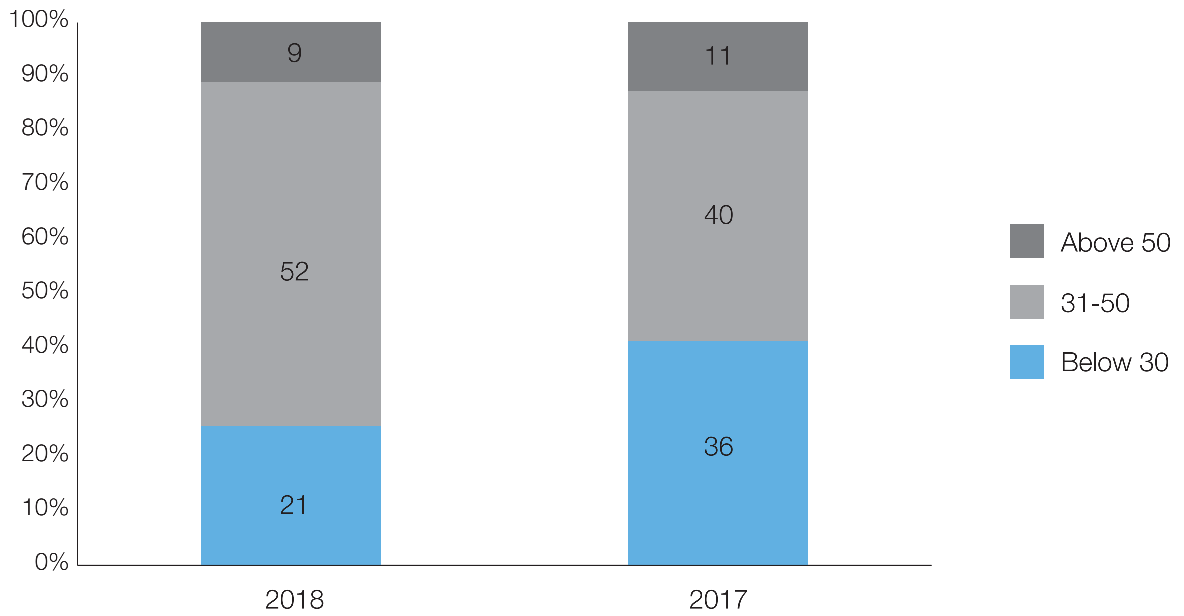
*Turnover of Employees*

**Breakdown of turnover number of employees by gender**




In the previous year, the turnover ratios of employees by gender are quite different, which the ratio of male to female in this year is almost the same.

**Breakdown of turnover number of employees by age**



The Company provides competitive remuneration and benefits for employees and a fairer remuneration structure. The Company adjusts the salaries according to actual situation, improves the remuneration management system and combines the performance assessment mechanism in each year for the purpose of minimizing the effect 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 staff's interests and 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 propagated safety tips in routine broadcast. Moreover, the safety staff is entitled to check, penalize and rectify immediately for potential safety risks such as violation operations 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 firmly 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.

# Environmental, Social and Governance Report

*Staff Training*

In 2018, the training courses organized by the Company covered various aspects such as safe production, quality management, production environment and occupational health, and operation management skills, with a total of more than 2,200 participants and more than 7,700 accumulative training hours, and the particulars are shown in the table below:

| | **2018** | 2017 |
|---|---|---|
| Total average headcount of employees (person) | **1,093** | 1,077 |
| Total training hours (hour) | **7,767** | 9,524 |
| **Average training hours completed per employee by gender (hour/person)** | | |
| – Male | **6.62** | 8.38 |
| – Female | **8.08** | 9.77 |
| **Average training hours completed per employee by employee category (hour/person)** | | |
| – Senior management | **11.41** | 18.12 |
| – Middle management | **3.94** | 8.06 |
| – Other employees | **7.14** | 8.71 |
| **Total average training hours per employee (hour/person)** | **7.10** | 8.84 |

## B4: Labour Standard

The Company has formulated relevant systems and employment regulations to avoid recruiting and employing illegal workers, child labour, or signing labour contracts that violate the employees' true intentions, forcing the employees work overtime, etc. The Company strictly abides by the Labour Law and Labour Contract Law of the People's Republic of China and relevant laws and regulations.

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 in production, labour remuneration, etc. Meanwhile, the Human Resources Department of the Company is responsible to verify the authenticity of the information (resume, identity card and certificates) provided by the candidates. At the same time, as stipulated by the Company's human resource system, the hired employees shall take full responsibility for the authenticity of the information provided by them with their signatures.

The Company has made reasonable arrangement on staff's 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 forms.

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.

## VI. OUR BUSINESS

The Company is a leading rail fastening system provider in the railway industry of China. Supply chain management and product liability are especially important to the success of our business. Our work in these areas is detailed in the following paragraphs.

### B5: Supply Chain Management

In selecting suppliers, the Company conducted long-term assessment, onsite 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 cooperated for a long term to guarantee the quality of procurement.

During the reporting period, the Company had a total of 436 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 including quality, transportation distance and pricing, the Company generally selects suppliers based on proximity for procurement.

### B6: Products Liability

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, usability 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 procedure including acceptance on deviation, repair, exchange or return of goods. At the same time, the relevant department shall analyze the reasons and adopt corresponding rectification or precautionary measures.

The Company places strong emphasis on upgrading its production process and developing new products, and also actively maintains and protects the relevant intellectual property. The Company continuously organizes and carries out process improvement and performance upgrade.

### B7: Anti-corruption

The Company has complied 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 formulated various internal regulations regarding anti-corruption and anti-fraud behaviour. The Company's Internal Audit Department is the key establishment of anti-corruption work. Their 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, cheating and fraud. In case of involving offence of the national law, the case shall be referred to a judicial authority in time in accordance with laws.

During the reporting period, the Company did not have any legal cases regarding corruption that were raised and closed against the issuer or its employees.

## VII. OUR COMMUNITIES

### 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 (石家莊市藁城區慈善總會) for the purpose of improving the ecosystem of the community where the Company is located. The Company also actively participates in supporting the poor and disabled, providing grants for poor students for their enrollment, and providing funds exactly to those with genuine need:

- On 17 January 2018, the Company organized our staff in free blood donation activity and people of Yichen donated their warm and scarlet blood. The total number of the employees taking part in this activity was 30 with an accumulated donation blood volume of 12,000 ml.

- On 5 March 2018, the Company participated in a large-scale voluntary activity with a topic of "presenting flowers to Leifeng, promoting goodness and beauty in Gaocheng", which was one of a series of activities jointly held by the Propaganda Department of District Party Committee, the Civilization Office of the district and the District Party Committee of Communist Youth League for improving citizens' civilization quality.

- In 2018, the Company made donation to the General Charity Federation of Gaocheng District of Shijiazhuang City for five times, which accumulatively accounted to RMB392,400, to subsidize the projects such as day care centers for the disabled in Gaocheng District and pursuit of dream of study.

In conclusion, during the year, the Company has initiated a series of work in environment protection and community care. We shall 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

PAN-CHINA 天健國際會計師事務所有限公司
Confucius International CPA Limited
Certified Public Accountants
香港灣仔莊士敦道181號大有大廈15樓1501-1508室
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**To the members of Hebei Yichen Industrial Group Corporation Limited**
*(Incorporated in the PRC with limited liability)*

## OPINION

We have audited the consolidated financial statements of Hebei Yichen Industrial Group Corporation Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 79 to 152, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with 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.

Independent Auditor's Report

## 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:

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Provision for impairment of trade receivables**<br><br>Refer to note 22 to the consolidated financial statements.<br><br>As of 31 December 2018, trade receivables of the Group amounted to approximately RMB1,261,114,000, net of provision for impairment of RMB104,212,000.<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 2018, we had placed our audit focus on this matter. | We obtained an understanding of and assessed the design and implementation of managements key controls relating to credit control, debt collection and estimation expected credit losses<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 current economic conditions and forward-looking information, taking into consideration the aging analysis of trade receivables, expected credit loss model.<br><br>Recalculated the loss allowance as at year end based on the Group's credit allowance policies.<br><br>We found that management's judgements made in assessing the impairment of trade receivables were supported by the evidence we obtained. |

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of financial assets at fair value through profit or loss ("FVTPL")**<br><br>Refer to note 25 to the consolidated financial statements.<br><br>The Group's financial assets at FVTPL amounting to approximately RMB128,770,000 was measured at fair value as at 31 December 2018 and there was a revaluation loss of approximately RMB12,385,000 for the year ended 31 December 2018. The fair value was assessed by the management based on a valuation performed by an independent valuer (the "Valuer") engaged by the Group.<br><br>The valuation of financial assets at FVTPL involved significant judgements and estimates, including the determination of valuation methodology and the selection of different inputs to the valuation model.<br><br>Considering the significant judgements and estimation elements involved in the determination of fair value and the financial impacts it brings to the consolidated financial statements, we have identified the valuation as a key audit matter. | We assessed the competence, capabilities, independence and objectivity of the Valuer;<br><br>We assessed the valuation methodology used by the Valuer, validity of significant inputs using external market data and the appropriateness of the key bases and assumptions used in the calculation, including expected interest rate and discount rates, and discussed these bases and assumptions with the management;<br><br>Challenged the reasonableness of the key assumptions used;<br><br>Obtained supportive evidence for the significant judgements and estimates of the valuation and the key inputs used in the valuation model; and<br><br>Checked the mathematical accuracy of the valuation.<br><br>Based on available evidence, we consider that the bases and assumptions used by management in the valuation of the financial assets at FVTPL as at the year end date were reasonable. |

## 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 THE 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, in accordance with our agreed terms of engagement, 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 skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

**Confucius International CPA Limited**
*Certified Public Accountants*
**Wong Kam Hing**
*Practising Certificate Number: P05697*
Hong Kong
6 June 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

| | Notes | For the year ended 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **1,111,460** | 965,898 |
| Cost of sales | | **(777,963)** | (625,656) |
| **Gross profit** | | **333,497** | 340,242 |
| Selling and distribution expenses | | **(54,375)** | (44,619) |
| General and administrative expenses | | **(62,289)** | (65,401) |
| Other losses, net | 7 | **(5,545)** | (17,159) |
| Other income | 8 | **–** | 3,250 |
| **Operating profit** | | **211,288** | 216,313 |
| Finance income | | **1,421** | 828 |
| Finance costs | | **(17,994)** | (21,243) |
| Finance costs, net | 9 | **(16,573)** | (20,415) |
| Share of profits of an associate | 19 | **18,365** | 8,783 |
| **Profit before income tax** | | **213,080** | 204,681 |
| Income tax expense | 12 | **(30,917)** | (28,240) |
| **Profit for the year** | | **182,163** | 176,441 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **180,169** | 176,080 |
| Non-controlling interests | | **1,994** | 361 |
| | | **182,163** | 176,441 |
| **Basic and diluted earnings per share for profit attributable to equity holders of the Company (RMB)** | 14 | **0.20** | 0.20 |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **182,163** | 176,441 |
| **Other comprehensive income** | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Change in fair value of available-for-sale financial assets | **–** | 2,038 |
| **Total comprehensive income for the year** | **182,163** | 178,479 |
| **Attributable to:** | | |
| Equity holders of the Company | **180,169** | 178,118 |
| Non-controlling interests | **1,994** | 361 |
| **Total comprehensive income for the year** | **182,163** | 178,479 |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | Notes | As at 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **349,136** | 231,457 |
| Lease prepayment for land use rights | 17 | **87,432** | 134,680 |
| Intangible assets | 18 | **71** | 80 |
| Investments in an associate | 19 | **125,373** | 59,968 |
| Deferred income tax assets | 20 | **18,346** | 17,902 |
| Prepayments for non-current assets | 26 | **6,918** | 18,084 |
| | | **587,276** | 462,171 |
| **Current assets** | | | |
| Inventories | 21 | **280,439** | 228,431 |
| Accounts receivable | 22 | **1,275,806** | 1,293,666 |
| Advances to suppliers | 23 | **36,879** | 20,256 |
| Available-for-sale financial assets | 24 | **–** | 141,155 |
| Financial assets at fair value through profit or loss | 25 | **128,770** | – |
| Other receivables and prepayments | 26 | **26,235** | 22,602 |
| Restricted cash | 27 | **31,932** | 99,773 |
| Cash and cash equivalents | 28 | **150,110** | 289,832 |
| | | **1,930,171** | 2,095,715 |
| **Total assets** | | **2,517,447** | 2,557,886 |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position

As at 31 December 2018

| | Notes | As at 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 29 | **30,000** | 10,000 |
| Deferred income from government grants | 30 | **5,641** | 6,374 |
| | | **35,641** | 16,374 |
| **Current liabilities** | | | |
| Accounts payable | 31 | **407,297** | 334,971 |
| Contract liabilities | 32 | **3,605** | – |
| Advances from customers | | **–** | 11,168 |
| Other payables and accruals | 33 | **65,679** | 94,788 |
| Current income tax liabilities | | **12,769** | 7,589 |
| Bank borrowings | 29 | **94,810** | 356,900 |
| | | **584,160** | 805,416 |
| **Total liabilities** | | **619,801** | 821,790 |
| **Net assets** | | **1,897,646** | 1,736,096 |
| **EQUITY** | | | |
| **Share capital and reserves attributable to equity holders** | | | |
| Share capital | 34 | **448,920** | 448,920 |
| Other reserves | 35 | **906,016** | 898,304 |
| Retained earnings | | **472,193** | 317,423 |
| | | **1,827,129** | 1,664,647 |
| **Non-controlling interests** | | **70,517** | 71,449 |
| **Total equity** | | **1,897,646** | 1,736,096 |

The consolidated financial statements on pages 79 to 152 were approved by the Board of Directors on 6 June 2019 and were signed on its behalf.

| | |
|---|---|
| **Zhang Ligang** | **Wu Jinyu** |
| *Director* | *Director* |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital *RMB'000* (note 34) | Other reserves *RMB'000* (note 35) | Retained earnings *RMB'000* | Sub-total *RMB'000* | Non-controlling interests *RMB'000* | Total *RMB'000* |
| **At 31 December 2017** | 448,920 | 898,304 | 317,423 | 1,664,647 | 71,449 | 1,736,096 |
| Impact from initial application of IFRS 9 (note 2) | – | (9,907) | 9,907 | – | – | – |
| **Restated balance at 1 January 2018** | 448,920 | 888,397 | 327,330 | 1,664,647 | 71,449 | 1,736,096 |
| Profit for the year | – | – | 180,169 | 180,169 | 1,994 | 182,163 |
| **Total comprehensive income for the year** | – | – | 180,169 | 180,169 | 1,994 | 182,163 |
| Dividends paid to non-controlling interests | – | – | – | – | (2,926) | (2,926) |
| Dividends paid/declared (note 15) | – | – | (17,687) | (17,687) | – | (17,687) |
| Appropriation to statutory surplus reserves | – | 17,619 | (17,619) | – | – | – |
| | – | 17,619 | (35,306) | (17,687) | (2,926) | (20,613) |
| **At 31 December 2018** | 448,920 | 906,016 | 472,193 | 1,827,129 | 70,517 | 1,897,646 |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital *RMB'000* (note 34) | Other reserves *RMB'000* (note 35) | Retained earnings *RMB'000* | Sub-total *RMB'000* | Non-controlling interests *RMB'000* | Total *RMB'000* |
| **At 1 January 2017** | 448,920 | 880,573 | 308,063 | 1,637,556 | – | 1,637,556 |
| 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 |
| Non-controlling interests on acquisition of subsidiary | – | – | – | – | 70,000 | 70,000 |
| Share premium from non-controlling shareholder's injection to subsidiary | – | (1,088) | – | (1,088) | 1,088 | – |
| Dividends paid/declared (note 15) | – | – | (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) |
| **At 31 December 2017** | 448,920 | 898,304 | 317,423 | 1,664,647 | 71,449 | 1,736,096 |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | For the year ended 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 36(a) | 279,855 | (26,988) |
| Interest paid | | (17,142) | (19,485) |
| Interest received | | 1,421 | 828 |
| Income tax paid | | (26,181) | (22,835) |
| Net cash used in operating activities | | 237,953 | (68,480) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (138,481) | (149,911) |
| Payments for acquisition of land use right | | – | (1,176) |
| Purchase of intangible assets | | (28) | – |
| Purchase of available-for-sale financial assets | | – | (38,000) |
| 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 | 36(b) | 40 | 87 |
| Capital contribution in subsidiaries | | (40) | – |
| Increase of term deposits with initial term of over three months | | 30,000 | (30,000) |
| **Net cash used in investing activities** | | (108,509) | (178,250) |
| **Cash flows from financing activities** | | | |
| Listing cost paid | | – | (3,559) |
| Proceeds from bank borrowings | | 171,060 | 459,468 |
| Repayments of bank borrowings | | (413,150) | (463,978) |
| Dividends and related withholding tax paid | | (27,739) | (155,789) |
| Dividends paid to non-controlling interests | | (2,926) | – |
| Payments of financing lease fee | | – | – |
| Cash received from capital contributions | | – | 70,000 |
| Net cash used in financing activities | | (272,755) | (93,858) |
| **Net decrease in cash and cash equivalents** | | (143,311) | (340,588) |
| Cash and cash equivalents as at 1 January | | 289,832 | 649,436 |
| Exchange gains/(losses) on cash and cash equivalents | | 3,589 | (19,016) |
| **Cash and cash equivalents as at 31 December** | 28 | 150,110 | 289,832 |

The notes on pages 86 to 152 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 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 and headquarter is No.1, Yichen North Street, Gaocheng District, Shijiazhuang 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 ("Hong Kong Stock Exchange") (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 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 the Listing 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 Hong Kong Stock Exchange.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

### New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied new and amendments to IFRSs and an Interpretation issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014-2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to IFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018, which resulted in changes in its accounting policies.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(Continued)*

### IFRS 15 Revenue from Contracts with Customers

The accounting policies were changed to comply with IFRS 15. IFRS 15 replaces the provisions of IAS 18 Revenue ("IAS 18") and IAS 11 Construction Contracts ("IAS 11") that relate to the recognition, classification and measurement of revenue and costs.

The management has reassessed its business model and contract terms to assess the effects of applying the new standards and there is no impact on the consolidated financial statements of the Group.

Revenue is recognised when or as the control of the asset is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group has also voluntarily changed the presentation of advances from customers in relation to sales of inventory (RMB11,168,000) to contract liabilities in the consolidated statement of financial position as 1 January 2018, to reflect the terminology of IFRS 15 and IFRS 9.

### IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in IFRS 9, the Group has adopted the modified retrospective approach for transition to the new financial instruments standard. The reclassification arising from the new standard is therefore not reflected in the consolidated statement of financial position as of 31 December 2017, but is recognised in the opening consolidated statement of financial position as at 1 January 2018.

*Summary of effects arising from initial application of IFRS 9*

The adjustments on the consolidated statement of financial position as at 1 January 2018 are summarised below:

| Consolidated statement of financial position (extract) | Notes | 31 December 2017 as originally presented *RMB'000* | Impact on IFRS 9 *RMB'000* | 1 January 2018 (Restated) *RMB'000* |
|---|---|---|---|---|
| Financial assets at fair value through profit of loss ("FVTPL") | (i) | – | 141,155 | 141,155 |
| Available-for-sale ("AFS") financial assets | (i) | 141,155 | (141,155) | – |
| Other reserves | (i) | 898,304 | (9,907) | 888,397 |
| Retained earnings | (i) | 317,423 | 9,907 | 327,330 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(Continued)*

### IFRS 9 Financial Instruments *(Continued)*

*Summary of effects arising from initial application of IFRS 9 (Continued)*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

*(i)* *Classification and measurement*

Reclassification from available-for-sale to FVTPL

Certain investments were reclassified from available-for-sale financial assets to financial assets at FVTPL (RMB141,155,000 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flow do not represent solely payments of principal and interest.

Related accumulated fair value gains of RMB9,907,000 were transferred from AFS investment revaluation reserve to retained earnings on 1 January 2018.

*(ii)* *Impairment of financial assets*

The Group applies the IFRS 9 simplified approach to measuring expected credit losses ("ECL"), using lifetime expected loss allowance for accounts receivables. ECL for other financial assets at amortised cost, including advances to suppliers, other receivables, restricted cash and cash and cash equivalents, are measured on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition. The Group found there was no impact of the change in impairment methodology on the Group's retained earnings and equity as at 1 January 2018 after assessing the adoption of new impairment methodology.

*Trade receivables*

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and ageing. On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables:

| 1 January 2018 | Current to 1 year *RMB'000* | 1-2 years *RMB'000* | 2-3 years *RMB'000* | 3-4 years *RMB'000* | 4-5 years *RMB'000* | Over 5 years *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| Expected loss rate | 2% | 10% | 30% | 50% | 80% | 100% | |
| Gross carrying amount | 989,142 | 228,926 | 91,171 | 16,604 | 13,290 | 5,280 | 1,344,413 |
| Loss allowance | 19,783 | 22,893 | 27,351 | 8,302 | 10,632 | 5,280 | 94,241 |

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(Continued)*

### New and Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRS 17 | Insurance Contracts[2] |
| IFRIC – Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IFRS 3 | Definition of a Business[4] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 1 and IAS 8 | Definition of a Material[5] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015–2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisitions date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Other than described below, the directors of the Company consider the application of the new and amendments to IFRSs and interpretation would not have any material impact on the consolidated financial statements.

IFRS 16 was issued in January 2016. The removal of the distinction between operating and finance leases will result in the recognition of almost all leases on the statement of financial position. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable operating lease commitments of RMB2,120,000. As the operating lease is ending, the management is considering renewing the lease contracts. The management expects that IFRS 16 will not have a significant impact on the financial position and financial performance of the Group.

Some of the commitments may be covered by the exception for short-term and low-value leases, and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for the annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

## 3. 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.

### 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.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, as appropriate.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries and entities (including structured entities) controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company as the basis of dividend received and receivable.

### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments in associates *(Continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### 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.

### Foreign currency translation

*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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currency translation *(Continued)*

*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.

### Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values overall their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 10-20 years |
| Machinery | 5-10 years |
| Vehicles | 5 years |
| Electronic and communication equipment | 3-5 years |
| Furniture, office equipment and others | 3-5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amounts of the relevant assets and are recognised and included in "Other losses, net" in the consolidated statement of profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Land use rights

Land use rights represent prepayment for operating leases and are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

### 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 amortised over their estimated useful lives of 5 years.

### Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortisation 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.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets

*Classification of financial assets*

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or financial assets at fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other income' line item. Fair value is determined in the manner described in note 5.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

*Classification of financial assets (Continued)*

Amortised cost and effective interest method

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the "other income" line item.

*Impairment of financial assets*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

*Impairment of financial assets (Continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

*Impairment of financial assets (Continued)*

(i) Significant increase in credit risk *(Continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

*Impairment of financial assets (Continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

*Impairment of financial assets (Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the aging basis:

- Past-due status; and

- Nature, size and industry of debtor.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

### Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities and equity instruments *(Continued)*

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including accounts payable, advances from customers, other payables and accruals and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

### Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

### 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.

### Revenue recognition

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

*Sales of products*

The Group manufactures and sells rail fastening system products and flux cored wire products 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.

*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.

### 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.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before income tax" as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Employee benefits

*(a)* *Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised 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.

*(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.

### 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### 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 consolidated statement of profit or loss 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 consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

### 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.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 amortisation

The Group's management determines the estimated useful lives and related depreciation/amortisation 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 amortisation 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, plant and equipment

If circumstances indicate that the carrying amount of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amount to the recoverable amount in accordance with the accounting policy for impairment of property and equipment as described. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement 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) Loss allowances on trade receivables

The loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the loss allowance calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

### (d) Impairment on inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of a similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (e) Income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. This determination requires significant judgement regarding the realisability 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.

### (f) Fair value of unlisted investments

The Group's unlisted investment funds amounting to RMB128,770,000 as at 31 December 2018 (2017: RMB141,155,000) are measured at fair values determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments.

## 5. FINANCIAL RISK MANAGEMENT

### 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 minimise potential adverse effects on the Group's financial performance.

The Group's directors focus on minimising 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 28.

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 and for the year ended 31 December 2018 | |
| HK$ | **6,836** |
| At and for the year ended 31 December 2017 | |
| HK$ | 12,107 |

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

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### 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 2018 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 2018 and 2017 would have decreased/increased by approximately RMB194,000 and RMB939,000 respectively.

*(b) Credit risk*

As at 31 December 2018 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.

In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade receivables individually or based on provision matrix with appropriate groupings based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### Financial risk factors *(Continued)*

*(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 2018 and 2017, the Group has net current assets of approximately RMB1,346,011,000 and approximately 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.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting 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 2018** | | | | | |
| Bank borrowings | **99,739** | **30,401** | **–** | **–** | **130,140** |
| Accounts payable | **407,297** | **–** | **–** | **–** | **407,297** |
| Other payables and accruals (excluding payroll payable) | **60,149** | **–** | **–** | **–** | **60,149** |
| **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 |

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### 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.

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Total borrowings | **124,810** | 366,900 |
| Less: cash and cash equivalents (note 28) | **150,110** | 289,832 |
| Net (cash) debt | **(25,300)** | 77,068 |
| Total equity | **1,897,646** | 1,736,096 |
| Total capital | **1,872,346** | 1,813,164 |
| Gearing ratio | **(1%)** | 4% |

The decrease in the gearing ratio during 2018 is mainly because the bank borrowings had been reduced as compared to year ended 31 December 2017.

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### Fair value measurements of financial instruments

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- 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* |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| Assets | | | | |
| Financial assets at FVTPL | **–** | **–** | **128,770** | **128,770** |
| **At 31 December 2017** | | | | |
| Assets | | | | |
| AFS financial assets | – | – | 141,155 | 141,155 |

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For the year ended 31 December 2018

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### Fair value measurements of financial instruments *(Continued)*

The following table summarises the quantitative information about the significant unobservable input used in Level 3 fair value measurement and the valuation techniques adopted.

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* | Fair value hierarchy | Valuation technique(s) | Significant unobservable inputs | Range | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| **Financial assets at FVTPL (2017: AFS financial assets)** | | | | | | | |
| Unlisted investment funds | **128,770** | 141,155 | Level 3 | Discounted cash flow | Discount rate | 8.61% (2017: 8%) | The higher the discount rate, the lower the fair value |

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

**31 December 2018**

| | **Financial assets at FVTPL**<br>***RMB'000*** |
|---|---|
| Opening balance | **–** |
| Impact from initial application of IFRS 9 (note 2) | **141,155** |
| Fair value loss recognised in profit or loss | **(12,385)** |
| Closing balance | **128,770** |

## 6. 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 flux cored wire products

Management defines segment results based on gross profit. Segment assets and liabilities are not regularly reported to the chief operating decision maker and therefore information of reportable segment assets and liabilities is not presented. Information about reportable segments and reconciliations of reportable segment results are as follows:

### For the year ended 31 December 2018

| | Rail fastening system products *RMB'000* | Flux cored products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| Total revenue | 927,912 | 169,468 | 14,080 | 1,111,460 |
| Inter-segment revenue | – | – | – | – |
| Revenue from external customers | 927,912 | 169,468 | 14,080 | 1,111,460 |
| Total cost of sales | (613,883) | (154,069) | (10,011) | (777,963) |
| Segment gross profit | 314,029 | 15,399 | 4,069 | 333,497 |
| Other profit and loss disclosure: | | | | |
| Depreciation and amortisation | 14,362 | 2,547 | 3,294 | 20,203 |
| Provisions/(reversal) for impairment of receivables | 8,398 | (5,084) | (47) | 3,267 |
| Impairment loss on inventories | 2,320 | 326 | – | 2,646 |
| Finance costs, net | – | – | 16,573 | 16,573 |

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For the year ended 31 December 2018

## 6. SEGMENT INFORMATION *(Continued)*

### For the year ended 31 December 2017

| For the year ended 31 December 2017 | Rail fastening system products *RMB'000* | Flux cored wire products *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 and loss disclosure: | | | | |
| Depreciation and amortisation | 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 |

The revenue from external parties reported to the Group's chief operating decision maker is measured in a manner consistent with that in the consolidated statement of profit or loss.

Reconciliations of segment results to profit for the year are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 *RMB'000* |
| Segment gross profit | **333,497** | 340,242 |
| Selling and distribution expenses, general and administrative expenses and finance costs, net | **(133,237)** | (130,435) |
| Other losses, net | **(5,545)** | (17,159) |
| Share of profits of an associate | **18,365** | 8,783 |
| Other income | **–** | 3,250 |
| Profit before income tax | **213,080** | 204,681 |
| Income tax expense | **(30,917)** | (28,240) |
| Profit for the year | **182,163** | 176,441 |

For the years ended 31 December 2018 and 2017, over 95% of the Group's revenue are generated in the PRC.

## 7. OTHER (LOSSES)/GAINS, NET

| | For the year ended 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Fair value loss on financial assets at FVTPL | **(12,385)** | – |
| Amortisation of deferred income (note 30) | **733** | 232 |
| Income related to government grants (note (i)) | **1,530** | 5,001 |
| Gain on disposal of land use rights | **1,654** | – |
| Gain/(loss) on disposal of property, plant and equipment | **7** | (157) |
| Donation expenses | **(392)** | (3,420) |
| Net foreign exchange gains/(losses) | **3,589** | (19,016) |
| Others | **(281)** | 201 |
| | **(5,545)** | (17,159) |

Note (i): Income related to government grants is mainly the local government's bonus for its successful redevelopment of its new plant areas.

## 8. OTHER INCOME

| | For the year ended 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Interests on available-for-sales financial assets | **–** | 3,250 |

## 9. FINANCE COSTS, NET

| | For the year ended 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| **Finance income** | | |
| Interest income on bank deposits | **1,421** | 828 |
| **Finance costs** | | |
| Interest expense on bank borrowings | **(17,142)** | (19,485) |
| Bank charges and others | **(852)** | (1,758) |
| | **(17,994)** | (21,243) |
| **Finance costs, net** | **(16,573)** | (20,415) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 10. EXPENSE BY NATURE

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials used | **709,299** | 571,020 |
| Changes in inventories of finished goods and work-in-progress | **(48,126)** | (46,922) |
| Employee benefit costs (note 11) | **82,222** | 71,254 |
| Transportation and warehouse expenses | **29,225** | 21,533 |
| Depreciation on property, plant and equipment (note 16) | **18,264** | 18,845 |
| Amortisation on | | |
| – land use rights (note 17) | **1,902** | 2,825 |
| – intangible assets (note 18) | **37** | 31 |
| Impairment loss on trade and other receivables | **3,267** | 18,539 |
| Impairment loss on inventories | **2,646** | – |
| Royalty fee | **11,069** | 8,362 |
| Utilities | **41,325** | 30,196 |
| Operating lease expenses | **1,025** | 1,034 |
| Office and travel expenses | **3,513** | 3,345 |
| Sales tax and levies | **8,368** | 11,946 |
| Service fees and charges | **8,474** | 3,144 |
| Product examination costs | **1,178** | 1,323 |
| Remuneration of the Company's auditor | | |
| – Audit and review services | **4,559** | 3,255 |
| – Non-audit services | **–** | 486 |
| Others | **16,380** | 15,460 |
| Total cost of sales, selling and distribution expenses, and general and administrative expenses | **894,627** | 735,676 |

## 11. EMPLOYEE BENEFIT COSTS

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Wages and salaries | **61,421** | 52,829 |
| Pension scheme and other social security costs | **17,733** | 15,577 |
| Others | **3,068** | 2,848 |
| | **82,222** | 71,254 |

### (a) Directors and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2018 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 | – | – | 44 | – | 184 |
| Fan Xiulan (樊秀蘭) | 170 | – | – | – | – | 170 |
| Zhang Lihuan (張力歡) | 170 | – | – | 16 | – | 186 |
| Wu Jinyu (吳金玉) | 190 | – | – | 57 | – | 247 |
| Zhang Ligang (張立剛) | 230 | – | – | 16 | – | 246 |
| **Independent non-executive Director** | | | | | | |
| Jip Ki Chi (葉奇志) | 151 | – | – | – | – | 151 |
| Wang Qi (王琦) | 40 | – | – | – | – | 40 |
| Zhang Liguo (張立國) | 40 | – | – | – | – | 40 |
| **Supervisor** | | | | | | |
| Zhang Xiaosuo (張小鎖) | 260 | – | – | 16 | – | 276 |
| Zhou Encheng (周恩成) | 116 | – | – | 16 | – | 132 |
| Liu Jiao (劉姣) | 86 | – | – | 16 | – | 102 |
| Hu Hebin (胡合斌) | 262 | – | – | 66 | – | 328 |
| | 2,215 | – | – | 247 | – | 2,462 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11. EMPLOYEE BENEFIT COSTS *(Continued)*

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

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

| | Fees<br>*RMB'000* | Salaries<br>*RMB'000* | Discretionary bonus<br>*RMB'000* | Employer's contribution to a retirement benefit scheme<br>*RMB'000* | Other benefits<br>*RMB'000* | Total<br>*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 |

## 11. 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 2018 include 3 directors and supervisors whose emoluments are reflected in the analysis presented above (2017: 2). The emoluments payable to the remaining 2 (2017: 3) individuals are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and other benefits | **495** | 755 |
| Employer's contribution to a retirement benefit scheme | **14** | 34 |
| | **509** | 789 |

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

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***Number of individuals*** | *Number of individuals* |
| Emolument band (in RMB) | | |
| Nil – RMB1,000,000 | **2** | 3 |

For the two years ended 31 December 2018 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). For the two years ended 31 December 2018 and 2017, no directors waived any emoluments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 12. INCOME TAX EXPENSE

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | **31,361** | 30,672 |
| Deferred income tax (note 20) | **(444)** | (2,432) |
| | **30,917** | 28,240 |

As at 12 November 2018, the Company was re-certified as "High Tech Enterprise" of Hebei province (河北省高新技術企業), valid for three years (from year 2018 to year 2020) and enjoyed the preferential income tax rate of 15%.

Provision for PRC enterprise income tax is calculated based on the applicable income tax rate of 15% for the year 2017 and 2018 on the assessable income of respective group entities in accordance with relevant PRC enterprise income tax rules and regulations.

The tax charge for the year can be reconciled to the profit before income tax in the consolidated statement of profit or loss as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **213,080** | 204,681 |
| Tax calculated at the statutory tax rate (15%) | **31,962** | 30,702 |
| Income not subject to tax | **(2,755)** | (1,317) |
| Expenses not deductible for tax purposes | **215** | 183 |
| Additional deduction on research and development expense | **(253)** | (140) |
| Others | **1,748** | (1,188) |
| Tax charge for the year | **30,917** | 28,240 |

## 13. PROFIT ATTRIBUTABLE TO EQUITY HOLDINGS 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 approximately RMB176,187,000 and approximately RMB167,811,000 for each of the years ended 31 December 2018 and 2017, respectively.

## 14. 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** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to equity holders of the Company | **180,169** | 176,080 |
| Weighted average number of ordinary shares in issue (thousands) | **897,840** | 897,840 |
| Basic earnings per share (RMB per share) | **0.20** | 0.20 |

There were no potential dilutive ordinary shares for the years ended 31 December 2018 and 2017. Diluted earnings per share were equal to basic earnings per share.

## 15. DIVIDENDS

| | **For the year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Dividends paid/declared (i) | **17,687** | 149,939 |

Final dividend for the year ended 31 December 2017 of RMB0.0197 (tax inclusive) per share, amounting to a total dividend of RMB17,687,448, was paid in 2018. The final dividend for the year ended 31 December 2016 of RMB0.167 (tax inclusive) per share, amounting to a total dividend of RMB149,939,280, was paid in 2017.

Pursuant to the resolution of the board of directors on 6 June 2019, a dividend in respect of the year ended 31 December 2018 of RMB0.078 (tax inclusive) per share, amounting to a total dividend of RMB70,031,520, is proposed and to be approved by the annual general meeting on 29 July 2019. The consolidated financial statements do not reflect this dividend payable.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings<br>*RMB'000* | Machinery<br>*RMB'000* | Vehicles<br>*RMB'000* | Electronic and communication equipment<br>*RMB'000* | Furniture, office equipment and others<br>*RMB'000* | Construction in progress<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|---|
| **Net carrying 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/written off | (157) | (42) | – | (30) | (15) | – | (244) |
| Depreciation | (2,959) | (12,410) | (2,703) | (568) | (205) | – | (18,845) |
| **Net carrying amount at 31 December 2017** | 39,677 | 54,654 | 9,517` | 953 | 364 | 126,292 | 231,457 |
| **Net carrying amount at 1 January 2018** | 39,677 | 54,654 | 9,517 | 953 | 364 | 126,292 | 231,457 |
| Additions | 753 | 1,819 | 41 | 200 | 1,407 | 134,261 | 138,481 |
| Transfers upon completion | 833 | 2,520 | 62 | 33 | 61 | (3,509) | – |
| Disposals/written off | – | (2,479) | – | (29) | (30) | – | (2,538) |
| Depreciation | (3,859) | (11,234) | (2,659) | (336) | (176) | – | (18,264) |
| **Net carrying amount at 31 December 2018** | 37,404 | 45,280 | 6,961 | 821 | 1,626 | 257,044 | 349,136 |
| **At 31 December 2018** | | | | | | | |
| Cost | 64,098 | 149,613 | 15,919 | 6,823 | 3,083 | 257,044 | 496,580 |
| Accumulated depreciation | (26,694) | (104,333) | (8,958) | (6,002) | (1,457) | – | (147,444) |
| Net carrying amount | 37,404 | 45,280 | 6,961 | 821 | 1,626 | 257,044 | 349,136 |

Note:

(i) Buildings with the net carrying value of RMB nil and 21,811,000 were pledged as collateral under loan agreements at 31 December 2018 and 2017, respectively.

(ii) Depreciation expense of RMB12,940,000 (2017: RMB13,907,000) has been charged in cost of sales, RMB5,324,000 (2017: RMB4,938,000) in general and administrative expenses in the consolidated statement of profit or loss.

## 17. LEASE PREPAYMENT FOR LAND USE RIGHTS

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Cost** | | |
| At 1 January | **141,742** | 140,566 |
| Additions | **–** | 1,176 |
| Disposal | **(47,083)** | – |
| At 31 December | **94,659** | 141,742 |
| **Accumulated amortisation** | | |
| At 1 January | **7,062** | 4,237 |
| Amortisation | **1,902** | 2,825 |
| Eliminated upon disposal | **(1,737)** | – |
| At 31 December | **7,227** | 7,062 |
| **Net carrying amount** | **87,432** | 134,680 |

As at 31 December 2018, lease prepayment for land use rights with net carrying value of approximately RMB77,151,000 (2017: approximately RMB89,333,000) were pledged as securities for bank borrowings (note 29).

The Group's land use rights are held for periods of 50 years.

Amortisation on land use rights of the Group is analysed as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| General and administrative expenses | **1,902** | 2,825 |

## 18. INTANGIBLE ASSETS

| | Computer software *RMB'000* |
|---|---|
| **Net carrying amount at 1 January 2017** | 111 |
| Additions | – |
| Amortisation | (31) |
| **Net carrying amount at 31 December 2017** | 80 |
| **At 31 December 2017** | |
| Cost | 722 |
| Accumulated amortisation | (642) |
| Net carrying amount | 80 |
| **Net carrying amount at 1 January 2018** | **80** |
| Additions | **28** |
| Amortisation | **(37)** |
| **Net carrying amount at 31 December 2018** | **71** |
| **At 31 December 2018** | |
| Cost | **750** |
| Accumulated amortisation | **(679)** |
| Net carrying amount | **71** |

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

| | **For the year ended 31 December** | |
|---|---|---|
| | **2018** ***RMB'000*** | 2017 *RMB'000* |
| General and administrative expenses | **37** | 31 |

## 19. INVESTMENTS IN AN ASSOCIATE

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **59,968** | 51,185 |
| Addition investments (note (i)) | **47,040** | – |
| Share of profits for the year | **18,365** | 8,783 |
| At 31 December | **125,373** | 59,968 |

Note (i): In January 2018, the Group and the other shareholder have injected additional capital to the associate, Tieke Yichen, in proportion to their shareholdings in the associate. The Group has completed the capital increase with land use right at fair value of RMB47,000,100 and cash of RMB39,900. The net carrying value of the land is RMB45,346,000, resulted in a gain of RMB1,654,100 on disposal of land use rights.

Set out below is the associate of the Group as at 31 December 2018, 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 2018

| **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 | The PRC | 49% | Equity |

As at 31 December 2018 the carrying amount of the Group's interest in an associate was RMB125,373,000 (31 December 2017: RMB59,968,000). 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 associate.

# Notes to the Consolidated Financial Statements

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## 19. INVESTMENTS IN ASSOCIATE *(Continued)*

Notes:

Summarised 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) Summarised statement of financial position of a material associate**

| | Tieke Yichen As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Current assets** | | |
| Cash and cash equivalents | **19,223** | 24,979 |
| Accounts receivable | **119,856** | 55,225 |
| Inventories | **86,991** | 39,862 |
| Other current assets | **4,417** | 2,546 |
| | **230,487** | 122,612 |
| **Non-current assets** | **76,441** | 28,686 |
| **Current liabilities** | | |
| Other current liabilities | **51,064** | 28,914 |
| **Non-current liabilities** | | |
| Other non-current liabilities | **–** | – |
| **Net assets** | **255,864** | 122,384 |

## 19. INVESTMENTS IN ASSOCIATE *(Continued)*

Notes: *(Continued)*

(i) **Summarised statements of financial position of a material associate** *(Continued)*

Reconciliation of above summarised financial information presented to carrying amounts of the Group's share of interests in the associate:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Opening net assets | **122,384** | 104,459 |
| Capital addition | **96,000** | – |
| Profit and total comprehensive income | **37,480** | 17,925 |
| Closing net assets | **255,864** | 122,384 |
| Group's share in % | **49%** | 49% |
| **Carrying amount** | **125,373** | 59,968 |

(ii) **Summarised statements of profit or loss of a material associate**

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Revenue | **263,785** | 152,651 |
| Cost of sales | **(192,165)** | (118,084) |
| Other expenses | **(19,467)** | (11,670) |
| Other (losses) gains, net | **(2,133)** | 959 |
| **Profit before income tax** | **50,020** | 23,856 |
| Income tax expense | **(12,540)** | (5,931) |
| **Profit for the year** | **37,480** | 17,925 |
| **Other comprehensive income** | **–** | – |
| **Total comprehensive income** | **37,480** | 17,925 |

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## 20. DEFERRED INCOME TAX ASSETS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Deferred income tax assets: | | |
| – to be recovered after more than 12 months | **17,462** | 16,792 |
| – to be recovered within 12 months | **884** | 2,858 |
| | **18,346** | 19,650 |
| Deferred tax liabilities pursuant to set-off provisions | **–** | (1,748) |
| Net deferred tax assets | **18,346** | 17,902 |

(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* | Financial assets at FVTPL *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **At 1 January 2017** | 13,578 | 3,130 | – | 510 | 17,218 |
| (Charged)/credited to profit or loss | 2,806 | (271) | – | (103) | 2,432 |
| **At 31 December 2017 and 1 January 2018** | 16,384 | 2,859 | – | 407 | 19,650 |
| (Charged)/credited to profit or loss | **841** | **(2,084)** | **110** | **(171)** | **(1,304)** |
| **At 31 December 2018** | **17,225** | **775** | **110** | **236** | **18,346** |

## 20. DEFERRED INCOME TAX ASSETS *(Continued)*

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

| | **Financial assets measured at FVTPL** *RMB'000* | **Available-for-sale financial assets** *RMB'000* |
|---|---|---|
| **At 1 January 2017** | – | – |
| Charged to other comprehensive income | – | 1,748 |
| **At 31 December 2017 and 1 January 2018** | – | 1,748 |
| Adjustment on adoption of IFRS 9 | 1,748 | (1,748) |
| **At 1 January 2018 (restated)** | **1,748** | **–** |
| Credited to profit or loss | **(1,748)** | **–** |
| **At 31 December 2018** | **–** | **–** |

## 21. INVENTORIES

| | **As at 31 December** | |
|---|---|---|
| | **2018** *RMB'000* | 2017 *RMB'000* |
| At cost: | | |
| Raw materials | **37,929** | 31,402 |
| Work in progress | **91,006** | 105,984 |
| Finished goods | **151,504** | 91,045 |
| | **280,439** | 228,431 |

The cost of inventories recognised as an expense and included in cost of sales for each of the years ended 31 December 2018 and 2017 amounted to RMB661,173,000 and RMB524,098,000, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 22. ACCOUNTS RECEIVABLE

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **1,365,326** | 1,353,175 |
| Less: loss allowance | **(104,212)** | (102,802) |
| | **1,261,114** | 1,250,373 |
| Notes receivable (note (a)) | **14,692** | 43,293 |
| | **1,275,806** | 1,293,666 |

The ageing analysis, based on invoice date (or the date of revenue recognition, if earlier) of trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **1,123,726** | 989,142 |
| 1 to 2 years | **108,668** | 228,926 |
| 2 to 3 years | **57,415** | 92,829 |
| Over 3 years | **75,517** | 42,278 |
| | **1,365,326** | 1,353,175 |

The ageing analysis, based on invoice date (or the date of revenue recognition, if earlier) of trade receivables (net of impairment) is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **1,101,252** | 895,102 |
| 1 to 2 years | **97,801** | 228,926 |
| 2 to 3 years | **40,191** | 91,170 |
| Over 3 years | **21,870** | 35,175 |
| | **1,261,114** | 1,250,373 |

## 22. ACCOUNTS RECEIVABLE *(Continued)*

The individually impaired receivables mainly relate to some flux cored wire 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. The ageing of these impaired receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **–** | – |
| 1 to 2 years | **–** | – |
| 2 to 3 years | **–** | 8,629 |
| Over 3 years | **8,687** | 133 |
| | **8,687** | 8,762 |

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **22,474** | 18,773 |
| 1 to 2 years | **10,867** | 22,893 |
| 2 to 3 years | **17,224** | 21,570 |
| Over 3 years | **44,960** | 30,804 |
| | **95,525** | 94,040 |

The movements on the provision for impairment of trade receivables as of 31 December 2018 and 2017 is as follows:

| | ***RMB'000*** |
|---|---|
| **As at 1 January 2017** | 85,445 |
| Provision for impairment | 25,963 |
| Reversal of impairment | (8,606) |
| **As at 31 December 2017 and 1 January 2018** | 102,802 |
| Provision for impairment | 1,485 |
| Reversal of impairment | (75) |
| **As at 31 December 2018** | **104,212** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 22. ACCOUNTS RECEIVABLE *(Continued)*

(a) Substantially all notes receivable are bank acceptance notes with average maturity periods of within six months.

(b) Substantially all accounts receivable are denominated in RMB.

(c) The creation and release of provision for impaired receivables have been included in 'General and administrative expenses' in the consolidated statement of profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

## 23. 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 utilised in accordance with the terms of relevant agreements.

## 24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **–** | 136,869 |
| Additions | **–** | 38,000 |
| Disposals | **–** | (37,500) |
| Net gains transfer to equity before tax | **–** | 3,766 |
| At 31 December | **–** | 141,155 |

## 25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted investment funds | **128,770** | – |

As at 31 December 2018, the financial assets at FVTPL held by the Company is unlisted investment funds (William Financial Holding Merger and Acquisition Fund*)(威廉金控併購基金) with expected interest rate of 8% per annum and matured in 2019. The financial assets at FVTPL is denominated in RMB.

The fair value measurement of unlisted investment funds refer to note 5 to the consolidated financial statements.

Subsequent to the end of reporting period, in March 2019, the unlisted investment funds had been fully disposed to an independent third party.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets at FVTPL.

* For identification purposes only

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 26. OTHER RECEIVABLES AND PREPAYMENTS

### (a) Current portion

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Deposits for biddings and contracts | **22,631** | 22,503 |
| Others | **11,597** | 6,235 |
| | **34,228** | 28,738 |
| Less: provision for impairment | **(7,993)** | (6,136) |
| | **26,235** | 22,602 |

### (b) Non-current portion

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Prepayment for equipment | **303** | 17,284 |
| Prepayment for construction | **6,615** | 800 |
| | **6,918** | 18,084 |

## 27. RESTRICTED CASH

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Pledged deposits (note (i)) | **31,932** | 69,773 |
| Term deposits with initial term of over three months | **–** | 30,000 |
| | **31,932** | 99,773 |

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

## 28. CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| HK$ | **68,355** | 142,441 |
| RMB | **81,464** | 147,139 |
| US$ | **291** | 252 |
| | **150,110** | 289,832 |

## 29. BANK BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Current** | | |
| Bank borrowings | | |
| – other bank loans (note i) | **44,810** | 138,500 |
| – entrusted loan (note ii) | **–** | 13,400 |
| – bank advance for factored receivables (note iii) | **–** | 90,000 |
| – unsecured bank borrowings (note iv) | **50,000** | 115,000 |
| | **94,810** | 365,900 |
| **Non-current** | | |
| Bank borrowings (note v) | **30,000** | 10,000 |
| **Total bank borrowings** | **124,810** | 366,900 |

### Maturity of bank borrowings

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **94,810** | 356,900 |
| 1 year to 2 years | **30,000** | – |
| 2 years to 5 years | **–** | 10,000 |
| **Total bank borrowings** | **124,810** | 366,900 |
| **Weighted average annual interest rates** | | |
| Bank borrowings | **5.69%** | 5.29% |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 29. BANK BORROWINGS *(Continued)*

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Currency denomination** | | |
| RMB | **124,810** | 366,900 |

Notes:

(i) As at 31 December 2018, secured bank borrowings of RMB44,810,000 (31 December 2017: RMB48,500,000) were secured by lease prepayment for land use rights of the Company.

(ii) As at 31 December 2017, the Company has entrusted loan of 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% per annum.

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

(iv) As at 31 December 2018, short term bank borrowings of RMB50,000,000 (2017: 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 6.81% (2017: 6.60%) per annum. As at 31 December 2017, 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.

(v) As at 31 December 2018, long term borrowings comprise an unsecured bank loan of RMB20,000,000 from China Construction Bank (中國建設銀行藁城支行) with interest rate at 5.82% per annum and an entrusted loan of RMB10,000,000 from Gaochen City Lianzhou Town Management Services Station (藁城市廉州鎮經濟管理服務站) with interest rate at 6% per annum. As at 31 December 2017, long term bank borrowings of RMB10,000,000 were unsecured entrusted bank loans.

## 30. 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 the years ended 31 December 2018 and 2017 are as follows:

| | ***RMB'000*** |
|---|---|
| At 1 January 2017 | 6,106 |
| Additions | 500 |
| Amortisation | (232) |
| At 31 December 2017 and 1 January 2018 | 6,374 |
| Amortisation | (733) |
| At 31 December 2018 | **5,641** |

## 31. ACCOUNTS PAYABLE

| | **As at 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables to associate and other related parties | **88,306** | 50,163 |
| Trade payables to third parties | **255,715** | 239,260 |
| | **344,021** | 289,423 |
| Bills payable | **63,276** | 45,548 |
| | **407,297** | 334,971 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 31. ACCOUNTS PAYABLE *(Continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **324,458** | 252,875 |
| 1 year to 2 years | **6,260** | 19,568 |
| 2 years to 3 years | **3,100** | 14,264 |
| Over 3 years | **10,203** | 2,716 |
| | **344,021** | 289,423 |

## 32. CONTRACT LIABILITIES

| | Note | **As at 31 December 2018** | **As at 1 January 2018** |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Advances from customers in relation to sales of inventory | (i) | **3,605** | 11,168 |

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018.

(ii) Upon the adoption of IFRS 15, amount previously included in "Advances from customers" were reclassified to "Contract liabilities".

The balance of contract liabilities as at 1 January 2018 was RMB11,168,000, in which approximately RMB10,822,000 was recognised as revenue during the year.

## 33. OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Wages, salaries and other employee benefits | **5,530** | 5,406 |
| Royalty fee (note (i)) | **20,165** | 19,056 |
| Freight | **8,409** | 12,318 |
| Other taxes (note (ii)) | **29,927** | 57,533 |
| Others | **1,648** | 475 |
| | **65,679** | 94,788 |

Notes:

(i) 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.

(ii) The balances include payables of value-added tax, business tax, withholding tax and other taxes.

## 34. SHARE CAPITAL

Issued:

| | ***RMB'000*** |
|---|---|
| At 1 January 2017 | 448,920 |
| Addition | – |
| At 31 December 2017, 1 January 2018 and 31 December 2018 | **448,920** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 35. OTHER RESERVES

| | Capital reserve *RMB'000* | Statutory surplus reserve *RMB'000* | AFS investment revaluation reserve *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **At 1 January 2017** | 831,739 | 40,965 | 7,869 | 880,573 |
| Change in fair value of AFS financial assets | – | – | 2,038 | 2,038 |
| 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 |
| **At 31 December 2017** | **830,651** | **57,746** | **9,907** | **898,304** |
| Impact on initial application of IFRS 9 (note 2) | **–** | **–** | **(9,907)** | **(9,907)** |
| Restated balance at 1 January 2018 | **830,651** | **57,746** | **–** | **888,397** |
| Appropriation to statutory surplus reserves | **–** | **17,619** | **–** | **17,619** |
| **At 31 December 2018** | **830,651** | **75,365** | – | **906,016** |

Note (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.

## 36. CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from/(used in) operations:

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **213,080** | 204,681 |
| Adjustments for: | | |
| Share of profits of associate | **(18,365)** | (8,783) |
| Fair value loss on financial assets at FVTPL | **12,385** | – |
| Other losses/(income) | **195** | (3,250) |
| (Gains)/losses on disposal of property, plant and equipment (Note (b)) | **(7)** | 157 |
| Gain on disposal of land use rights | **(1,654)** | – |
| Depreciation on property, plant and equipment | **18,264** | 18,845 |
| Amortisation of | | |
| – land use rights | **1,902** | 2,825 |
| – intangible assets | **37** | 31 |
| Provision for impairment of trade and other receivables | **3,267** | 18,539 |
| Impairment losses on inventories | **2,646** | – |
| Finance costs, net | **16,573** | 20,415 |
| Amortisation of deferred income | **(733)** | (232) |
| | **247,590** | 253,228 |
| Changes in working capital: | | |
| – decrease/(increase) in accounts receivable | **12,861** | (322,013) |
| – (increase)/decrease in advances to suppliers, other receivables and prepayments | **(11,142)** | 13,810 |
| – increase in inventories | **(52,149)** | (57,496) |
| – increase in accounts payable | **72,326** | 76,279 |
| – (decrease)/increase in advance from customers, other payables and accruals | **(27,472)** | 34,153 |
| – decrease/(increase) in restricted cash | **37,841** | (24,949) |
| | **32,265** | (280,216) |
| Net cash generated from/(used) in operations | **279,855** | (26,988) |

## 36. CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Net carrying amount | **2,538** | 244 |
| Gains/(losses) on disposals | **7** | (157) |
| Transfer to inventories | **(2,505)** | – |
| Cash proceeds | **40** | 87 |

### (c) Major non-cash transaction

In January 2018, the Group and the other shareholder have injected additional capital to the associate, Tieke Yichen, in proportion to their shareholdings in the associate. The Group has completed the capital increase with land use right at fair value of RMB47,000,100 and cash of RMB39,900. The net book value of the land is RMB45,346,000, resulted in a gain of RMB1,654,100 on disposal of land use rights.

(d) Net debt reconciliation:

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalents | **150,110** | 289,832 |
| Borrowings – repayable within one year | **(94,810)** | (356,900) |
| Borrowings – repayable after one year | **(30,000)** | (10,000) |
| Net cash (debt) | **25,300** | (77,068) |
| Cash and liquid investments | **150,110** | 289,832 |
| Gross debt – fixed interest rates | **(60,000)** | (366,900) |
| Gross debt – variable interest rates | **(64,810)** | – |
| Net cash (debt) | **25,300** | (77,068) |

## 36. CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

| | | Liabilities from financing activities | | |
|---|---|---|---|---|
| | **Other assets 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 2017 | 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 and 1 January 2018 | 289,832 | (356,900) | (10,000) | (77,068) |
| Cash flows | (143,311) | 262,090 | (20,000) | 98,779 |
| Foreign exchange adjustments | 3,589 | – | – | 3,589 |
| Other non-cash movements | – | – | – | – |
| Net cash/(debt) as at 31 December 2018 | **150,110** | **(94,810)** | **(30,000)** | **25,300** |

## 37. COMMITMENTS

### (a) Capital commitments

The Group have the following capital commitments not provided for as at 31 December 2018 and 2017, respectively.

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment and lease prepayments for land use right – contracted but not yet provided for | **60,094** | 23,581 |

# Notes to the Consolidated Financial Statements

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## 37. COMMITMENTS *(Continued)*

### (b) Operating lease commitments

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **1,060** | 618 |
| 2 to 5 years | **1,060** | – |
| | **2,120** | 618 |

## 38. 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 40.

During the years ended 31 December 2018 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 2018 and 2017.

## 38. RELATED PARTY TRANSACTIONS *(Continued)*

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

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Sale of goods and materials to | | |
| – Tieke Yichen | **7,658** | 5,947 |
| Purchases of goods and materials from | | |
| – Tieke Yichen | **119,151** | 66,437 |
| Procurement of processing services | | |
| – Longji Management (i) | **6,090** | 2,860 |
| Procurement of comprehensive services and other services | | |
| – Longji Management (i) | **2,110** | 2,110 |
| Leasing of properties from | | |
| – shareholder (ii) | **360** | 360 |
| – Longji Management (i) | **708** | 700 |
| Key management compensations (not including the directors and supervisors' emoluments as set out in note 11 to the consolidated financial statements) | **790** | 928 |

(i) 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.

(ii) 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. In 2018, upon the expiry of the above two tenancy agreements, the Company and Mr. Zhang Haijun entered two new tenancy agreements for a period from 1 August 2018 to 31 December 2020, 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 2018. 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 2018.

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

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## 38. RELATED PARTY TRANSACTIONS *(Continued)*

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

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Accounts receivable from | | |
| – Tieke Yichen | **4,528** | – |
| – Tielong Daocha | **264** | 264 |
| **Liabilities** | | |
| Accounts payable to | | |
| – Tieke Yichen | **88,193** | 50,050 |
| – Tielong Daocha | **113** | 113 |
| Prepayment to | | |
| – Office rental fee to one shareholder | **–** | 210 |
| – Longji Management | **–** | 408 |
| Office rental fee payable to one shareholder | **–** | – |

## 39. EVENTS AFTER THE REPORTING PERIOD

On 8 March 2019, the Company's board of directors approved the proposal of acquiring 87.5% equity interest in Xingtai Juneng Railway Electrical Equipment Co. LTD (邢臺炬能鐵路電氣器材有限公司 (hereinafter referred to as "Xingtai Juneng")), a company incorporated in PRC engaged in the production and sales of railway sleepers. Pursuant to the equity transfer agreement entered on 9 March 2019 with a third party, the Group agreed to acquire from the third party 87.5% equity interest in Xingtai Juneng.

## 40. 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 2018 | 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 | 126,434 | 51% | 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. 河北鐵科翼辰新材料科技有限公司 | The PRC 1 April 2013 | Limited liability company | 145,000 | 49% | Production and sales of rubbers | China |

## 41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### Statement of financial position of the Company

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **348,711** | 230,957 |
| Lease prepayment for land use rights | **87,432** | 134,680 |
| Intangible assets | **71** | 80 |
| Investments in subsidiaries (note (i)) | **71,052** | 71,052 |
| Investments in an associate | **125,373** | 59,968 |
| Deferred income tax assets | **18,321** | 17,794 |
| Prepayments for non-current assets | **6,918** | 18,084 |
| | **657,878** | 532,615 |
| **Current assets** | | |
| Inventories | **279,306** | 227,309 |
| Accounts receivable | **1,270,155** | 1,282,779 |
| Advances to suppliers | **24,571** | 15,661 |
| Financial assets at FVTPL | **128,770** | – |
| Available-for-sale financial assets | **–** | 141,155 |
| Other receivables and prepayments | **25,440** | 22,566 |
| Restricted cash | **31,932** | 99,773 |
| Cash and cash equivalents | **137,021** | 276,615 |
| | **1,897,195** | 2,065,858 |
| **Total assets** | **2,555,073** | 2,598,473 |

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

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **EQUITY** | | |
| **Share capital and reserves attributable to equity holders** | | |
| Share capital | **448,920** | 448,920 |
| Other reserves (note (i)) | **907,104** | 899,392 |
| Retained earnings (note (ii)) | **447,503** | 296,715 |
| **Total equity** | **1,803,527** | 1,645,027 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Bank borrowings | **30,000** | 10,000 |
| Deferred income from government grants | **5,641** | 5,974 |
| | **35,641** | 15,974 |
| **Current liabilities** | | |
| Accounts payable | **435,593** | 363,652 |
| Contract liabilities | **3,582** | – |
| Advances from customers | **–** | 11,070 |
| Other payables and accruals | **65,553** | 198,802 |
| Amounts due to subsidiaries | **104,000** | – |
| Current income tax liabilities | **12,367** | 7,048 |
| Bank borrowings | **94,810** | 356,900 |
| | **715,905** | 937,472 |
| **Total liabilities** | **751,546** | 953,446 |
| Total equity and liabilities | **2,555,073** | 2,598,473 |

The statement of financial position of the Company was approved by the Board of Directors on 6 June 2019 and was signed on its behalf:

**Zhang Ligang** **Wu Jinyu**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

### (i) Investments in subsidiaries

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted investments, at cost | **71,052** | 71,052 |

### (ii) Reserve movement of the Company

| | **Retained earnings** | **Other reserves** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 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 |
| Impact on initial application of IFRS 9 | 9,907 | (9,907) |
| **Restated balance at 1 January 2018** | 306,622 | 889,485 |
| Profit for the year | 176,187 | – |
| Appropriation to statutory surplus reserve | (17,619) | 17,619 |
| Dividends paid/declared | (17,687) | – |
| **At 31 December 2018** | 447,503 | 907,104 |

# 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" | Confucius International CPA Limited |
| "Board" or "Board of Directors" | the board of Directors of our Company |
| "business day" | any day (excluding a Saturday, 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 9 April, 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 tonnage of no less than 8,000 tons, axle load on rail reaching 25 tons or more, and annual freight volume of 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 or lower that is dedicated to serving cities or among city clusters |
| "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 at 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(s)" 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 Nations |
| "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 the share 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 the city, most of which 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 |

* *For identification purpose only*