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
2019

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhang Haijun *(Chairman)*
Mr. Zhang Ligang[1] *(Chief Executive Officer)*
Mr. Wu Jinyu
Mr. Zhang Lihuan
Mr. Zhang Chao
Ms. Fan Xiulan

Non-executive Director

Ms. Gu Xiaohui[2]

Independent non-executive Directors

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

SUPERVISORY BOARD

Mr. Guan En[3] *(Chairman)*
Mr. Liu Jianbin[3]
Mr. Hu Hebin
Mr. Zhang Xiaosuo[4]
Ms. Liu Jiao[4]

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Mr. Jip Ki Chi *(Chairman)*
Mr. Wang Qi
Mr. Zhang Chao[5]
Mr. Zhang Ligang[1]

STRATEGY COMMITTEE

Mr. Zhang Haijun *(Chairman)*
Ms. Fan Xiulan[5]
Mr. Zhang Liguo
Mr. Zhang Ligang[1]

JOINT COMPANY SECRETARIES

Ms. Ng Wai Kam (ACIS, ACS)[6]
Mr. Zhang Chao
Ms. Lo Yee Har Susan (FCS (PE), FCIS)[7]

AUTHORIZED REPRESENTATIVES

Mr. Zhang Haijun
Ms. Ng Wai Kam[6]
Ms. Lo Yee Har Susan[7]

ALTERNATES TO THE AUTHORIZED REPRESENTATIVES

Ms. Fan Xiulan
Mr. Zhang Chao

(1) Resigned on 23 December 2019
(2) Appointed as an executive Director with effect from 18 March 2020 and redesignated as a non-executive Director with effect from 25 March 2020
(3) Appointed on 29 July 2019
(4) Resigned on 29 July 2019
(5) Appointed on 25 March 2020
(6) Appointed on 21 December 2019
(7) Resigned on 21 December 2019

Corporate Information

AUDITOR
Pan-China Certified Public Accountants LLP
6/F, No. 128 Xixi Road
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Hong Kong

PRC LEGAL ADVISER
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Hebei Province
China

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China

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Hong Kong

STOCK CODE
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COMPANY WEBSITE
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FINANCIAL SUMMARY

	2019	2018 (Restated)	2017	2016	2015
Results (RMB'000)					
Revenue	**1,138,676**	1,111,460	965,898	1,035,427	907,049
Cost of sales	**(748,436)**	(733,936)	(625,656)	(567,278)	(517,079)
Gross profits	**390,240**	377,524	340,242	468,149	389,970
Selling expenses	**(47,569)**	(43,306)	(44,619)	(48,654)	(50,525)
Management expenses	**(65,197)**	(65,618)	(65,401)	(64,728)	(54,147)
Profit before income tax	**227,656**	189,791	204,681	354,732	275,370
Net profit attributable to owners of the parent	**193,822**	162,969	176,080	305,857	228,069

	2019	2018 (Restated)	2017	2016	2015
Assets and Liabilities (RMB'000)					
Non-current assets	**867,572**	603,923	462,171	322,394	278,286
Current assets	**1,980,290**	1,912,781	2,095,715	2,056,364	1,088,559
Non-current liabilities	**124,051**	35,641	16,374	26,106	6,338
Current liabilities	**726,826**	612,702	805,416	715,096	521,803
Equity attributable to owners of the parent	**1,921,800**	1,798,010	1,664,647	1,637,556	838,704

The Group has adopted the PRC Accounting Standards for Business Enterprises in the preparation of its overseas financial statements since 2019, and has restated its 2018 consolidated financial statements in accordance with the PRC Accounting Standards for Business Enterprises. The Company's consolidated financial statements for 2017, 2016 and 2015 were only prepared in accordance with the International Financial Reporting Standards.

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 2019.

2019 REVIEW

In 2019, the global economy suffered a slowdown amidst a severely deteriorated trading environment, with increased external uncertainties and multiple challenges arising from the complex and protracted transformation and upgrade of the domestic economy. Though confronting graver economic challenges from home and abroad, China still recorded a year-on-year increase of 6.1% in its GDP, while its overall economic operation remained relatively stable with steadily improving development quality. However, the country is confronted by the concern of an economic downturn due to a lack of growth momentum, as the upgrade of its domestic industries is impeded by various restraints.

Looking back at the past year, the railway industry experienced ideal development. Industries continued to intensify the supply-side structural reform. With further implementation of the policy of "Converting Road Freight to Rail Freight", urban rail transit saw sustained rapid development. Work has been done to further improve the construction of an "Eight Vertical and Eight Horizontal" (八縱八橫) high-speed railway network, under which 51 new railway lines commenced operation, such as Beijing-Zhangjiakou High-speed Railway, Beijing-Xiong'an Intercity Railway (Beijing Daxing Airport section), Nanchang-Ganzhou High-speed Railway and Chengdu-Guiyang High-speed Railway. The Company proactively grasps opportunities from industrial development and constantly expands and optimizes its rail fastening system product portfolio.

On 9 March 2019, the Company entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 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) ("Xingtai Juneng"), a company engaged in the research and development, production and sales of railway sleeper products. The management believes this acquisition will bring synergy to the development of the Company's rail fastening business.

The Company adheres to the philosophy of diversified operations to improve its own competitiveness, while enhancing product technologies to continue to provide high-quality rail fastening system products for China's railway construction. For the year ended 31 December 2019, the revenue of the Group amounted to approximately RMB1,138,676,000, representing an increase of approximately 2.45% over the same period of last year; the net profit attributable to equity holders of the Company amounted to approximately RMB196,723,000, representing an increase of approximately 19.39% over the same period of last year; and earnings per share amounted to approximately RMB0.22.

2020 OUTLOOK

2020 is the last year of the "13th Five-year Plan" and the "Mid-to-Long Term Plan of Railway Network". China continues to make steady progress with railway construction. As pointed out by the National Development and Reform Commission (NDRC), in 2020, China will proceed with its planning and construction of Sichuan-Tibet Railway, accelerate the "Eight Vertical and Eight Horizontal" backbone high-speed railway projects and the railway construction in Central and Western China, optimize intercity railway and urban (suburban) railway network construction in key city clusters and megalopolises such as the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Guangdong-Hong Kong-Macau Greater Bay Area, promote the "last kilometer" project constructions such as auxiliary projects for hubs and special railway lines. In addition, efforts will be made to optimize the existing layout of passenger and cargo transport hubs and facilitate the interconnectivity with surrounding areas, so that railways can play a better role in ensuring economic and social development, which remains the long-term goal of railway network construction. At the same time, the first executive meeting of the Chinese State Council in 2020 proposed to vigorously develop advanced manufacturing, by introducing policies to support investment in new infrastructure such as information networks, which covers intercity high-speed railways and intercity railway transit. This is expected to further open up the market of urban railway transit.

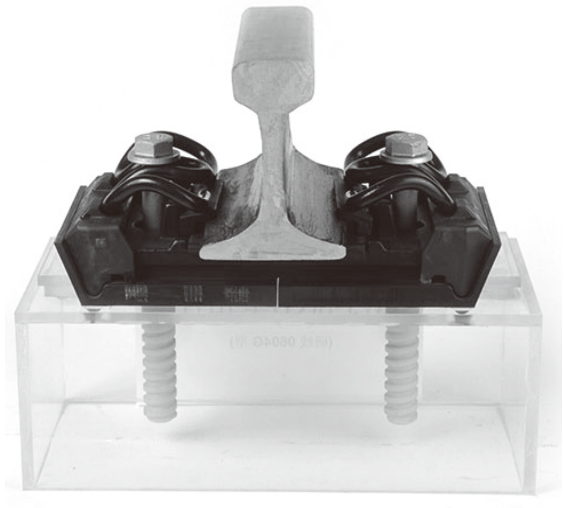
Chairman's Statement

Looking ahead, the Company, as a leading rail fastening system provider in the PRC, will continue to grasp market opportunities from the accelerated development of high-speed railway and urban rail transit in recent years, insist on the innovation and optimization of products and services, and provide high-quality rail fastening system products to the construction of Sichuan-Tibet Railway, the "Eight Vertical and Eight Horizontal" high-speed railways as well as urban rail transit in city clusters such as the Beijing-Tianjin-Hebei region and the Yangtze River Delta. In terms of business development, the Company will keep consolidating its leading role in the rail fastening system market, and leverage on advanced technologies, high-quality products and rich experience to continuously increase market share. We will also keep on consolidating and optimizing the production and sales business of Xingtai Juneng giving full play to the synergistic effects of railway fastening business and railway sleeper business. Meanwhile, the Company will proactively expand the customer base of flux cored wire, facilitate diversified business development, deliver sustainable growth in various operations, and improve the Company's 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 hard work in 2019. I also wish to extend my sincere gratitude to our shareholders and business partners for their strong support over the past year.

Zhang Haijun
Chairman
Hebei, China
25 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS



Industrial Review and Analysis

In 2019, the deteriorating trading environment cast a shadow over global economy, China also faced handicaps in its economic transformation and a slowdown in general growth rate. Looking back at the past year, railway construction continued to closely follow national development strategies, providing service for national strategies such as development of Western China, rural revitalization, the revitalization of Northeast China, the rise of Central China, the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and the integration of the Yangtze River Delta, optimizing the existing road network structure, and bringing into play the role of railway construction as a significant support to the implementation of national strategies. Meanwhile, with the rapid development of "Converting Road Freight to Rail Freight" policy, development of "Eight Vertical and Eight Horizontal" high-speed railways and fast development of urban rail transit, China's railway has imposed a higher requirement on standardization. Deepening standardized and regulated railway construction and improving the system of production safety standards are the key to build China's intelligent high-speed railway and expand the achievement of Chinese railways going global.

With the high-speed rail network established mainly along coastal and riverside arteries and complemented by intercity railways, we are expected to embrace 1 to 4-hour commuting circles in large and medium-sized cities and 0.5 to 2-hour commuting circle in city clusters. As pointed out at the work conference of China State Railway Group Co., Ltd., China recorded more than RMB800 billion of fixed asset investment on national railways for the year 2019, with 8,489 km of new railway lines and 5,474 km of high-speed railways. As of the end of 2019, the operational mileage of national railways exceeded 139,000 km, including 35,000 km of high-speed railways. Fifty-one new lines, including Beijing-Zhangjiakou High-speed Railway and Beijing-Xiong'an Intercity Railway (Beijing Daxing Airport section), were completed and put into operation, thereby reaching the target of completing 30,000 km of high-speed rail in 2020 as set out in "Mid-to-Long Term Plan of Railway Network" (《中長期鐵路網規劃》).

Management Discussion and Analysis

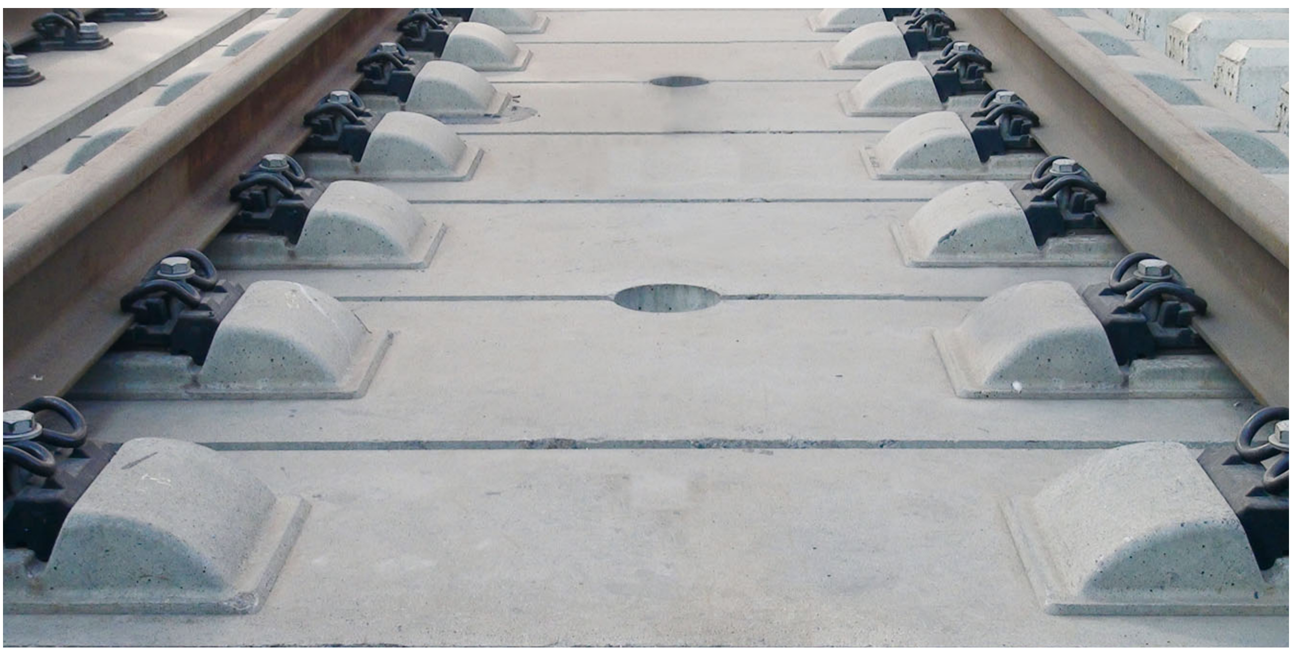
A sound environment for railway industry development can bring tremendous business opportunities to the Company. The National Development and Reform Commission proposed the "Guiding Opinions on Accelerating the Construction of Special Railway Lines" (《關於加快推進鐵路專用線建設的指導意見》) in September 2019 to address the "last kilometer" problem in railway transportation. With improved construction of special railway lines and the arrival of the final year of the three-year action plan for "converting road freight to rail freight", the demand for railway construction is anticipated to rise. In addition, the development of urban rail transit has accelerated in recent years. As shown in the preliminary statistics released by China Association of Metros, Mainland China recorded a total of 968.77 km of newly constructed urban rail transit lines in operation in 2019, marking a historic new high. As of 31 December 2019, 6,730.27 km of urban rail transit lines were in operation in a total of 40 cities across Mainland China. Currently, China has entered the stage of high-volume stable development in urban rail transit. The Company will firmly capture these industrial opportunities, for which it will conduct research on products and optimize services to provide high-speed rail, heavy-haul rail and urban rail transit construction with more comprehensive and diverse products and services of rail fastening systems. Meanwhile, the Company will also pay close attention to the development of "Belt-and-road" initiatives including China-Thailand Railway, China-Laos Railway and Hungary-Serbian Railway to strive for engaging in more overseas railway construction projects with high standard and quality products.

BUSINESS REVIEW

The Group is a leading rail fastening system product provider in the PRC, with its major business focused on three segments, including (1) rail fastening system products; (2) flux cored wire products; and (3) railway sleeper products. In 2019, the total revenue of the Group amounted to approximately RMB1,138.7 million, representing an increase of approximately 2.4%.

Rail Fastening System Products

For the year ended 31 December 2019, the revenue from rail fastening system products amounted to approximately RMB878.1 million, representing approximately 77.1% of the Group's total revenue, and a decrease of approximately 5.4% over the revenue of approximately RMB927.9 million from this segment last year. This was mainly because there were uncertainties in the construction progress of new major customers, who did not request for larger shipments in 2019, resulting in a decrease in sales of rail fastening system products. The sales of the year were generally positive.



During the year under review, the cost of sales relating to rail fastening system products decreased by approximately 5.7% from approximately RMB572.6 million (restated) in 2018 to approximately RMB540.2 million in 2019, which was mainly attributable to the decrease in the sales volume ratio of rail fastening system products, causing a corresponding decrease in cost of sales.

Affected by the decrease in sales volume, the gross profit of rail fastening system products decreased from approximately RMB355.3 million (restated) in 2018 to approximately RMB337.9 million in 2019. However, the gross profit margin slightly increased from approximately 38.3% (restated) in 2018 to approximately 38.5% in 2019.

During the year under review, the initial value of entering into agreements on supplying of rail fastening systems by the Group was approximately RMB1,171.4 million, representing an increase of approximately 2.3% as compared to 2018. Of the amount, the initial value of entering into agreements on supplying high-speed rail fastening systems amounted to approximately RMB648.7 million, representing an increase of approximately 7% as compared to 2018; the initial value of entering into agreements on supplying urban transit fastening systems amounted to approximately RMB423.8 million, representing an increase of 16.6% as compared to 2018; the initial value of entering into agreements on supplying heavy-haul rail fastening systems amounted to approximately RMB0.2 million; and the initial value of entering into agreements on supplying normal-speed rail fastening systems amounted to RMB98.7 million. As of 31 December 2019, the backlog of the Group amounted to approximately RMB1,348.8 million (value-added tax included).

Under the support of national railway network development plans such as the "13th Five-Year Plan" and the "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 2019, the revenue from flux cored wire products amounted to approximately RMB200.8 million, accounting for approximately 17.6% of total revenue of the Group and an increase of approximately RMB31.3 million from approximately RMB169.5 million in 2018. The change in revenue was mainly attributable to the increase in demand due to better performance in the welding materials industry during the year under review.

During the year under review, the cost of sales from flux cored wire products increased by approximately 15.5% to approximately RMB175.5 million in 2019 from approximately RMB152.0 million (restated) in 2018, which was mainly attributable to the increase in the sales volume of flux cored wire products for the year.

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

Railway Sleeper Products

For the year ended 31 December 2019, revenue from railway sleeper products was approximately RMB46.4 million, accounting for approximately 4.1% of the Group's total revenue; the cost of sales incurred by railway sleeper products was approximately RMB24.6 million. Railway sleeper products constitute a new product category for the period, with no such products sold in the previous year.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's main business operations comprise the R&D, manufacturing and sales of rail fastening system products, flux cored wire products and railway sleeper products. The above business has brought sustained and stable revenue to the Group. In 2019, the revenue of the Group increased to approximately RMB1,138.7 million from approximately RMB1,111.5 million in 2018, mainly as a result of the increase in revenue from flux cored wire products and the new addition of railway sleeper products sales for the period.

Revenue generated from rail fastening system products dropped by approximately 5.4% to approximately RMB878.1 million in 2019 from approximately RMB927.9 million in 2018, mainly because there were uncertainties in the construction progress of new major customers, who did not request for larger shipments in 2019, which resulted in a decrease in sales of rail fastening system products. The sales of the year were generally positive.

Revenue generated from flux cored wire products increased by approximately 18.5% from approximately RMB169.5 million in 2018 to approximately RMB200.8 million in 2019. Changes in revenue of flux cored wire products primarily resulted from the increase in demand due to better performance in the welding materials industry in 2019, leading to higher revenue in relation to flux cored wire products.

Revenue relating to railway sleeper products amounted to approximately RMB46.4 million in 2019.

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

Cost of Sales

The Group's cost of sales increased by approximately 2% from approximately RMB733.9 million (restated) in 2018 to approximately RMB748.4 million in 2019, which was mainly attributable to the increase in the sales volume of flux cored wire products and the increase in sales of railway sleeper products.

The cost of sales incurred by rail fastening system products decreased by approximately 5.7% to approximately RMB540.2 million in 2019 from approximately RMB572.6 million (restated) in 2018, which was mainly attributable to the decrease in the sales volume of rail fastening system products.

Cost of sales incurred by flux cored wire products increased by approximately 15.5% to approximately RMB175.5 million in 2019 from approximately RMB152.0 million (restated) in 2018, which was mainly attributable to the increase in the sales volume of flux cored wire products for the year.

Cost of sales relating to railway sleeper products amounted to approximately RMB24.6 million in 2019.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB390.3 million in 2019, representing a year-on-year increase of approximately 3.4% from the gross profit of approximately RMB377.6 million (restated) in 2018, which was due to the increase in the sales volume of flux cored wire products and the sales of new railway sleeper products for the year.

Gross profit of rail fastening system products decreased from approximately RMB355.3 million (restated) in 2018 to approximately RMB337.9 million in the corresponding period of 2019, which was mainly attributable to the lower sales volume for the year. The gross profit margin of rail fastening system products increased from approximately 38.3% (restated) in 2018 to approximately 38.5% in the corresponding period of 2019, which was mainly attributable to the lower average procurement cost of raw materials during the year as compared with that of last year.

Gross profit of flux cored wire products increased by approximately 44.6% to approximately RMB25.3 million in 2019 from approximately RMB17.5 million in the corresponding period of 2018. Gross profit margin increased from approximately 10.3% (restated) in 2018 to approximately 12.6% in the corresponding period of 2019, which was mainly attributable to the increase in sales volume and the decrease in the cost of flux cored wire products.

The gross profit of railway sleeper products amounted to approximately RMB21.8 million in 2019, with a gross profit margin of approximately 47%.

Selling Expenses

Selling expenses of the Group increased to approximately RMB47.6 million in 2019 from approximately RMB43.3 million (restated) in 2018. For the years ended 31 December 2018 and 2019, selling expenses as a percentage of total revenue accounted for approximately 3.9% (restated) and approximately 4.2%, respectively. The increase in selling expenses was mainly attributable to the increase in product testing and certification fee, sample service fee and other expenses.

Management Expenses

Management expenses of the Group decreased to approximately RMB65.2 million in 2019 from approximately RMB65.6 million (restated) in 2018. For the years ended 31 December 2018 and 2019, management expenses as a percentage of total revenue accounted for approximately 5.9% (restated) and 5.7%, respectively. The decrease in management expenses was mainly due to lower agency fees, with part of the decline offset by the additional employee benefits and travel expenses.

Research and Development Expense

Research and development expense of the Group increased to approximately RMB44.3 million in 2019 from approximately RMB36.1 million (restated) in 2018. For the years ended 31 December 2018 and 2019, research and development expense as a percentage of total revenue accounted for approximately 3.2% (restated) and 3.9%, respectively. Higher research and development expense was mainly due to the increase in research and development projects.

Loss on Credit Impairment

Loss on credit impairment of the Group decreased to approximately RMB8.0 million in 2019 from approximately RMB30.8 million (restated) in 2018. For the years ended 31 December 2018 and 2019, loss on credit impairment as a percentage of total revenue accounted for approximately 2.8% (restated) and 0.7%, respectively. The reduced loss on credit impairment was mainly due to the decrease in the provision for impairment of accounts receivable.

Impairment Loss of Assets

The Group's impairment loss of assets increased to approximately RMB12.5 million in 2019 from approximately RMB6.1 million (restated) in 2018. For the years ended 31 December 2018 and 2019, impairment loss of assets as a percentage of total revenue accounted for approximately 0.5% (restated) and 1.1%, respectively. The increase in impairment loss of assets was primarily due to the provision made for impairment of goodwill during the current period.

Operating Profits

Based on the aforesaid reasons, the Group recorded an operating profits of approximately RMB227.7 million in 2019, representing an increase of approximately 20.0% from an operating profits of approximately RMB189.80 million (restated) in the corresponding period of 2018, which was mainly due to the decrease in loss on credit impairment.

Finance Costs

In 2019, the Group incurred total finance costs of approximately RMB9.7 million, representing a year-on-year decrease of approximately 25.4% from total finance costs of approximately RMB13 million in 2018. Of the total amount, finance income decreased by approximately 50% to approximately RMB0.7 million from approximately RMB1.4 million in 2018. Finance costs decreased by approximately 50.9% to approximately RMB8.4 million from approximately RMB17.1 million in 2018. The decrease in finance costs was mainly attributable to the decrease in the scale of debt in 2019, when most of the borrowings were occurred at the end of the year.

Investment Profits

In 2019, the Group's investment profits totalled approximately RMB27.1 million, representing a year-on-year increase of approximately 10.6% from the total investment profits of approximately RMB24.5 million (restated) in 2018. In particular, the Group recorded an aggregate of approximately RMB27.1 million in investment profits of an associate in 2019, representing a year-on-year increase of approximately 9.7% from such investment profits of approximately RMB24.7 million (restated) recorded in the corresponding period in 2018, which was mainly attributable to the increase in profit as a result of the extra revenue from the associate.

Income Tax

Income tax expense of the Group increased by approximately 23.6% to approximately RMB30.9 million in 2019 from approximately RMB25 million (restated) in 2018, which was mainly attributable to the increase in total profit for the period.

The applicable corporate tax rate for the Company was 15% for both 2019 and 2018. The applicable tax rate for other subsidiaries in Mainland China was 25% for 2019.

Net Profit

Based on the aforesaid reasons, net profit increased by approximately RMB32.0 million or approximately 19.4% to approximately RMB196.7 million for the year ended 31 December 2019 from approximately RMB164.8 million (restated) for the year ended 31 December 2018. This was mainly attributable to (i) the increase of gross profit; (ii) gains in change of fair value; and (iii) the decrease in loss on credit impairment. Net profit margin slightly increased to approximately 17.3% for the year ended 31 December 2019 from 14.8% (restated) for the year ended 31 December 2018, which was attributable to the decrease in loss on credit impairment.

Net Profit Attributable to Owners of the Parent

The Group recorded net profit attributable to owners of the parent of approximately RMB193.8 million in 2019, representing an increase of approximately 18.9% from approximately RMB163 million (restated) in 2018. In 2019, basic earnings per share amounted to approximately RMB0.22, representing a slight increase from the basic earnings of approximately RMB0.18 per share (restated) in 2018. The increase in net profit attributable to owners of the parent was mainly due to the increase in gross profit and gains in change of fair value of the Group and the decrease in loss on credit impairment in 2019.

Financial Resources and Capital Structure

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB280.3 million, accounts receivable of approximately RMB895.6 million, accounts payable of approximately RMB405.1 million, and outstanding borrowings of approximately RMB320.6 million. As at 31 December 2019, the above cash and cash equivalents included approximately RMB32.3 million equivalents of Hong Kong dollars.

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB147.8 million (restated), accounts receivable of approximately RMB1,062 million (restated), accounts payable of approximately RMB383.5 million (restated), and outstanding borrowings of approximately RMB124.8 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") and issued a total of 224,460,000 H shares. As at 31 December 2019, the outstanding borrowings of the Group included total short-term borrowings of approximately RMB170.0 million, total non-current liabilities of approximately RMB32.6 million due within one year, long-term borrowings of approximately RMB70 million and total long-term payables of approximately RMB48 million. The Group will promptly repay the aforesaid borrowings at maturity.

Total Assets

As at 31 December 2019, the total assets of the Group were approximately RMB2,847.9 million, representing an increase of approximately RMB331.2 million (restated) or approximately 13.2% from that as at 31 December 2018, which was mainly attributable to (i) the increase in assets upon construction of a new plant area after receipt of proceeds from listing; and (ii) the increase in goodwill due to the acquisition of a subsidiary during the current period.

Total Liabilities

As at 31 December 2019, the total liabilities of the Group were approximately RMB8,850.9 million, representing an increase of approximately RMB202.6 million or approximately 31.2% from that as at 31 December 2018, mainly because of the increase in borrowings.

Total Equity

As at 31 December 2019, the total equity of the Group was approximately RMB1,997 million, representing an increase of approximately RMB128.6 million from that as at 31 December 2018, mainly attributable to the increase in (i) net profits of the Group during the year; and (ii) minority interests.

Gearing Ratio

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus the aforementioned net debt.

As at 31 December 2019, the Group's gearing ratio was 2%, representing an increase of 3.2 percentage points from -1.2% (restated) as at 31 December 2018, mainly due to the increase in borrowings at the end of the period.

Employee and Remuneration Policies

As at 31 December 2019, the Group incurred total staff costs of approximately RMB101.3 million for 1,340 employees, representing an increase of approximately RMB11.4 million or approximately 12.7% as compared with the same period of 2018, which was mainly attributable to (i) the increase in the number of employees of the Group; (ii) the increase in the basic wage for employees of the Group; and (iii) a larger provision base for social insurance and housing provident fund.

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Haijun (**張海軍**), aged 67, 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 its establishment on 9 April 2001. Mr. Zhang had also been the general manager of our Company since its 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 was 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 was 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, where he was responsible for its overall business and corporate management.

From May 1989 to March 2001, Mr. Zhang was 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 was also 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 member of the Standing Committee of the Gaocheng People's Congress (藁城區人民代表大會常務委員會).

Mr. Wu Jinyu (**吳金玉**), aged 50, 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 a 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 was 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.

* *For identification purposes only*

Biographical Details of Directors, Supervisors and Senior Management

Mr. Zhang Lihuan (張力歡), aged 37, is the executive Director of the Company and manager of welding material business division of our Group who is responsible for the overall day-to-day management of the welding material business division of our Group. Mr. Zhang joined our Group in August 2009 as manager of the welding material business division and was appointed as a 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 administration at Central China Normal University (華中師範大學) in the PRC in July 2015.

Mr. Zhang Chao (張超), aged 34, 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. He is a member of Corporate Governance Committee. Mr. Zhang joined our Group in January 2012 as secretary to the Board and was appointed as a Director on 27 July 2015. Mr. Zhang was appointed as a 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.

Ms. Fan Xiulan (樊秀蘭), aged 66, 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 and Strategy 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 a Director on 27 July 2015. She is a qualified economist and senior political affairs officer (高級政工師) in the PRC. She graduated from Correspondence Institute of Party School of the Central Committee of C.P.C.* (中共中央黨校函授學院) with a diploma in economic management through long distance learning in December 2000.

From December 1986 to November 1998, Ms. Fan was the vice governor and governor of Industrial and Commercial Bank of China Limited, Gaocheng Branch. From December 1998 to August 2001, she was the governor of Industrial and Commercial Bank of China Limited, Shijiazhuang Qiaodong Branch. From September 2001 to May 2008, she was the head of the education division and labor union office supervisor of the business division of Industrial and Commercial Bank of China Limited, Hebei Province Branch.

NON-EXECUTIVE DIRECTOR

Ms. Gu Xiaohui (顧曉慧), aged 36, is the non-executive Director of the Company. She was appointed as an executive Director of the Company on 18 March 2020 and was re-designated as a non-executive Director on 25 March 2020. She graduated from the China University of Political Science and Law with a master's degree in Economic Law in 2010. From July 2010 to early 2015, Ms. Gu worked at Beijing Tianyuan Law Firm. Joining Beijing Infrastructure Investment Company Limited* (北京市基礎設施投資有限公司) in early 2015, Ms. Gu worked at the investment and development department as an assistant to the department general manager and a director of Beijing Cornerstone Fund Management Company Limited* (北京基石基金管理有限公司). Ms. Gu served as a director of Shougang Jingtang United Iron & Steel Co., Ltd. in March 2020.

* *For identification purposes only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jip Ki Chi (葉奇志), aged 50, 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's 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 known 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, monitor 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 company secretary of Sun Entertainment Group Limited (formerly known as Sage International Group Limited) (stock code: 8082), whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Wang Qi (**王琦**), aged 46, 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. In 2018, he was appointed as the head of Xiongan branch institute of Beijing Urban Construction Design & Development Group Co., Limited.

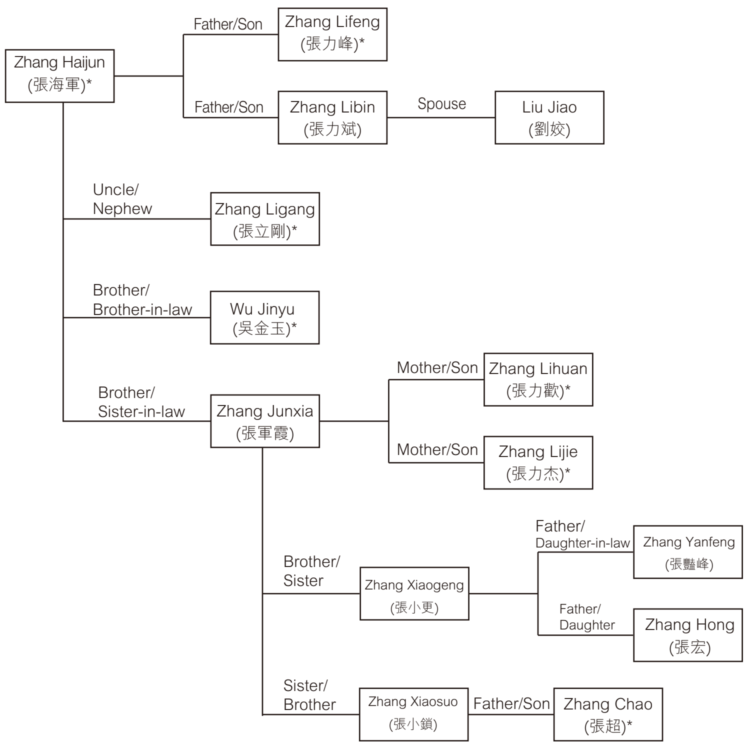
Mr. Zhang Liguo (**張立國**), aged 62, is the independent non-executive Director of the Company, the chairman of Remuneration Committee, and a member of Audit Committee, Nomination Committee and Strategy Committee. Mr. Zhang was appointed as an independent non-executive Director on 30 November 2015. He 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) (the 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.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Mr. Guan En (管恩), aged 32, is a Supervisor of the Company and the chairman of Supervisory Board. He graduated from Hebei University of Science and Technology* (河北科技大學) with a bachelor's degree in automation in 2013. From July 2013 to May 2015, Mr. Guan worked as a technician at Shijiazhuang Kelin Electric Company Limited* (石家莊科林電氣股份有限公司). Mr. Guan joined the Group in June 2015 as electronics engineer. Mr. Guan is experienced in electronic engineering practices.

Mr. Liu Jianbin (劉建賓), aged 42, is a Supervisor of the Company. He graduated from Hebei Institute of Technology* (河北理工學院) in 2000, majoring in thermal engineering. From June 2000 to March 2008, Mr. Liu worked as a production technician and technical professional of Gaocheng Electric Components Factory (藁城市電工構件廠). Mr. Liu joined the Group in March 2008 as a deputy manager for machine repair workshop and is currently the director of the technical department. Mr. Liu has extensive experience in corporate management.

Mr. Hu Hebin (**胡合斌**), aged 43, 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 a 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 Hebei Yichen Industrial Group Corporation Limited since January 2008, mainly responsible for the research and development, formulation in production method and quality control of flux cored wire products during his term of service.

SENIOR MANAGEMENT

Mr. Zhang Ligang (**張立剛**), aged 47, is the general manager of the Company who is responsible for the overall day-to-day production, sales and operational management of our Group. 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.

Biographical Details of Directors, Supervisors and Senior Management

From March 1990 to February 1996, Mr. Zhang had been employed with Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠), a collectively owned enterprise in the PRC engaged in the manufacture of rolling steel products, in which Mr. Zhang served as a worker and later worked in accounting department, responsible for operational and financial management. From March 1996 to March 2001, he had been employed with Gaocheng City Railway Works Equipment Factory* (藁城市鐵路工務器材廠), which was principally engaged in manufacture of railway works equipment, 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 the Company since April 2001 and was promoted to general manager in July 2015 with responsibilities for the overall business and operational management of the Company.

Mr. Zhang Fengxuan (**張風選**), aged 66, 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 was 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 material business division and has been appointed as our deputy general manager since January 2012.

Mr. Zhang Lifeng (**張力峰**), aged 39, 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. Mr. Zhang completed an online diploma course in business administration at Central China Normal University in the PRC in July 2015. He served as the Chairman of Xingtai Juneng Railway Electrical Equipment Co. LTD in August 2019.

Mr. Zhang Lijie (**張力杰**), aged 40, 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 the office supervisor of our welding material business division in August 2003. He became the supervisor of our supplies department in December 2009 and has been promoted to our deputy general manager since January 2012.

Mr. An Baoyun (安保雲), aged 60, is a deputy general manager of the Company who is responsible for the overall day-to-day management of the Group's Beijing office. Mr. An joined the Group in February 2004, and successively worked as a business officer at the market department and head of the Beijing office. He was promoted to deputy general manager in December 2019.

REPORT OF THE BOARD OF DIRECTORS

PRINCIPAL BUSINESS

For the year ended 31 December 2019, the Company is principally engaged in development and research, manufacturing and sale of rail fastening system products, flux cored wire products and railway sleeper products.

SHARE CAPITAL

As of 31 December 2019, 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 2019 are set out in Note 5(I) 31 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 2019.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2019.

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 2019.

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 minimize 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 fulfill 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 2019, 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.

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 2019, 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

As pointed out at the work conference of China State Railway Group Co., Ltd., China Railway Group will ensure that more than 4,000 km of new lines commence operation in 2020, including 2,000 km of high-speed rail, which will shape the most modern railway network and high-speed rail network in the world with a reasonable layout, wide coverage, high efficiency and convenience with comprehensive functions. Continuous promotion of "Eight Vertical and Eight Horizontal" (八橫八縱) railways will bring closer ties among cities, a more convenient life and fresh vitality to regional economic development. At the same time, we are embracing historic new opportunities for the construction of special railway lines based on a green and efficient modern logistic system. In 2020, China plans to work on 127 key projects to build special railway lines, totaling 1,586 km. Furthermore, as the landmark railway project for Western and Central China, major projects such as Sichuan-Tibet Railway will proceed actively.

With the comprehensive upgrade of the strategic "New Infrastructure", construction plans of high-speed railways and intercity railways have been launched in many places. "Fengtai-Xiong'an-Shangqiu" High Speed Rail is planned to be constructed from Beijing, and Kunming to Lijiang High Speed Maglev Railway is intended to be constructed in Yunnan. Driven by the "New Infrastructure" to improve weak points, intercity rail transit networks that connect metropolitan areas are expected to be the focus of construction in the future.

Currently, although China's modern railway network has attained a preliminary scale, the Company believes that it takes time to achieve full interconnectivity for railway networks in key areas as well as Western and Central China. With its rail fastening systems providing comprehensive coverage for various projects from high-speed rail and heavy-haul rail to general transit and urban rail transit, the Company will meet increasingly diverse demands with a wide array of product offerings. In the meantime, the Company will focus on R&D and innovation to keep optimizing product performance and quality, in order to adapt to the speedy development of smart highways in China. In 2020, the Company will continue with the upgrade and reform of its production equipment, enhance automation, and attain higher efficiency and lower cost. In addition, the Group will closely follow market trends, proactively seek opportunities to acquire quality assets throughout the industry chain to create synergy, which will better enhance the core competencies and profitability of the Group and give back to shareholders and investors.

RESPONSE TO THE EPIDEMIC

The sudden arrival of the novel coronavirus (COVID-19) epidemic (the "**Epidemic**") in early 2020 has affected the development of various industries to different degrees. Since the outbreak of the Epidemic, the Company has been prioritizing the protection of its staff's lives and health, closely monitoring the Epidemic situation, strictly executing various Epidemic prevention and control work, conducting comprehensive disinfection in production and office area, distributing anti-epidemic materials such face masks, and taking preventive measures such as health screening every day, and has orderly resumed work and production on the basis of ensuring the health of employees. Meanwhile, the Company actively communicates with clients and suppliers, timely adjusts manufacture and operation plans, and minimizes the adverse influence of the Epidemic.

ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") will be held on Thursday, 28 May 2020. Shareholders may refer to the notice and form of proxy of the AGM despatched by the Company for details regarding the AGM.

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.042 (tax inclusive) per share for the year ended 31 December 2019 (the "**2019 Final Dividend**") with an aggregate net amount of RMB37,709,280 to shareholders of the Company (the "**Shareholders**") whose names were listed on the Company's register of members as at Monday, 8 June 2020, subject to the approval by the shareholders of the Company at the AGM to be held on Thursday, 28 May 2020. Subject to the passing of the relevant resolution at the AGM, the 2019 Final Dividend is expected to be paid on or around 16 July 2020.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**"), pursuant to which the Company may declare and distribute dividends to its shareholders. 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 INCOME TAX ON BEHALF OF OVERSEAS INDIVIDUAL SHAREHOLDERS

According to the Articles of Association, dividends shall be denominated and declared in Renminbi. Dividends on domestic shares shall be paid in Renminbi and dividends on H shares shall be paid in foreign currencies. The relevant exchange rate shall be the average middle 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 2019 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 Monday, 8 June 2020.

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 exempt 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 2019 Final Dividend pursuant to the register of members of domestic corporate investors as holders of H shares of the Company as at Monday, 8 June 2020 provided by China Securities Depository and Clearing Corporation Limited ("**China Clearing**"), the Company shall not withhold tax on dividend for 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 2019 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 Monday, 8 June 2020 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 on 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 (the "**Registered Address**") on the H share register of members of the Company on Monday, 8 June 2020. 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 the arrangements are as follows:

- For Individual H Shareholders who are Hong Kong or Macau residents or residents of another 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 Tuesday, 2 June 2020. 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) (《非居民納税人享受税收協定待遇管理辦法》(國税發[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 Thursday, 28 May 2020, the register of members of the Company will be closed from Tuesday, 28 April 2020 to Thursday, 28 May 2020 (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 Thursday, 28 May 2020 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 Monday, 27 April 2020 (Hong Kong time) for registration.

In order to determine the list of shareholders who are entitled to the 2019 Final Dividend, the register of members of the Company will be closed from Wednesday, 3 June 2020 to Monday, 8 June 2020 (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, 8 June 2020 are entitled to the 2019 Final Dividend. Holders of H shares of the Company intended to receive the 2019 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, 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 Tuesday, 2 June 2020 (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 2019, 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 2019, the sales revenue from our five largest customers and the largest customer represented 76.79% and 39.41% of the Group's sales revenue, respectively.

During such period, the procurement expenses to our five largest suppliers and the largest supplier represented 37.58% and 15.39% 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. Up to 31 December 2019, the Group had utilised approximately RMB503.66 million of the net proceeds from its initial public offering in December 2016. The remaining net proceeds from its initial public offering of approximately RMB76.1 million had yet been utilised as at 31 December 2019. As at 31 December 2019, the Board expected that, except for the funds raised for domestic and foreign mergers and acquisitions that would be fully utilised in or before June 2021, other funds had been fully utilised by 30 June 2019. As at 31 December 2019, 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 proceed allocated	Allocated amount *RMB'000*	Utilised as at 31 December 2019 *RMB'000*	Unutilised as at 31 December 2019 *RMB'000*	Expected to be utilised before the following dates
Expansion of production capacity and fixed asset investments	31.00%	179,732	179,732	0	N/A
Domestic and overseas acquisitions	15.00%	86,967	10,849	76,118	June 2021
Purchase of raw materials	15.00%	86,967	86,967	0	N/A
R&D and testing of new products	15.00%	86,967	86,967	0	N/A
Deposits for project bids	10.00%	57,978	57,978	0	N/A
Working capital	10.00%	57,978	57,978	0	N/A
Upgrade of information systems and automated production facilities	4.00%	23,191	23,191	0	N/A
Total	100.00%	579,780	503,662	76,118	

The unutilised net proceeds as at 31 December 2019 had been deposited in banks in the People's Republic of China.

PROGRESS OF INVESTMENT PROJECTS

As at 31 December 2019, the construction of production workshop in our new production facilities and warehouse has been completed, relevant production equipment is already being installed and debugged, and 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 2019 are set out in Note 5(I) 19, 26, 28 and 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had distributable reserves denominated in Renminbi of approximately RMB551.2 million. The reserves were calculated according to the PRC laws and regulations and the PRC Accounting Standard.

CHARITABLE DONATION

For the charitable donation made by the Group during the year ended 31 December 2019, please refer to section "B8 Community Investment" in the "Environmental, Social and Governance Report" for details.

FIXED ASSET, INTANGIBLE ASSETS AND CONSTRUCTION IN PROGRESS

Movements in the property, plant and equipment of the Company and its subsidiaries for the year are set out in Note 5(I) 12, 13 and 15 to the consolidated financial statements.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the year ended 31 December 2019, 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. The term of Ms. Gu Xiaohui commenced from 18 March 2020 and that of all other directors commenced from 6 December 2018 and all expiring on 5 December 2021 unless terminated by the Company by way of ordinary resolutions of the Shareholders at a general meeting of the Company in accordance with the applicable laws of the PRC and Hong Kong. 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. The terms of Mr. Guan En and Mr. Liu Jianbin commenced from 29 July 2019, the term of Mr. Hu Hebin commenced from 6 December 2018, and the terms of all Supervisors will expire 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 2019 are set forth in Note 10(II) 5 to the audited consolidated financial statements.

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

The distribution of remuneration of senior managements (other than Directors and Supervisors as disclosed in Note 10(II) 5 to the consolidated financial statements) for the year ended 31 December 2019 is as follows:

Remuneration bands	Number of individual
RMB50,001 to RMB100,000	1
RMB100,001 to RMB200,000	2
RMB200,001 to RMB300,000	3*

* One of the individuals has retired

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 2019, Directors and their associates did not have 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 2019, 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 the 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 the 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

+ Resigned on 23 December 2019

* Resigned on 29 July 2019

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 2019, 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 2019, 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%

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%

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. 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	25,031,000	11.15%	2.79%
BOCOM International Securities Limited	H Shares	Beneficial owner	33,669,000	15.00%	3.75%
BOCOM International Holdings Company Limited (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Bank of Communications (Nominee) Company Limited (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Bank of Communications Co., Ltd. (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
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 18)	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 18)	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 19)	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 (Note 20)	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 (周秋菊) is the spouse of Mr. Zhang Haijun (張海軍). 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.

(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 (翟軍平) is the spouse of Mr. Zhang Ligang (張立剛). 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 (張偉環) is the spouse of Mr. Zhang Chao (張超). 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 (劉麗霞) is the spouse of Mr. Zhang Lijie (張力杰). 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 (楊雲娟) is the spouse of Mr. Zhang Lifeng (張力峰). 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 (張偉衛) is the spouse of Ms. Zhang Yanfeng (張艷峰). 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 (尹彥萍) is the spouse of Mr. Zhang Lihuan (張力歡). 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 (黃麗) is the spouse of Mr. Zhang Ning (張寧). 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 (劉朝輝) is the spouse of Ms. Zhang Hong (張宏). 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 (高香榮) is the spouse of Mr. Zhang Ruiqiu (張瑞秋). 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) 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.

(19) 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.

(20) 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 2019, 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 over 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 2019.

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 2019, the continuing connected transactions of the Company were as follows:

	For the year ended 31 December 2019	
	Actual amount	**Annual cap**
	RMB'000	***RMB'000***
Properties leased from Mr. Zhang Haijun	**360**	**360**
Certain office premises in Shijiazhuang, Hebei Province, the PRC leased from Longji	**700**	**700**
Procurement of comprehensive services from Longji	**2,110**	**2,110**
Procurement of steel beams (型鋼) from Longji	**–**	**1,430**
Procurement of processing services for baffle steel beams (擋板型鋼) from Longji	**2,807**	**6,200**
Total	**5,977**	**10,800**

The details of the continuing connected transactions regarding the procurement of processing services by the Company in 2019 are disclosed as follows:

(1) Date of transaction:

December 2019

(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 (resigned as the Supervisor of the Company on 29 July 2019), 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 (Ms. Liu Jiao, daughter-in-law of Mr. Zhang Haijun, has resigned as the Supervisor of the Company) on 29 July 2019 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 the Group from time to time as requested by the 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 the 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 the Company and Longji. Master Purchase Agreement and Master Processing Agreement commenced from 1 August 2018 and will expire on 31 December 2020, and terminated earlier by the Company with three months' written notice to Longji.

(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".

(6) Termination: On 27 December 2019, the Company and Longji entered into deeds of termination to terminate the New Master Processing Agreement and the New Master Purchase Agreement with effect from 31 December 2019. Please refer to the paragraph headed "Termination of Master Purchase Agreement and Master Processing Agreement" of this Annual Report for details.

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

Report of the Board of Directors

(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 2019. 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.

Termination of Master Purchase Agreement and Master Processing Agreement

On 27 December 2019, the Company and Longji entered into deeds of termination to terminate each of the Master Processing Agreement and the Master Purchase Agreement with effect from 31 December 2019, and confirmed none of the parties shall have any claim against the other arising from the termination. As the Company envisaged that there will not be any more supply of processing services in respect of steel billets and supply of steel beams required by the Group from Longji during the remaining term of the Master Processing Agreement and the Master Purchase Agreement, to save the administrative costs of the Company in auditing the performance of the New Master Processing Agreement and New Master Purchase Agreement and the transactions contemplated thereunder and to optimise the operational efficiency of the Group as a whole, the Company and Longji have agreed to terminate the Master Processing Agreement and the Master Purchase Agreement with effect from 31 December 2019.

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 REPORTING PERIOD

As at the date of this report, no major events occurred after the reporting period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance 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 Corporate Governance Code. For the year ended 31 December 2019 and up to the date of this report, the Company has complied with applicable code provisions as set out in the Corporate Governance Code. For more details, please see the section of Corporate Governance Report.

MAJOR LEGAL PROCEEDINGS

As of 31 December 2019, 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 2019, the Group had sold flux cored wire products to four customers in sanctioned countries, namely Russia and Ukraine, amounting to approximately 0.11% 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 2019 prepared in accordance with the PRC Accounting Standards.

CHANGES IN THE INFORMATION OF DIRECTORS AND SUPERVISORS

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

1. Mr. Wang Qi served as the head of Xiongan branch institute of Beijing Urban Construction Design & Development Group Co., Limited in 2018.

2. Mr. Zhang Xiaosuo resigned as the Supervisor of the Company on the annual general meeting held on 29 July 2019.

3. Ms. Liu Jiao resigned as the Supervisor of the Company on the annual general meeting held on 29 July 2019.

4. Mr. Guan En was elected as the Supervisor of the Company on the annual general meeting held on 29 July 2019, and was elected as Chairman of the Second Session of the Supervisory Board on the fourth meeting of the second session of the Supervisory Board held on 29 July 2019.

5. Mr. Liu Jianbin was elected as the Supervisor of the Company on the annual general meeting held on 29 July 2019.

6. Mr. Zhang Ligang resigned as the executive Director of the Company on 23 December 2019, at the same time, he also resigned as the member of the Corporate Governance Committee and Strategy Committee of the Company.

7. Ms. Gu Xiaohui joined Beijing Infrastructure Investment Company Limited in early 2015. She worked at the investment and development department as an assistant to the general manager and a director of Beijing Cornerstone Fund Management Company Limited. Ms. Gu was appointed as an executive Director with effect from 18 March 2020 and redesignated as a non-executive Director with effect from 25 March 2020.

8. Mr. Zhang Chao served as the member of Corporate Governance Committee on 25 March 2020.

9. Ms. Fan Xiulan served as the member of Strategy Committee on 25 March 2020.

AUDITOR

PricewaterhouseCoopers ("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) 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 resign as the auditor of the Company at the conclusion of the 2019 annual general meeting of the Company.

At the annual general meeting of the Company held on 29 July 2019, Pan-China Certified Public Accountant LLP (天健會計師事務所(特殊普通合夥)) ("PCCPA") was approved to be appointed as the auditors of the Company to hold office until the conclusion of the next annual general meeting of the Company.

PCCPA shall retire as the auditor of the Company and, being eligible, offer themselves for re-appointment. The resolution of re-appointment of PCCPA as the Company's auditor will be proposed and considered in the 2020 AGM.

FINANCIAL SUMMARY

The summary of operating results, assets and liabilities of the Group for the year ended 31 December 2019 is set out on page 4 of this annual report.

By Order of the Board
Zhang Haijun
Chairman
Heibei, China

25 March 2020

REPORT OF SUPERVISORY BOARD

In 2019, 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 Results Announcement for the Year 2018'" (《關於審議《2018年度業績公告草稿》的議案》), "Resolution on the Consideration of the 'Draft of Annual Report for the Year 2018'" (《關於審議《2018年度年報草稿》的議案》), "Resolution on the Consideration of the 'Draft of Report of Supervisory Board for the Year 2018" (《關於審議《2018年度監事會報告》的議案》) , "Resolution on the Consideration of the 'Draft of Corporate Governance Report for the Year 2018" (《關於審議《2018年度企業管治報告》的議案》) and "Resolution on the Consideration of the 'Draft of ESG Report for the Year 2018" (《關於審議《2018年度ESG報告》的議案》) were deliberated and approved by the second meeting of the second session of the Supervisory Board convened on 5 June 2019.

2. "Resolution on the Consideration of the 'Resignation of Zhang Xiaosuo and Liu Jiao as Supervisors and Nomination of New Supervisors" (關於審議《張小鎖、劉嬌辭任監事及推舉新任監事》) was deliberated and approved by the third meeting of the second session of the Supervisory Board convened on 1 July 2019.

3. "Resolution on the Consideration of the 'Election of Guan En as Chairman of the Second Session of the Supervisory Board'" was deliberated and approved by the fourth meeting of the second session of the Supervisory Board convened on 29 July 2019.

4. "Resolution on the Consideration of the 'Draft of Interim Report and Draft of Interim Results Announcement for the Year 2019'" (《關於審議《2019年度中期報告及中期業績公告的草稿》的議案》), "Resolution on the Consideration of the 'Connected Transactions for the First Half of 2019'" (《關於審議《2019年上半年度的關連交易情況》的議案》) and "Resolution on the Consideration of the 'Interim Profit Distribution for the Year 2019'" (《關於審議《2019年度中期利潤分配》的議案》) were deliberated and approved by the fifth meeting of the second session of the Supervisory Board convened on 28 August 2019.

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 and 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 2019, 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 2019 annual audit report with unqualified opinion issued by Pan-China Certified Public Accountant LLP 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 2019, 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.

Guan En
Chairman of the Supervisory Board
Hebei, China

25 March 2020

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") is pleased to report to the shareholders on the corporate governance of the Company for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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 2019, 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 2019.

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 comprises the following Directors:

Executive Directors

Mr. Zhang Haijun *(Chairman)*
Mr. Zhang Ligang *(Chief Executive Officer)*
(Resigned with effect from 23 December 2019)
Mr. Wu Jinyu
Mr. Zhang Chao
Mr. Zhang Lihuan
Ms. Fan Xiulan

Non-Executive Director

Ms. Gu Xiaohui (Appointed as an executive Director with effect from 18 March 2020 and redesignated as a non-executive Director with effect from 25 March 2020)

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 14 to 20 of this Annual Report.

Board Meetings and Directors' Attendance Records

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

Apart from regular Board meetings, the Chairman is also required to hold meetings with Independent Non-executive Directors without the presence of other Directors during the year. The Chairman held a meeting with the Independent Non-executive Directors without the presence of other Directors on 27 December 2019.

During the year ended 31 December 2019, the Board held twelve meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Haijun *(Chairman)*	10/12
Mr. Zhang Ligang[#1]	11/11[#2]
Mr. Wu Jinyu	12/12
Mr. Zhang Chao	12/12
Mr. Zhang Lihuan	10/12
Ms. Fan Xiulan	12/12
Mr. Jip Ki Chi	12/12
Mr. Wang Qi	12/12
Mr. Zhang Liguo	12/12

Notes:

#1 Resigned with effect from 23 December 2019

#2 Up to 23 December 2019

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 2019, 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 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. At the extraordinary general meeting held on 6 December 2018 ("EGM"), the ordinary resolutions approving the re-election of the Directors by the Shareholders at the EGM were passed, all members of the Second Session of the Board of Directors assumed office. In accordance with Article 10.2 of the Articles of Association, the term of office of the Second Session of the Board of Directors shall be three years, commencing on 6 December 2018, being the date of the extraordinary general meeting.

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.

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 coordinating 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 2019 are summarized as follows:

Directors	Type of Training Note
Executive Directors	
Mr. Zhang Haijun	B
Mr. Zhang Ligang (Resigned with effect from 23 December 2019)	A
Mr. Wu Jinyu	A
Mr. Zhang Chao	A
Mr. Zhang Lihuan	A
Ms. Fan Xiulan	B
Independent Non-executive Directors	
Mr. Jip Ki Chi	B
Mr. Wang Qi	A
Mr. Zhang Liguo	A

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 Supervisory Board comprises the following members:

Mr. Guan En *(Chairman)*
(Appointed with effect from 29 July 2019)
Mr. Liu Jianbin (Appointed with effect from 29 July 2019)
Mr. Hu Hebin
Mr. Zhang Xiaosuo (Resigned with effect from 29 July 2019)
Ms. Liu Jiao (Resigned with effect from 29 July 2019)

On 1 July 2019, Mr. Zhang Xiaosuo and Ms. Liu Jiao each tendered their resignation from the positions of the Shareholder representative Supervisors with effect from the conclusion of the annual general meeting held on 29 July 2019 due to personal reasons. Mr. Zhang Xiaosuo also resigned as the chairman of the Board of Supervisor at the same time.

Pursuant to Article 14.3 of the Articles of Association, Shareholder representative Supervisors shall be elected at general meetings of the Shareholders. Accordingly, the Second Session of the Board of Supervisors has resolved to nominate Mr. Guan En and Mr. Liu Jianbin as candidates for the positions of Shareholder representative Supervisors of the Second Session of the Board of Supervisors for election by the Shareholders at the annual general meeting held on 29 July 2019 to fill the vacancies following the resignation of Mr. Zhang Xiaosuo and Ms. Liu Jiao.

Mr. Guan En and Mr. Liu Jianbin each was appointed as a Supervisor of the Second Session of the Board of Supervisors of the Company with effect from 29 July 2019 and until the expiration of the term of the Second Session of the Board of Supervisors i.e. until 5 December 2021.

The Supervisory Board consists of two Shareholders 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 practicing 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 interim financial results and reports as at 30 June 2019, the annual financial results and reports as at 31 December 2019 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 CG 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 2019.

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 met twice during the 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 10(II) 4, 5 and 6 to the consolidated Financial Statements for the year ended 31 December 2019.

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)*	2/2
Mr. Jip Ki Chi	2/2
Mr. Wu Jinyu	2/2

Nomination Committee

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

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

The principal duties of the Nomination Committee include:

- To review the structure, size and composition of the Board
- To assess the independence of the Independent Non-executive Directors
- To consider and make recommendations to the Board on the re-election of Directors

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

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

The Nomination Committee met 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)*	2/2
Ms. Fan Xiulan	2/2
Mr. Zhang Liguo	2/2

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.

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 Chao, 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.

Mr. Zhang Ligang resigned as a member of the Corporate Governance Committee with effect from 23 December 2019. Mr. Zhang Chao was appointed as a member of the Corporate Governance Committee with effect from 25 March 2020.

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 2019, 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 consists of three members, including two Executive Directors, namely Mr. Zhang Haijun and Ms. Fan Xiulan, and one Independent Non-executive Director, namely Mr. Zhang Liguo. Mr. Zhang Haijun is the chairman of the Strategy Committee.

Mr. Zhang Ligang resigned as a member of the Strategy Committee with effect from 23 December 2019. Ms. Fan Xiulan was appointed as a member of the Strategy Committee with effect from 25 March 2020.

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 met twice during the year to perform duties as set out in its terms of reference.

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

Name of Members of the Strategy Committee	Attendance
Mr. Zhang Haijun *(Chairman)*	2/2
Mr. Zhang Ligang (Resigned with effect from 23 December 2019)	2/2
Mr. Zhang Liguo	2/2

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 2019. The Board has reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, 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.

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.

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 2019.

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 78 to 87.

AUDITORS' REMUNERATION

The Company has appointed Pan-China Certified Public Accountant LLP as the auditor of the Company's 2019 consolidated financial statements prepared under PRC Accounting Standards.

The remuneration for the year ended 31 December 2019 paid or payable to the Company's auditors, Pan-China Certified Public Accountant LLP for audit services amounted to RMB2.3 million (including value added tax).

JOINT COMPANY SECRETARIES

Mr. Zhang Chao and Ms. Ng Wai Kam, a manager of Tricor Services Limited ("Tricor")(an external service provider), have been appointed as the Company's joint company secretaries.

Ms. Lo Yee Har Susan of Tricor retired and ceased to be the joint company secretary of the Company with effect from 21 December 2019. Ms. Ng Wai Kam was appointed to fill the casual vacancy with effect from 21 December 2019. Ms. Ng's primary contact person at the Company is Mr. Zhang Chao.

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

Each of Ms. Lo, Ms. Ng and Mr. Zhang has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

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

Additional Registered Address:
No. 268 Lianzhou East Road, 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 addresses 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 2019, the Company held the annual general meeting on 29 July 2019, separate resolutions were proposed at the annual general meeting for each substantial issue.

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
Mr. Zhang Haijun	1/1
Mr. Zhang Ligang (Resigned with effect from 23 December 2019)	1/1
Mr. Wu Jinyu	1/1
Mr. Zhang Chao	1/1
Mr. Zhang Lihuan	1/1
Ms. Fan Xiulan	1/1
Mr. Jip Ki Chi	1/1
Mr. Wang Qi	1/1
Mr. Zhang Liguo	1/1

During the year under review, the Company has amended its Articles of Association. At the annual general meeting held on 29 July 2019, the Shareholders passed a resolution to approve the amendment to the Articles of Association of the Company. Details of the amendments are set out in the circular dated 10 June 2019 to the Shareholders.

At the Extraordinary General Meeting held on 18 March 2020, the Shareholders passed a resolution to approve the amendment to the Articles of Association of the Company. Details of the amendments are set out in the circular dated 10 January 2020 to the Shareholders. 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 2019, 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. 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" (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to allow stakeholders to understand the environmental, social and governance ("ESG") policies, measures and performances of Hebei Yichen Industrial Group Corporation Limited (the "Company") and its subsidiaries (hereinafter referred to as "we", "us" or "our") other than our financial results and business operations.

The report covers the information on the Company's ESG management directions and strategies from 1 January 2019 to 31 December 2019 (the "Reporting Period"). The scope of the ESG Report covers locations where major business processes of the Company are situated. In addition to the headquarter of the Group in Gaocheng district, Shijiazhuang City of Hebei Province, this year's report also includes the Group's acquisition of the new business of manufacturing and selling railway sleepers in Xingtai City of Hebei Province during the Reporting Period.

II. COMPANY BACKGROUND

The Company is a leading rail fastening system provider of the railway industry in China. We have over ten years of experience in providing rail fastening systems, with a well-established quality assurance system and a comprehensive inspection and testing method. Equipped with physical laboratories, chemical analysis rooms and welding laboratories, universal hydraulic testing machines, steel material analysers, metallographic microscopes and ultrasonic flaw detectors. Our supply of rail fastening systems covers the whole country, including all the "Four Vertical and Four Horizontal" high-speed railway corridors. We leverage on our wealth of experience to become one of the few rail fastener system manufacturers in China capable of producing the core components of rail fastener systems. We are able to provide all the components of rail fastener systems continuously through cooperation with our associates. We have also developed a comprehensive portfolio of rail fastener systems to meet the needs of all fields of the rail industry, covering every aspect from high-speed and heavy-haul railway series to regular and urban-transit ones.

We seek development opportunities on a broad scope both at home and abroad. We serve domestic and foreign customers promoting the corporate spirit of "diligence, dedication, innovation and determination" and adhered to the strategy of "scientific management, excellent quality, advanced technology and first-class service". In addition to excellent pre-sales and after-sales tracking services, we keep developing new products according to the requirements of users and market information and embrace high technology.

We are one of the seven preassembled high-speed railway fastening system providers in China with product certification by China Railway Test & Certification Center Limited, and the only private company in Mainland China that has attained such certification. As the state-owned certification body of transportation systems, China Railway Test & Certification Center Limited has formulated strict certification standards for high-speed railway fastening system providers.

In recent years, the Company has participated in a number of "China First" milestone projects and participated in high-speed railway, heavy-haul railway and other railway projects with harsh operational environment.

During the Reporting Period, the Leading Group Office of Hebei Province for Developing Strong Manufacturing Province (河北省製造強省建設領導小組辦公室) announced that the Company was listed into the first batch of manufacturing champions in Hebei Province during 2019 in the Special Action Plan for Cultivating Top Manufacturing Enterprises in Hebei Province (《河北省製造業單項冠軍企業培育提升專項行動實施方案》).

III. OUR ESG COMMITMENTS AND APPROACH

We acknowledge the importance of effective ESG initiatives to business operation. The approach of the Company's ESG work is governed by the board of directors (the "Board") 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 assume the responsibility for assessing and identifying risks in relation to ESG matters. Our Company also has the Measures on Risks and Opportunities (《風險和機遇的應對措施》) in place to ensure proper and effective operation of our risk management and internal control system.

IV. STAKEHOLDERS AND MATERIALITY ASSESSMENT

STAKEHOLDERS

The Company continuously communicates with its stakeholders (including shareholders, customers, staff, suppliers, regulators and the public) from different channels to safeguard their interests, so as to determine the long-term development direction of the Company and maintain close relations with them.

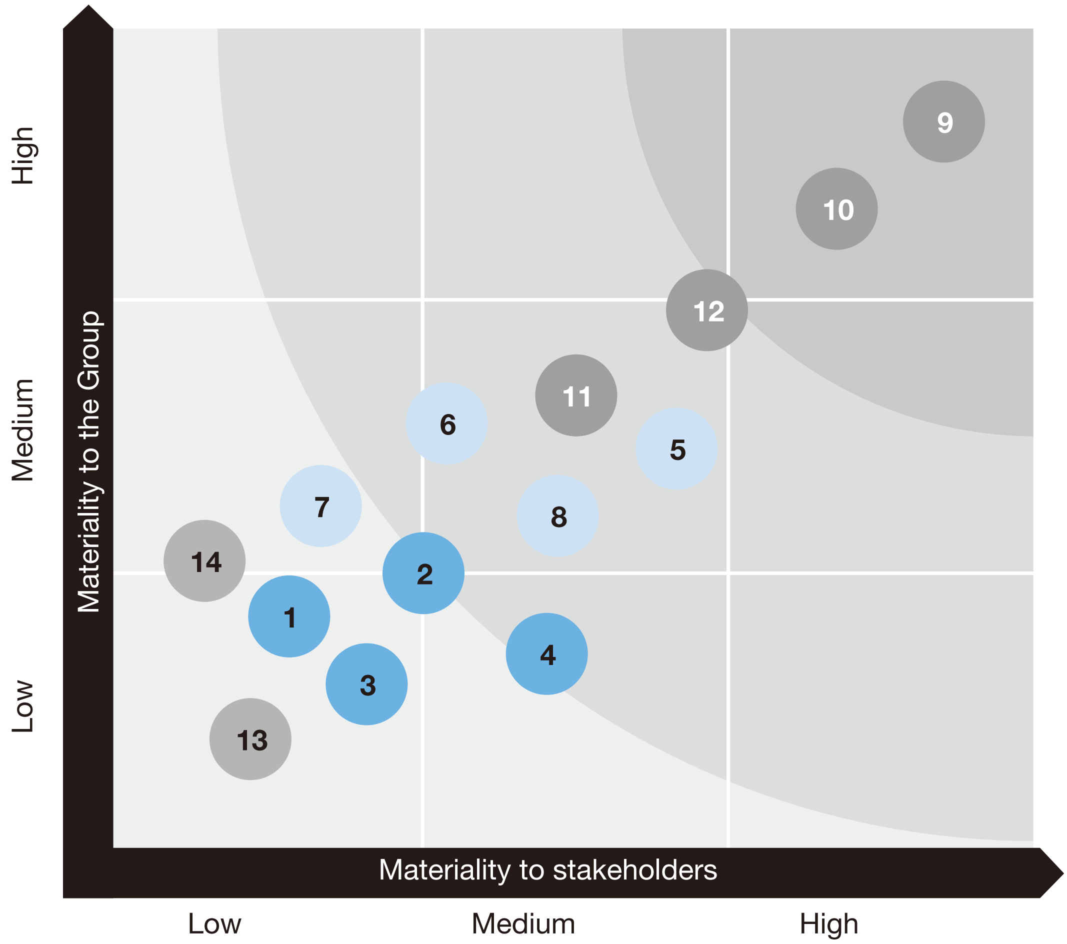
The following table sets out groups of stakeholders, their expectations and communication channels with the Company:

Stakeholders	Expectations	Communication Channels
Governments and regulators	✧ Legal and compliance regulation ✧ Tax payment ✧ Business and economic development ✧ Safe operation ✧ Social contribution	• Financial reports, announcements, notices and other public information • Direct communication by e-mail and phone call • Meeting/seminar participation • Meeting with government officials
Shareholders and investors	✧ Return on investment ✧ Information disclosure ✧ Protection of shareholders' interests ✧ Compliance operation and management ✧ Anti-corruption	• Financial reports, announcements, notices and other public information • General meetings • Roadshow/telephone conference/conference with investors/shareholders • Enquiry through phone call/e-mail • Investors on-site visits • Information disclosure on the websites of the Stock Exchange and the Company
Customers	✧ Product quality ✧ Service quality ✧ Fair and reasonable price ✧ Contract performance ✧ Smooth channels for complaint	• Daily communications • Meeting with customers • On-site inspection • E-mail
Suppliers	✧ Fair competition ✧ Long-term business relationship ✧ Fair and reasonable price ✧ Contract performance	• Daily communication • Meeting with suppliers • On-site inspection • E-mail

Stakeholders	Expectations	Communication Channels
Staff	✧ Protection of staff interests ✧ Occupational health and safety ✧ Staff welfare improvement ✧ Training and career development space ✧ Career development and opportunities	• Staff activities • Staff forums • Staff regular memoranda • Collection of staff opinions through direct communication • Staff training, seminars and briefings • Team building and other cultural events
Local communities, NGOs, potential customers and the public	✧ Employment opportunity ✧ Ecological environment ✧ Community development ✧ Social complex ✧ Enthusiasm for public welfare ✧ Charitable donation ✧ Reduction of pollutant emission	• Charity events • Community investment and service • Stakeholder engagement • Environmental protection activities
Media	✧ Information transparency ✧ Sound relationship with the media	• Information disclosure on the websites of the Stock Exchange and the Company • Financial reports, announcements, notices and other public information

MATERIALITY ASSESSMENT

After communication with stakeholders through the above channels during the Reporting Period, the Company collected a number of potential ESG-related issues and categorised them into various aspects under the HKEx ESG Guide. We then further solicited internal and external information about the Company from employees and external consultants on these issues, and estimated the impact of these ESG issues on the Company to evaluate their materiality. Afterwards, the Board and the management carefully analysed such issues and worked out the materiality assessment results as follows.



Environment

1. Compliance with environmental laws and regulations
2. Environmental protection engagement
3. Greenhouse gases management
4. Waste management

Employees

5. Employee welfare
6. Occupational health and safety
7. Employee diversity
8. Employee training

Business

9. Product safety
10. Product quality
11. Intellectual property rights
12. Supply chain management

Community

13. Community contribution
14. Public welfare engagement

Based on these results, the Company will constantly improve its ESG performance to meet the expectations of its stakeholders and address the risks faced by the Company. During the Reporting Period, the details of our work and key performance indicators (KPIs) defined in the ESG Reporting Guide and considered as relevant and significant to the Company's operations will be introduced in four subject areas, namely "Our Environment", "Our Employees", "Our Business" and "Our Community".

V. OUR ENVIRONMENT

The Company, as a leading rail fastening system provider in the PRC railway industry, is mainly engaged in manufacturing rail fastening systems, and manufactures and sells railway sleepers. The production of rail fastening systems, flux cored wire and railway sleepers would generate certain amounts of exhaust gases and discharge solid wastes.

The Company pays close attention to and strictly complies with the national environmental laws and regulations, including but not limited to the requirements stated in the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》), 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 Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), the Management Measures for Energy Conservation (《節約用電管理辦法》), 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》), 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》) and the Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》). We have formulated the Working System for Energy Management (《能源管理工作制度》), which stipulates the Company's energy management organisation and post responsibility system, and the management requirements and standards for the measurement of electricity, water and gas consumption, statistical reports, consumption costs and other aspects, with energy conservation and consumption reduction as the core.

Our KPI results relating to emissions and wastes disposal as well as energy and resources consumption for the Reporting Period are presented in the following paragraphs.

A1: Emissions and Wastes

Air Emissions and Greenhouse Gas Emissions

Details of air emissions and greenhouse gas emissions by the Company for the year are summarised as follows:

(Unit: kg)		2019		2018 (Note 3)	
Type of air emissions	Sources of emission	Emissions	Density (Note 1)	Emissions	Density (Note 1)
Nitrogen oxides (NOx)	• Natural gas • Company's vehicles	**1,863.07**	**1.44**	1,208.92	1.11
Sulphur dioxides (SOx)	• Natural gas • Company's vehicles • Forklifts • Tractor shovels	**462.51**	**0.36**	298.97	0.27
Particulate matters (PM) (Note 2)	• Natural gas • Company's vehicles	**185.71**	**0.14**	120.31	0.11

(Unit: Tonne of CO_2e) (Note 4) Scope of greenhouse gas emission	Sources of emission	2019 Emissions	2019 Density (Note 1)	2018 Emissions	2018 Density (Note 1)
Scope 1 Direct emission	• Natural gas consumption • Unleaded gasoline and diesel consumed by vehicles • Refrigerant	**2,430.07**	**1.88**	1,803.70	1.65
Scope 2 Indirect emission	• Consumption of electricity	**108,266.19**	**83.89**	101,740.09	93.06
Scope 3 Other indirect emission	• Flight for business travel • Waste paper • Water consumption and government's sewage treatment	**80.77**	**0.06**	75.71	0.07
Total		**110,777.03**	**85.83**	103,619.50	94.78

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

Note 2: It was mainly attributable to natural gas consumption for heating by the Company and fuel consumption by its vehicles. Certain amount of dust (i.e. particulate matters (PM)) is also produced during the casting process of the Company, but no dust emission could be ensured upon processing via dust removal devices. Besides, the residual dust, which may be randomly discharged, cannot be accurately measured and hence is not included in the table above.

Note 3: The calculation of air emissions of natural gas was changed to national standard emission factor in 2019. To conform with the comparability under the ESG Reporting Guide of the Stock Exchange, the 2018 air emissions figures of natural gas were restated according to national standard emission factor, to compare with the figures for the current year.

Note 4: 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).

As natural gas and electricity are the main resources consumed by the Company, the direct carbon emissions are relatively low, of which the emission from consumption of unleaded gasoline and diesel by the Company's vehicles belongs to the mobile sources of greenhouse gas emissions. To further reduce the air and greenhouse gas emissions from our vehicles, the Company has replaced its vehicles and transporters with electric ones and all its forklifts with those in line with the National III emissions standard, while exhaust purification devices are installed invariably coupled with regular maintenance to ensure the best fuel efficiency performance.

As for the dust produced during the casting process, we conduct rigorous control and regular maintenance to ensure normal operation of our environmental governance facilities and reduce the density of PM emissions. We also put forward rectification measures on organised and unorganised dust emissions. In terms of organised dust emissions, the dust collected by air collection hoods will be discharged through a 15-metre high exhaust mast upon processing by water spray and bag-type dust filters. As to unorganised dust emissions, our production processes take place in fully enclosed space operations to reduce such dust emissions. A micro-mist dust reduction system is installed in our workshop aisles to ensure air humidity and mitigate unorganised emissions. In addition, a fresh air system is installed on the top of our workshops to ensure air circulation in the workshops.

The Company added the railway sleeper production and sale business during the year. Its production process involves boiler combustion of natural gas, as well as small consumption of gasoline, diesel, electricity, paper and water. Burning natural gas would generate nitrogen oxides, sulphur dioxides and other direct air and greenhouse gas emissions, resulting in an overall increase in air and greenhouse gas emissions of the Company, whereas the per capita indirect and other greenhouse gas emissions declined by approximately 10% to 14%.

During the Reporting Period, the Company's indirect carbon emission in Scope 2 amounted to approximately 108,266 tonnes (2018: 101,740 tonnes), which was primarily caused by purchasing electricity for electro-mechanic processing through electric furnaces. More electricity consumption was also mainly attributable to production increase. 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 its plants generated a total of about 722,016 KWh of electricity for the year (2018: 778,770 KWh), with indirect carbon emissions cut by approximately 807 tonnes (2018: 825 tonnes). Furthermore, during the year, the Company also planted 1,488 (2018: 68) trees in its new factories, which reduced indirect carbon emissions by approximately 34 tonnes (2018: 2 tonnes).

Other indirect emissions under Scope 3 were mainly attributable to the indirect greenhouse gas emissions by employees taking flights for business trips and the sewage treatment by the government. Per capita greenhouse gas emissions in 2019 were similar to the previous year, as a result of our effective control of business travel and maximum use of electronic conference to mitigate the emissions caused by business trips.

The Company's emissions reduction measures are detailed in the part headed "Environmental Protection Measures" below.

Hazardous and Non-hazardous Wastes

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

(Unit: tonnes)		2019		2018	
Type of waste	Hazardous/ non-hazardous	Volume generated	Density (Note 1)	Volume generated	Density (Note 1)
Waste motor oil	Hazardous	**2.4**	**<0.01**	2.2	<0.01
Waste sand	Non-hazardous	**10,332.1**	**8.01**	6,327.2	5.79
Waste iron	Non-hazardous	**2.0**	**<0.01**	–	–

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

Hazardous wastes generated by the Company mainly include waste motor oil generated in the course of production. Certain waste motor oil will be transferred and reused in the thread rolling process of equipment workshops, and stored in hazardous waste storage rooms which comply the requirements of safety regulations. Furthermore, the Company also engages qualified independent third parties to handle the hazardous waste generated in the course of our production each year on a regular basis.

In respect of non-hazardous wastes, our foundries generate waste sand. To obtain accurate data on waste sand, we changed our method of data collection this year to calculate the weight of such sand by bale, leading to fewer errors and accurate data presented to our stakeholders. As such, the amount of waste sand surged for the year. The controlled subsidiary Xingtai Juneng would also generate scrap raw materials during its course of production, these non-hazardous wastes raw materials are centrally collected, classified, reorganised, stored, recycled and reused by the Company.

As for other non-hazardous wastes which are not from raw materials (including the packaging material from suppliers, domestic waste and office waste), the Company would sort and place them in the garbage transfer station, be handled by municipal environmental services authorities. Given the small amount of such wastes, no statistics are provided herein.

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 operational efficiency.

Details of our energy and water consumption during the year and the previous year are as follows:

		2019		2018	
Type of energy	**Unit**	**Volume consumed**	**Density (Note 1)**	Volume consumed	Density (Note 1)
Electricity	MWh	**97,639**	**75.66**	91,814	83.98
Including:					
Purchased electricity	MWh	**96,917**	**75.10**	91,075	83.30
Self-generated power (Note 2)	MWh	**722**	**0.56**	739	0.68
Natural gas	m^3	**836,615**	**765.25**	539,562	493.54
Gasoline	litres	**77,837**	**71.20**	73,312	67.06
Diesel	litres	**76,178**	**69.68**	70,199	65.17

	Unit	**2019**	2018
Total water consumption	tonnes	**3,208.50**	2,827.00
Density (Note 1)	tonnes	**2.93**	2.58

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

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

The Company mainly consumes energy such as natural gas and electricity during its course of production. More electricity consumption than last year was mainly attributable to the increase in production. The water used in factories mainly comprises recycled supplemental water of the cooling system and domestic water consumption by the staff, with no issue found in respect of sourcing suitable water supply. Though the cooling system requires a substantial amount of water as coolant, such water can be recycled and reused, which results in limited discharge. Our water consumption decreased by 59 tonnes or 2% as compared to the previous year. Water is also used for office consumption, with relevant domestic sewage generated and discharged to the municipal pipe network and collectively handled by relevant government authorities along with other community sewage.

Packaging Materials

Packaging materials used for packing finished products mainly include plastic and paper, whose consumption during the year and the previous year are as follows:

(Unit: tonnes)	2019		2018	
Type	Consumption	Density (Note 1)	Consumption	Density (Note 1)
Paper	**1,078**	**0.84**	1,081	0.99
Plastic	**1,377**	**1.07**	1,188	1.09
Total	**2,455**		2,269	

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

Our plastic consumption increased by approximately 189 tonnes as compared to the previous year, but per capita consumption decreased by 2% mainly because increase in production, which led to more consumption of plastic packaging materials. As for paper consumption, we endeavour to adopt paperless during the Reporting Period and recorded a slight decline in paper consumption during the year, which represented the success of such measures.

Details of our environmental conservation measures regarding use of resources and energy, water and packaging materials are illustrated in the following section headed “Environmental Protection Measures”.

A3: Environment and Natural Resources

The Company’s business activities will not cause a significant impact on the environment and natural resources. Exhaust gases, the primary pollution source during the production course of the Company, has not caused a significant impact on the environment, natural resources and natural environment after the upgraded regulatory control by the Company on the pollutants generated by exhaust gases emission.

The Company attaches the importance to environmental protection and implements its environmental policy by paying close attention to product manufacturing process, production practices and use of production materials, including recovery, proper processing and effective utilisation of wastes and resources as well as substitute materials, with the aim to prevent, reduce or control pollution, minimise the adverse effect on the environment, and improve the overall efficiency of the Company. Its environmental protection measures implemented during the Reporting Period are as follows:

Environmental Protection Measures

I. Post reminder slogans via the Company’s radio, large screens and bulletin board and in public areas to encourage employees to save water, such as posting paper conservation slogans in office, production workshops and washrooms to improve employees and visitors’ environmental protection awareness;

II. Place recycling bins in office and remind employees of strictly separating recyclable and non-recyclable wastes;

III. Regularly update the Company's policies and procedures, and incorporate environmental protection rules and standards into its daily work process. By adopting such policies and procedures, we encourage employees to work and behave in the following methods to save energy, resources and reduce greenhouse gas emissions:

1. Turn off electronic equipment such as computers, printers and electric water heaters to save energy and reduce emissions when they are not in use or when people leave the office;

2. Advocate green travel and car-sharing for business trips to reduce carbon emissions; the Company's vehicles are under unified management by the office, which will make reasonable arrangement for vehicle time and route after its approval of application;

3. Regularly examine electronic equipment to ensure safety and operational efficiency. For enhancing power efficiency and saving electricity, the Company continued with the harmonic management (i.e., improve the quality of electric power to mitigate the impact on the quality of industrial products) and grid transformation, commenced the upgrade and replacement of equipment with high energy consumption as scheduled with the aim to eliminate all dilapidated motors with high energy consumption;

4. Require the procurement department to prioritise high-efficiency and energy-saving products when purchasing electric appliances, such as energy-saving motors, lamps and air conditioners;

IV. Use the electronic system for office communication in the Company to minimise unnecessary meetings, document printing and physical document exchange, and reduce travel, paper and print toner consumption, as well as indirect carbon emissions caused by express delivery;

V. Sell the waste sand generated in casting process to external recycling parties as the raw material for bricks, so as to minimise the environmental impact;

VI. Effectively utilize the residues of raw and auxiliary materials from the production process, and encourage resource reuse and recycling;

VII. Strictly monitor the consumption of raw and auxiliary materials in the production process, to avoid unnecessary waste and encourage employees to make full use of raw materials;

VIII. Adopt advanced technology and equipment to carry out energy-saving transformation of the original equipment, in a bid to improve energy utilisation efficiency and process yield;

IX. Adopt air compressors and water-cooled air pumps to turn waste heat from mass production process into energy, to supply heat to workshops and hot water for employees' living, and reduce other energy consumption;

X. Adhere to the principle of simplicity, high efficiency and convenient use for customers in the Company's product packaging, with more adoption of simple tonnage bags and cartons. The Company has a packaging material recycling measure in place for certain areas, under which the Company may handle for its clients the packaging materials (such as tonnage bags) of such products that reach railway construction sites and get unloaded, with such packaging materials available fur reuse after recovery.

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

VI. EMPLOYEES

B1: Employment

During the Reporting Period, the Company strictly comply to the relevant requirements of laws and regulations such as the Labour Law of the PRC (《中華人民共和國勞動法》) and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), to safeguard the legitimate rights of its employees, treated all of them fairly regardless of race, gender or age, and prohibited discrimination. Meanwhile, the Company continued to enhance employees' benefits to reinforce their sense of belonging.

In accordance with the tenet of fairness, impartiality and merit-based selection, we have formulated the Administrative Measures for Staff Recruitment and Hiring (《職工招聘錄用管理辦法》) to standardise the procedures for recruitment and employment, which are implemented and managed by the human resources department. In addition, to strengthen and improve the management of labour contracts, the Company has formulated the Labour Contract Management Regulations (《勞動合同管理規定》) to regulate the signing, performance, change, renewal, termination or rescission of contracts with our employees.

To regulate employee remuneration management, the remuneration management committee has formulated the Remuneration Management Measures (《薪酬管理辦法》) in line with the Company's strategic development plan, in an effort to be competitive externally and fair internally, allow its incentives system and restraint functions to play an effective role, adhere to the principle of improving employee motivation, and determine remuneration based on factors such as work content and ability, job performance and contribution to the Company. The human resources department is responsible for the interpretation, implementation and supervision of the revision and execution of organizational institutions. The Company's remuneration design is classified according to different categories of human resources, and focuses on reflecting the value of positions and individual contribution. The Company encourages employees on long-term service, to work for the continuous growth and sustainable development of the enterprise and share the happiness of the Company development.

Aside from that, the Company has set up bonuses to award employees who have made significant contributions or outstanding performance. To attract special talents to join the Company and encourage technical, operational and management talents who have made achievements, the Company has established special talent subsidies.

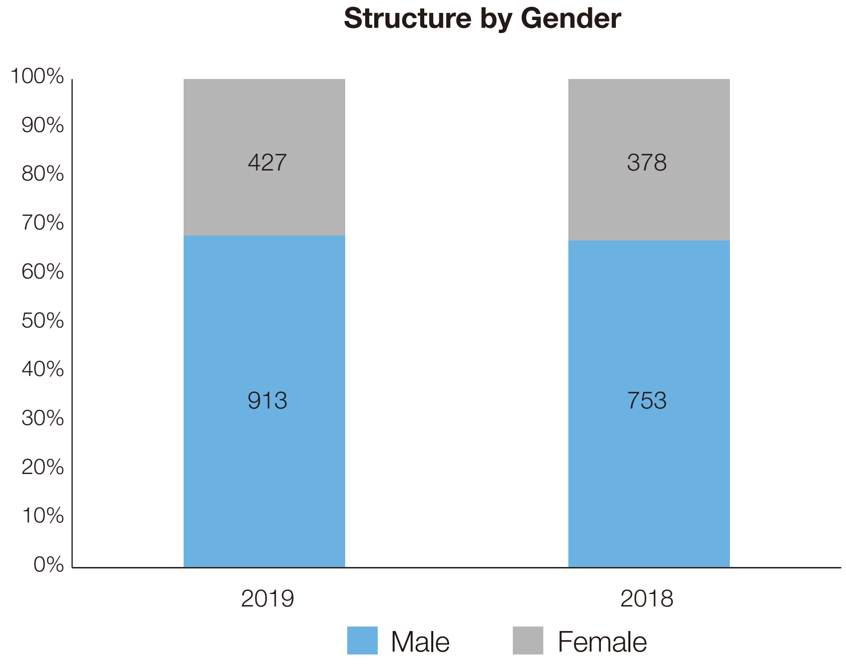
In terms of employee promotion, the Company has established a performance assessment team responsible for performance assessment, studying and devising annual assessment indicators, coordinating disputes arising from assessment and reporting assessment results to the Board. The assessment takes place in the principle of fairness, openness and equality. Therefore, we have formulated the Outline for Comprehensive Performance Assessment (《綜合績效考核大綱》) to set out the assessment principles, indicators and measures.

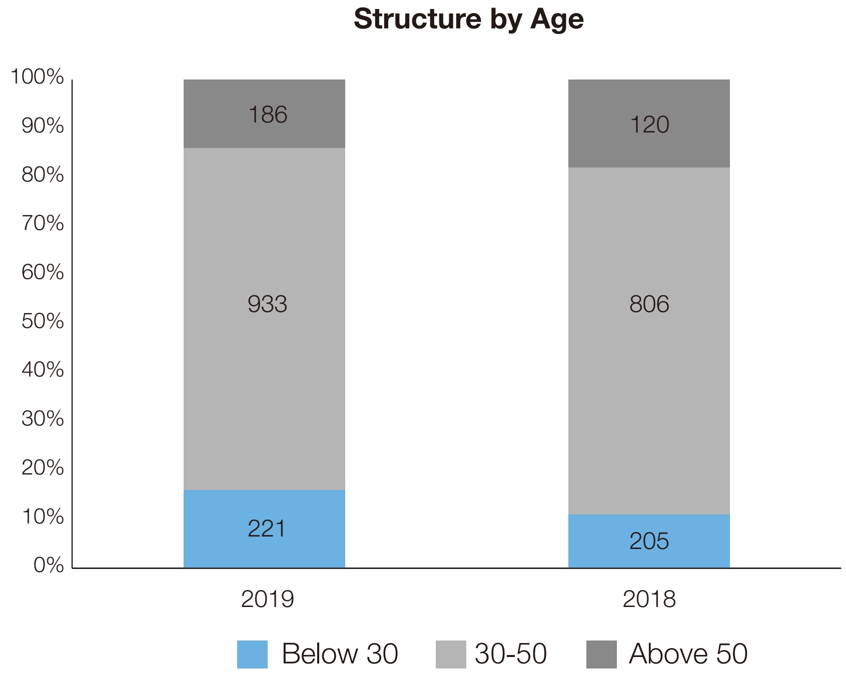
In terms of holiday management, the Company has formulated the Staff Attendance Management Rules (《職工考勤管理細則》) to manage employees' working hours and holiday arrangements. Employees are entitled to fixed rest days, statutory holidays, wedding leave, funeral leave, maternity leave, work injury leave, personal leave and sick leave. Furthermore, in accordance with the Special Provisions on the Labour Protection of Female Employees (《女職工勞動保護特別規定》) issued by the State Council, the Company has also set out measures in the rules to regulate the management of female employees during lactation and protect their legitimate rights and interests.

The Company provides basic pension and medical insurance, unemployment insurance, work injury insurance, maternity insurance, holiday gifts, subsidies for employees in need, heatstroke prevention supplies, etc., to serve protection to address the qualified employees' concerns apart from basic salary and various allowances.

Our Workforce

As at 31 December 2019, the Company had a total of 1,340 employees (2018: 1,131), including 112 employees from acquired companies, all of which came from China. All the employees were on full-time basis (2018: 1,128 full-time employees and 3 part-time employees). The following table illustrates the employee structure categorised by gender and age:

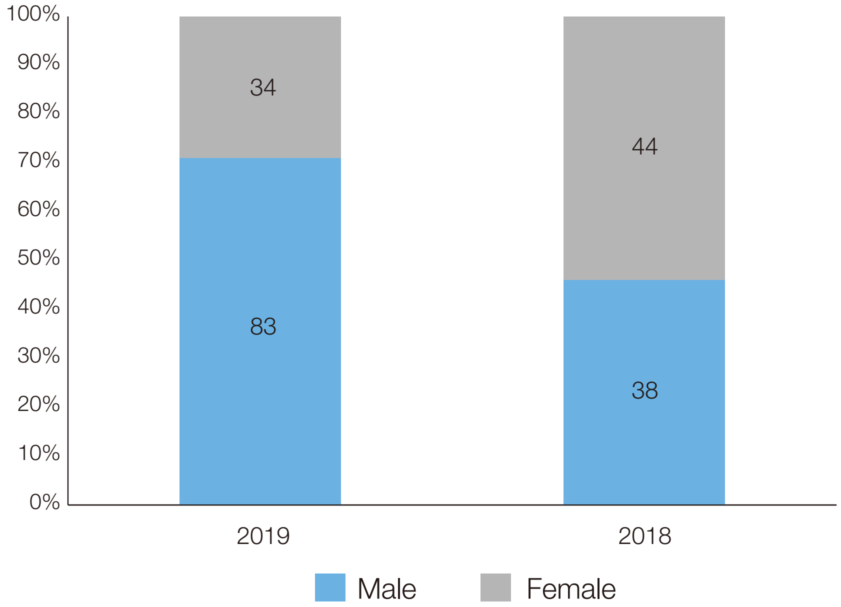




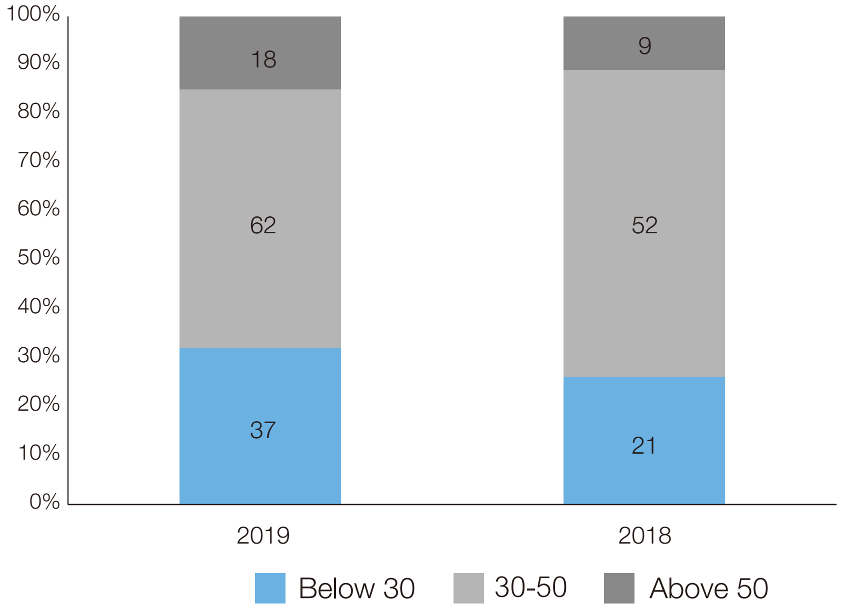
Employee Turnover

As of 31 December 2019, the Company recorded a total of 117 (2018: 82) employee departures, including 36 employees from its companies acquired in 2019. These employees are categorised by gender and age as shown in the following table:

Structure by Gender (Staff Turnover)



Structure by Age (Staff Turnover)



During the Reporting Period, the Company did not incur any material non-compliance cases in relation to labour practices (2018: nil).

B2: Health and Safety

The Company highly values the protection of staff rights and interests, workplace safety and health protection, emphasises on vocational skills training and safety training, strives to protect staff from work injuries 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》), the Labour Law of the PRC (《中華人民共和國勞動法》), the Fire Control Law of the PRC (《中華人民共和國消防法》), the Law on Prevention of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》), the Measures for the Supervision and Administration of Occupational Health Surveillance (《職業健康監護管理辦法》), the Decision of the State Council on Further Strengthening Production Safety (《國務院關於進一步加強安全生產工作的決定》), the Production Safety Regulations of Hebei Province (《河北省安全生產條例》) and the Standard on Work Safety Standardisation of Machinery Manufacturing Enterprises (《機械製造企業安全生產標準化規範》) so that the employees can work in a safe and healthy work environment.

In order to implement the policy of "Safety First, Risk Prevention and Integrated Management", the Company formulated the "Compilation of Safety Regulations" (《安全規章制度彙編》) to clarify the safety production responsibilities of personnel and functional departments at all levels, standardise the rights, obligations and safety behaviours of all departments and employees of the Company, strictly implement the various requirements of the occupational health regulations in specific production process, strengthen the publicity of occupational disease prevention, and adopt measures including advanced technology and equipment, management improvement and integrated utilisation to prevent occupational disease hazards from the source.

In order to protect employees' safe production and physical health, prevent hazardous substances to ensure the smooth operation of production and operation, the Company has formulated the Distribution Standards and Management Rules for Labour Protection Supplies of Employers (《職工勞動防護用品發放標準及管理規定》) for reasonable distribution in accordance with relevant national regulations and its own actual situation. The Safety Office is responsible for the centralised administration of the aforesaid regulation.

During the Reporting Period, the Company continued to maintain the operation of its occupational health and safety system. For instance, the Company arranged annual physical check-ups for employees and established the Occupational Health Archives (《職業衛生檔案》) to record the details of each employee including name, gender, age, birthplace, the results of previous occupational health inspections and the processing situation. The Company works to ensure the effective provision and use of occupational disease protection facilities and that the concentration or intensity of occupational hazards in workplace meets national occupational health standards, reduce the risk of occupational hazardous accidents and protect workers' physical health. The Company undergoes pre-employment and resignation physical examinations for new employees and departing employees, respectively, and the Safety Office regularly provides occupational health inspections for the Company at the same time.

The Company organised different types of safety training every month, and introduced safety tips in routine broadcast. Moreover, members of safety inspection staff are entitled to check, penalise and rectify immediately for potential safety risks such as irregular operations and improper wearing of labour protection gears 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 (2018: nil).

B3: Development and Training

The Company believes that employees are the most valuable assets of the Company. For the purpose of improving staff performance, quality work capabilities and understanding of corporate culture, as well as systematically enriching their knowledge and skills to develop their potential capabilities and establish good relationships, we have formulated the Training Management System (《培訓管理制度》) to provide relevant training for employees in different functions. Pursuant to this system, training content is designed and arranged based on corporate regulations and systems, staff duties and operating skills. The system also sets out various training plans, implementation, supervision, appraisal as well as improvement suggestions.

Staff Training

In 2019, the training courses organised by the Company covered various aspects such as safe production, quality management, production environment and occupational health, and operation management skills, with the particulars shown in the table below (not including Xingtai Juneng, as it was acquired in 2019 and has not properly sorted out its training record, with no statistics on training hours):

	2019	2018
Total number of employees trained (person)	**1,411**	1,093
Total duration of training (hour)	**5,264**	7,767
Total average training hours (hour/person)	**3.73**	7.10
Average training hours completed per employee by gender (hour/person)		
– Male	**3.78**	6.62
– Female	**3.65**	8.08
Average training hours completed per employee by employee category (hour/person)		
– Senior management	**–**	11.41
– Middle management	**3.08**	3.94
– Other employees	**3.74**	7.14

There was a decline in total training hours and total average training hours for the year, as the Company deleted some content with low training value. Instead, training focused on recording training videos for workshop positions in 2019. Furthermore, in respect of work skills and staff quality training, the Company has introduced the Jinlanmeng online training platform, with pilot running in 2019 and no training hours counted. The platform will commence formal operation in 2020.

B4: Labour Standard

During recruitment, the Company is responsible for providing applicants with the information of the job, including responsibilities, working conditions and location, occupational health and safety, production safety and remuneration, etc.

The Company stipulates in the Measures for the Administration of Labour Contracts (《勞動合同管理辦法》) that the human resources department is responsible for verifying the authenticity of the information (such as resumes, ID cards and certificates) provided by job applicants. The applicants shall present their valid ID cards when signing labour contracts, which, together with other related employment documents shall be signed on site and shall not be signed on behalf of the job applicant, to avoid the employment of illegal labour or child labour or signing a labour contract with the party in violation of his/her real intention.

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 according to the Labour Law. The Rules of Staff Attendance and Management (《職工考勤管理細則》) sets out overtime management. For employees who effectively work overtime, the Company will arrange for employees to make up for rest or pay overtime in accordance with law. The Company prohibits forced labour in all forms.

The Company strictly abides by the Labour Law and Labour Contract Law of the PRC and related laws and regulations. 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 (2018: nil).

VII. OUR BUSINESS

The Company is a leading rail fastening system provider in the railway industry of China. Supply chain management and product responsibility 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 order to strengthen the management of suppliers and ensure that the supplies procured comply with requirements, the Company has formulated the Procurement Control Procedures (《採購控制程序》) so that suppliers with great potential can enter the Company's supply system to provide quality assurance for the Company's products. Before selecting a new supplier, we conduct on-site inspections and collect valid business and quality certificates such as the Legal Person Business License, Tax Registration Permit, Quality Inspection Report, Certification in Quality Management System and market reputation; we also test the products of product suppliers, who can only become the suppliers of the Company and be listed in its "Qualified Supplier Catalogue" (《合格供方名錄》) after passing the test samples.

In selecting suppliers, we evaluate their quality, costs, delivery and services. For the suppliers of material resources, the Company has established strategic cooperation relationship with qualified long-term suppliers to ensure the quality of procurement. As for suppliers that have collaborated with us all along, we will also conduct periodic evaluation, using the Supplier Cycle Assessment Form (《供方周期評估表》) to score suppliers once a year, and issue a Treatment List for Corrective and Preventive Measures (《糾正和預防措施處理單》) to suppliers who have scored but failed to meet the highest requirements. They have to rectify within the time limit; otherwise their supplier qualification will be cancelled, and unqualified suppliers will have their supplier qualification directly cancelled.

During the Reporting Period, the Company had a total of 785 (2018: 436) qualified suppliers, among which strategic cooperation partners provided the material resources. 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 Responsibility

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 to be safe, reliable, usable and possible to repair.

The Company formulated the Administrative Measures for Return and Replacement (《退換貨管理辦法》) to establish product return and replacement processing mechanism to satisfy customer's demands on return and replacement, with the specific procedure including acceptance on deviation, repair, replacement or return of goods. At the same time, the relevant department shall analyse the reasons and adopt corresponding rectification or precautionary measures.

During the Reporting Period, the Company did not sell or deliver products that needed to be recalled for safety and health reasons, or received any complaints about product quality or other issues (2018: nil).

The Company places strong emphasis on upgrading its production process and developing new products and continuously organises and carries out process improvement and performance upgrade. The Company also applies products to domestic railway construction, pays attention to intellectual property protection, and organises employees to actively participate in various technological innovation activities of the Company. New materials, products, technologies, processes, formulas and designs involved in our R&D activities are patented and incorporated into the Company's intellectual property protection. The Company will give spiritual and material rewards for innovation achievements and patents based on different situations, and protect the rights of authorship. As of the end of 2019, the Company had accumulated a total of 45 patents, including 39 valid patents and 6 patents in application.

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》), the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) 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 including the Anti-commercial Bribery Management Regulations (《反商業賄賂管理規定》) and the Anti-fraud Management Regulations (《反舞弊管理規定》) 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. The Internal Audit Department will carry out the audit work according to the content of the report by the whistle-blower, and submit the audit results to the audit committee and relevant management. In case of involving offence of the national law, the case shall be referred to a judicial authority 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 (2018: nil).

VIII. OUR COMMUNITIES

B8: Community Investment

The Company actively participates in community charity and was involved in the following community contribution and public welfare activities:

- On 4 January 2019, the Company held another voluntary blood donation activity, with a total of 22 staff participants and an accumulated blood donation of 8,800 ml.

- On 26 January 2019, the Company visited underprivileged households, bringing flour, rice, millet and oil as well as its New Year's blessings to 11 such households.

- On 30 July 2019, the Company donated RMB248,000 to the General Charity Federation of Gaocheng District of Shijiazhuang City (石家莊市藁城區慈善總會).

In conclusion, during the year, the Company initiated a series of work on environment protection and community care. We will invest more in environment protection and continue to fulfill our corporate responsibilities on environment protection and society.

AUDITORS' REPORT

Tian Jian Shen [2020] No. 3-317

TO THE SHAREHOLDERS OF HEBEI YICHEN INDUSTRIAL GROUP CORPORATION LIMITED

1. OPINION

We have audited the financial statements of Hebei Yichen Industrial Group Corporation Limited (hereinafter "Yichen Industrial Corporation"), which comprise the consolidated and parent company balance sheet as at 31 December 2019, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity for the year of 2019, and relevant notes to the financial statements.

In our opinion, the attached financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Yichen Industrial Corporation as at 31 December 2019 and the consolidated and parent company's financial performance and cash flows for the year of 2019 in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the audit report. We are independent of Yichen Industrial Corporation and have fulfilled our other ethical responsibilities in accordance with the China Standards on Auditing's Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. KEY AUDIT MATTERS

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

(1) Revenue recognition

1. Description of the matter

For relevant information disclosure, see Notes 3(23) and 5(2)1 to the financial statements.

Yichen Industrial Corporation generated its revenue mainly from the sales of products such as rail fastening system, flux cored wire and railway sleepers. In 2019, Yichen Industrial Corporation's revenue amounted to RMB1,138,675,870.66.

Yichen Industrial Corporation sells products like rail fastening system, flux cored wire, railway sleepers and etc., and fulfills its performance obligations at a certain point of time. The recognition of the revenue from the domestic sales of products should meet the following conditions: Yichen Industrial Corporation has transported the products to the project sites based on contract and the project construction unit has signed for receipt, the payment has been recovered or the receipt of goods has been obtained, the relevant economic benefits are likely to flow in, significant risks and rewards of ownership of the goods have been transferred, and the customer has obtained control over the goods. The recognition of the revenue of the exported products should meet the following conditions: Yichen Industrial Corporation has declared the goods according to the contract, obtained the bill of lading, has recovered the payment or obtained the receipt certificate and the relevant economic benefits are likely to flow in, significant risks and rewards of ownership of the goods have been transferred, and the customer has obtained control over the goods.

Since revenue is one of the key performance indicators of Yichen Industrial Corporation, there may be inherent risks that the management of Yichen Industrial Corporation (the "Management") may use inappropriate revenue recognition to achieve specific goals or expectations. Therefore, we have identified revenue recognition as a key audit matter.

3. KEY AUDIT MATTERS *(Continued)*

(1) Revenue recognition *(Continued)*

2. Audit response

With regard to revenue recognition, our audit procedures mainly include:

(1) Obtain an understanding of key internal control relevant to revenue recognition, assess the design of such control to confirm whether they are implemented, and test the operation effectiveness of relevant internal control;

(2) Examine the main sales contract, understand major contract terms or conditions, and evaluate whether the revenue recognition policy are appropriate;

(3) Implement analysis procedures for revenue and gross profit margin by month, products, customer and etc., identify whether there are significant or abnormal fluctuations, and look into the causes of fluctuations;

(4) For revenue from domestic sales, check supportive documents related to revenue recognition on a sampling basis, including sales contracts, orders, sales invoices, delivery order, and customer receipts, etc.; for exported revenue, obtain electron port information and verify them with book records, check the supportive documents on a sampling basis, such as sales contracts, export declarations, freight bills of lading, sales invoices and etc.

(5) Confirm the sales for the current period with major customers on a sampling basis, taking into account the confirmation letter of accounts receivable;

(6) Run a cutoff test on the revenue recognized before and after the balance sheet date, and evaluate whether the revenue was recognized during an appropriate period;

(7) Obtain sales return records after the balance sheet date and inspect whether there exist cases that the revenue recognition conditions were not satisfied on the balance sheet date;

(8) Check if information related to revenue were appropriately presented in financial statements.

3. KEY AUDIT MATTERS *(Continued)*

(2) Impairment of accounts receivable

1. Description of the matter

For relevant information disclosure, see Notes 3(10) and 5(1)4 to the financial statements.

As of 31 December 2019, the book balance of accounts receivable of Yichen Industrial Corporation was RMB1,008,431,723.15, the provision for bad debts was RMB112,786,196.34 and its book value was RMB895,645,526.81.

Based on the credit risk characteristics of each accounts receivable, the Management measures its loss provision at an amount equivalent to the lifetime expected credit loss on either an individual basis or a collective basis of accounts receivable. For accounts receivable with the expected credit loss measured on an individual basis, the Management, taking into full account of reasonable and supportable information relating to historical matters, current conditions and the expectation of future economic conditions, estimates the cash flow expected to receive and determines the provision for bad debts accordingly; for accounts receivable with the expected credit loss measured on a collective basis, the Management classifies groups based on aging and, with reference to the historical credit loss experience, makes adjustments based on the forward-looking estimates, prepares a comparison table for accounts receivable aging and expected credit loss rate, and determines the provision for bad debts accordingly.

Since the amount of accounts receivable is significant, and impairment of accounts receivable involves significant management judgment, we determine the impairment of accounts receivable as a key audit matter.

3. KEY AUDIT MATTERS *(Continued)*

(2) Impairment of accounts receivable *(Continued)*

2. Audit response

With regard to impairment of accounts receivable, our audit procedures mainly include:

(1) Obtain an understanding of key internal control relevant to impairment of accounts receivable, assess the design of such control to confirm whether they are implemented, and test the operation effectiveness of relevant internal control;

(2) Review the subsequent actual writing-off or reversal of accounts receivable that were provided for bad debts in previous years and evaluate the accuracy of historical expectations made by the Management;

(3) Review the relevant consideration and objective evidences of credit risk assessment on accounts receivable and evaluate whether the Management has appropriately identified the credit risk characteristics of each accounts receivable;

(4) For accounts receivable with the expected credit loss measured on an individual basis, obtain and inspect the Management's forecast on the expected collection of cash flow, evaluate the reasonableness of key assumptions used in the forecast and the accuracy of data, and verify them with external evidences obtained;

(5) For accounts receivable with impairment testing conducted on a collective basis, evaluate the reasonableness of identifying groups by the Management based on credit risk characteristics; evaluate the reasonableness of the aging of accounts receivable determined by the Management based on historical credit loss experience and forward-looking estimates and the comparison table of expected credit loss rate; test the accuracy and completeness of the data (including accounts receivable aging, historical loss rate and migration ratios) used by the Management and whether the calculation of the provision for bad debts is correct;

(6) Check the subsequent recovery of accounts receivable and evaluate the reasonableness of the Management's provision for bad debts;

(7) Check if information related to the impairment of accounts receivable were appropriately presented in financial statements.

3. KEY AUDIT MATTERS *(Continued)*

(3) Impairment of goodwill

1. Description of the matter

For relevant information disclosure, see Notes 3(19) and 5(1)16 to the financial statements.

As of 31 December 2019, Yichen Industrial Corporation's original carrying amount of goodwill was RMB114,280,454.01, impairment provision was RMB11,540,960.76 and carrying amount was RMB102,739,493.25.

The Management performs an impairment test on goodwill when there is an indication of impairment of asset group or asset group combination in relation to goodwill and at the end of each year. When impairment test is performed by the Management on goodwill together with its relevant asset group or asset group combination, the recoverable amount of the relevant asset group or asset group combination will be calculated and determined according to the present value of the expected future cash flows. Key assumptions used in the impairment test include: detailed forecast period revenue growth rate, perpetual forecast period growth rate, gross profit margin, discount rate and etc.

Due to the significant amount of goodwill and the fact that impairment test on goodwill involves significant judgments of the Management, we determine the impairment of goodwill as a key audit matter.

3. KEY AUDIT MATTERS *(Continued)*

(3) Impairment of goodwill *(Continued)*

2. Audit response

With regard to the impairment of goodwill, our audit procedures mainly include:

(1) Obtain an understanding of the key internal control related to the impairment of goodwill, assess the design of such control to confirm whether they are implemented;

(2) Understand and assess the competence, capabilities and objectivity of the external valuer hired by the Management;

(3) Assess the reasonableness and consistency of methods used by the Management in the impairment test;

(4) Understand the key assumptions and methods used in the identification of the asset group of Yichen Industrial Corporation's goodwill and the goodwill impairment test, and discuss with the Management of Yichen Industrial Corporation and the external valuer to assess the reasonableness of the relevant assumptions and methods, and review whether the relevant assumptions are consistent with the overall economic environment, industry conditions, operating conditions, historical experience, operating plans, and other assumptions related to the financial statements used by the Management;

(5) Review the reasonableness of the cash flows forecast level and the discount rate used by comparing the historical performance of the relevant asset group and the business development plan;

(6) Test the accuracy, completeness and relevance of data used by the Management in the impairment test, and review the internal consistency of the relevant information in the impairment test;

(7) Test if the Management's calculation of the present value of expected future cash flows is accurate;

(8) Check whether the information on goodwill impairment has been properly presented in financial statements.

4. OTHER INFORMATION

The Management is responsible for other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report. The annual report is expected to be provided after the date of the audited report.

Our opinion expressed on the 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 financial statements, our responsibility is to read these information when we are able to obtain the aforementioned other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management are responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and to enable such internal control to be fairly reflected, designed, exercised and maintained as the Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management are responsible for assessing Yichen Industrial Corporation'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 intend to liquidate, or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of Yichen Industrial Corporation are responsible for overseeing Yichen Industrial Corporation's financial reporting process.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing 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 financial statements.

As part of auditing works in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(1) identify and assess the risks of material misstatement of the 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.

(2) 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 internal control.

(3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(4) conclude on the appropriateness of the Management's use of the going concern assumptions and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Yichen Industrial Corporation'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 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 Yichen Industrial Corporation to cease to continue as a going concern.

(5) evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Yichen Industrial Corporation to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of group audit and remain solely responsible for our audit opinion.

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period 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.

Pan-China Certified Public Accountants LLP

Chinese Certified Public Accountant:
(Partner-in-charge of project)
Jin Shunxing

Hangzhou, the PRC

Chinese Certified Public Accountant:
Ouyang Caihua

11 May 2020

CONSOLIDATED BALANCE SHEET

31 December 2019

Unit: RMB

Assets	Notes	Closing balance	Closing balance of last year
Current assets:			
Monetary capital	1	**404,071,733.23**	182,041,928.10
Provision for settlement			
Lendings to banks and other financial institutions			
Financial assets held for trading	2	**1,938,703.64**	128,770,000.00
Derivative financial assets			
Bills receivable	3	**84,632,428.05**	47,053,523.95
Accounts receivable	4	**895,645,526.81**	1,062,043,356.05
Financing of receivables	5	**12,931,420.16**	2,405,533.00
Prepayments	6	**18,760,383.32**	25,603,842.21
Insurance premiums receivable			
Cession premiums receivable			
Deposits receivable from reinsurance contract			
Other receivables	7	**20,276,511.21**	17,505,518.08
Recoursable financial assets acquired			
Inventories	8	**355,229,722.60**	276,649,303.97
Contract assets	9	**184,749,231.57**	162,482,195.17
Assets held for sale			
Non-current assets due within one year			
Other current assets	10	**2,054,142.76**	8,226,087.07
Total current assets		**1,980,289,803.35**	1,912,781,287.60

CONSOLIDATED BALANCE SHEET

31 December 2019

Assets	Notes	**Closing balance**	Closing balance of last year
Non-current assets:			
Loans and advances granted			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	11	**158,998,481.82**	131,874,303.48
Other equity instruments investment			
Other non-current financial assets			
Investment properties			
Fixed assets	12	**125,378,423.78**	92,092,316.71
Construction in progress	13	**338,145,666.75**	257,043,510.17
Bearer biological assets			
Oil and gas assets			
Right-of-use assets	14	**598,738.42**	
Intangible assets	15	**91,284,501.70**	87,502,978.91
Development expenditures			
Goodwill	16	**102,739,493.25**	
Long-term deferred expenses			
Deferred income tax assets	17	**27,106,997.99**	26,342,405.53
Other non-current assets	18	**23,319,359.02**	9,067,510.39
Total non-current assets		**867,571,662.73**	603,923,025.19
Total assets		**2,847,861,466.08**	2,516,704,312.79

CONSOLIDATED BALANCE SHEET

31 December 2019

Liabilities and owners' equity (or shareholders' equity)	Notes	Closing balance	Closing balance of last year
Current liabilities:			
Short-term borrowings	19	**170,000,000.00**	94,810,000.00
Borrowings from central bank			
Borrowed funds			
Financial liabilities held for trading			
Derivative financial liabilities			
Bills payable	20	**69,318,351.00**	62,915,787.80
Accounts payable	21	**405,067,840.65**	383,451,729.11
Advance receipts			
Contract liabilities	22	**8,580,621.57**	3,154,696.95
Financial assets sold for repurchase			
Customer deposits and interbank deposits			
Funds received from securities trading agency services			
Funds received from securities underwriting business			
Payroll payable	23	**7,119,414.13**	5,529,884.05
Tax payable	24	**16,290,012.31**	33,192,270.69
Other payables	25	**17,545,039.91**	29,197,877.29
Handling charges and commissions payable			
Cession premiums payable			
Liabilities held for sale			
Non-current liabilities due within one year	26	**32,645,122.31**	
Other current liabilities	27	**259,354.68**	450,017.56
Total current liabilities		**726,825,756.56**	612,702,263.45

CONSOLIDATED BALANCE SHEET

31 December 2019

Liabilities and owners' equity (or shareholders' equity)	Notes	Closing balance	Closing balance of last year
Non-current liabilities:			
Provision for insurance contracts			
Long-term borrowings	28	**70,000,000.00**	30,000,000.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables	29	**47,980,238.18**	
Long-term payroll payables			
Provision for liabilities			
Deferred income	30	**5,408,866.67**	5,641,466.67
Deferred income tax liabilities	17	**661,825.61**	
Other non-current liabilities			
Total non-current liabilities		**124,050,930.46**	35,641,466.67
Total liabilities		**850,876,687.02**	648,343,730.12
Owners' equity (or shareholders' equity)			
Paid-in capital (or share capital)	31	**448,920,000.00**	448,920,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	32	**830,651,223.40**	830,651,223.40
Less: Treasury stock			
Other comprehensive income			
Special reserve			
Surplus reserve	33	**90,991,413.12**	72,477,265.27
Provision for general risks			
Undistributed profits	34	**551,236,989.92**	445,961,080.86
Total equity attributable to owners of the parent		**1,921,799,626.44**	1,798,009,569.53
Minority interests		**75,185,152.62**	70,351,013.14
Total owner's equity		**1,996,984,779.06**	1,868,360,582.67
Total liabilities and owner's equity		**2,847,861,466.08**	2,516,704,312.79

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

BALANCE SHEET

31 December 2019

Unit: RMB

Assets	Notes	Closing balance	Closing balance of last year
Current assets:			
Monetary capital		**380,384,979.61**	168,952,728.32
Financial assets held for trading		**1,938,703.64**	128,770,000.00
Financial assets at fair value through profit or loss for the period			
Derivative financial assets			
Bills receivable		**83,733,628.05**	42,353,977.68
Accounts receivable	1	**866,531,296.46**	1,057,469,677.18
Financing of receivables		**12,091,420.16**	2,105,533.00
Prepayments		**23,279,505.00**	21,600,592.04
Other receivables	2	**20,758,764.92**	17,412,981.47
Inventories		**356,278,597.01**	275,516,520.06
Contract assets		**184,749,231.57**	162,482,195.17
Assets held for sale			
Non-current assets due within one year			
Other current assets		**1,143,827.96**	7,523,900.28
Total current assets		**1,930,889,954.38**	1,884,188,105.20
Non-current assets:			
Debt investments			
AFS financial assets			
Other debt investments			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	3	**358,509,885.02**	202,926,667.44
Other equity instruments investment			
Other non-current financial assets			
Investment properties			
Fixed assets		**103,226,926.88**	91,667,714.85
Construction in progress		**338,145,666.75**	257,043,510.17
Bearer biological assets			
Oil and gas assets			
Right-of-use assets		**598,738.42**	
Intangible assets		**86,189,690.91**	87,502,978.91
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets		**26,020,629.25**	26,322,379.08
Other non-current assets		**21,032,982.45**	9,067,510.39
Total non-current assets		**933,724,519.68**	674,530,760.84
Total assets		**2,864,614,474.06**	2,558,718,866.04

BALANCE SHEET

31 December 2019

Liabilities and owners' equity	Notes	Closing balance	Closing balance of last year
Current liabilities:			
Short-term borrowings		**140,000,000.00**	94,810,000.00
Financial liabilities held for trading			
Financial liabilities measured at fair value through profit or loss for the period			
Derivative financial liabilities			
Bills payable		**99,318,351.00**	63,276,286.30
Accounts payable		**423,944,486.14**	415,692,376.09
Advance receipts			
Contract liabilities		**8,999,451.23**	3,132,358.93
Payroll payable		**6,754,992.85**	5,451,073.93
Tax payable		**10,239,103.86**	32,428,360.49
Other payables		**129,218,614.03**	133,186,365.85
Liabilities held for sale			
Non-current liabilities due within one year		**32,645,122.31**	
Other current liabilities		**344,729.02**	450,017.56
Total current liabilities		**851,464,850.44**	748,426,839.15
Non-current liabilities:			
Long-term borrowings		**70,000,000.00**	30,000,000.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables		**47,980,238.18**	
Long-term payroll payables			
Provision for liabilities			
Deferred income		**5,408,866.67**	5,641,466.67
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**123,389,104.85**	35,641,466.67
Total liabilities		**974,853,955.29**	784,068,305.82
Owners' equity (or shareholders' equity)			
Paid-in capital (or share capital)		**448,920,000.00**	448,920,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		**831,739,615.96**	831,739,615.96
Less: Treasury stock			
Other comprehensive income			
Special reserve			
Surplus reserve		**90,991,413.12**	72,477,265.27
Undistributed profits		**518,109,489.69**	421,513,678.99
Total owners' equity		**1,889,760,518.77**	1,774,650,560.22
Total liabilities and owners' equity		**2,864,614,474.06**	2,558,718,866.04

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

CONSOLIDATED INCOME STATEMENT

31 December 2019

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year
I. Total operating income		**1,138,675,870.66**	1,111,459,983.25
Including: Operating income	1	**1,138,675,870.66**	1,111,459,983.25
Interest income			
Premiums earned			
Handling charges and commissions income			
II. Total operating cost		**921,112,761.72**	900,274,539.77
Including: Operating cost	1	**748,435,944.50**	733,935,828.30
Interest expense			
Handling charges and commissions expenses			
Surrender value			
Net payments for insurance claims			
Withdraw of insurance contract reserves, net			
Insurance policy dividends paid			
Reinsurance costs			
Taxes and surcharges	2	**5,862,575.58**	8,367,584.97
Selling expenses	3	**47,568,603.53**	43,305,936.71
Management expenses	4	**65,196,906.21**	65,618,498.73
Research and development expense	5	**44,343,738.98**	36,063,094.87
Finance costs	6	**9,704,992.92**	12,983,596.19
Including: Interest costs		**8,388,070.61**	17,142,030.33
Interest income		**704,505.40**	1,421,101.33
Add: Other income	7	**739,225.39**	852,600.00
Investment gains ("-" for losses)	8	**27,124,178.34**	24,483,484.05
Including: Gains on investments in associates and joint ventures		**27,124,178.34**	24,678,484.05
Gains on derecognization of financial assets measured at amortized cost			
Foreign exchange gains ("-" for losses)			
Net income on exposure hedging ("-" for losses)			
Gain from changes in fair value ("-" for losses)	9	**2,668,703.64**	-12,385,000.00
Loss on credit impairment ("-" for losses)	10	**-8,035,220.94**	-30,847,888.02
Impairment loss of assets ("-" for losses)	11	**-12,510,906.06**	-6,089,783.89
Gains on disposal of assets ("-" for losses)	12	**159,400.24**	1,660,849.45
III. Operating profits ("-" for losses)		**227,708,489.55**	188,859,705.07
Add: Non-operating incomes	13	**195,818.53**	1,413,269.37
Less: Non-operating expenses	14	**248,091.69**	481,579.81

CONSOLIDATED INCOME STATEMENT

31 December 2019

Items	Notes	Amounts for the period	Amounts for the same period of prior year
IV. Total profit ("-" for total losses)		**227,656,216.39**	189,791,394.63
Less: Income tax expenses	15	**30,933,120.71**	25,019,483.24
V. Net profit ("-" for net losses)		**196,723,095.68**	164,771,911.39
(I) Classified according to continuity of operation:			
1. Net profit from continuing operations ("-" for net losses)		**196,723,095.68**	164,771,911.39
2. Net profit from discontinued operations ("-" for net losses)			
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent ("-" for net losses)		**193,821,576.91**	162,969,102.34
2. Profit or loss of minority interests ("-" for net losses)		**2,901,518.77**	1,802,809.05
VI. Other comprehensive income after tax, net			
Other comprehensive income after tax attributable to owners of the parent, net			
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Remeasurement of changes in defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in fair value of the Company's own credit risks			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income that can be transferred to profits and losses under the equity method			
2. Changes in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Provisions for credit impairment of other debt investments			
5. Cash flow hedge reserve (effective portion of gains or losses from cash flow hedge)			
6. Differences on translation of foreign currency financial statements			
7. Others			
Other comprehensive income after tax attributable to minority interests, net			

CONSOLIDATED INCOME STATEMENT

31 December 2019

Items	Notes	**Amounts for the period**	Amounts for the same period of prior year
VII. Total comprehensive income		**196,723,095.68**	164,771,911.39
Total comprehensive income attributable to owners of the parent		**193,821,576.91**	162,969,102.34
Total comprehensive income attributable to minority interests		**2,901,518.77**	1,802,809.05
VIII. Earnings per share:			
(I) Basic earnings per share		**0.22**	0.18
(II) Diluted earnings per share		**0.22**	0.18

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

INCOME STATEMENT

2019

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year
I. Operating income	1	**1,095,015,387.03**	1,104,261,232.91
Less: Operating costs	1	**729,636,847.55**	739,031,188.05
Taxes and surcharges		**5,112,701.30**	7,898,154.52
Selling expenses		**45,114,865.72**	42,826,864.73
Management expenses		**62,876,365.86**	65,523,426.35
Research and development expense	2	**42,114,123.45**	34,879,164.17
Finance costs		**8,868,227.11**	13,012,842.27
Including: Interest costs		**7,505,987.27**	17,142,030.33
Interest income		**656,247.56**	1,378,216.66
Add: Other income		**739,225.39**	453,100.00
Investment gains ("-" for losses)	3	**28,936,864.20**	27,528,184.05
Including: Gains on investments in associates and joint ventures		**27,124,178.34**	24,678,484.05
Gains on derecognization of financial assets measured at amortized cost			
Net income on exposure hedging ("-" for losses)			
Gain from changes in fair value ("-" for losses)		**2,668,703.64**	-12,385,000.00
Loss on credit impairment ("-" for losses)		**-7,640,776.24**	-31,100,685.67
Impairment loss of assets ("-" for losses)		**-12,510,906.06**	-6,089,783.89
Gains on disposal of assets ("-" for losses)		**159,400.24**	1,660,849.45
II. Operating profits ("-" for losses)		**213,644,767.21**	181,156,256.76
Add: Non-operating incomes		**194,760.63**	1,400,000.00
Less: Non-operating expenses		**248,031.58**	481,579.81
III. Total profit ("-" for total losses)		**213,591,496.26**	182,074,676.95
Less: Income tax expenses		**28,450,017.71**	23,081,325.82
IV. Net profit ("-" for net losses)		**185,141,478.55**	158,993,351.13
(I) Net profit from continuing operations ("-" for net losses)		**185,141,478.55**	158,993,351.13
(II) Net profit from discontinued operations ("-" for net losses)			

INCOME STATEMENT

2019

Items	Notes	Amounts for the period	Amounts for the same period of prior year
V. Other comprehensive income after tax, net			
(I) Other comprehensive income that cannot be reclassified to profit or loss			
1. Remeasurement of changes in the defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in the fair value of the Company's own credit risks			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income that can be transferred to profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Provisions for credit impairment of other debt investments			
5. Cash flow hedge reserve (effective portion of gains or losses from cash flow hedges)			
6. Differences on translation of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		**185,141,478.55**	158,993,351.13
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

CONSOLIDATED STATEMENT OF CASH FLOWS

2019

Unit: RMB

Items	Note	Amounts for the period	Amounts for the same period of prior year
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of labor service		**1,101,373,083.89**	996,917,345.24
Net increase in customer deposits and interbank deposits			
Net increase in loan from central bank			
Net increase in loan from other financial institutions			
Cash received from premiums of original insurance contracts			
Net cash received from reinsurance business			
Net increase in policyholder deposits and investment funds			
Cash received from interests, handling charges and commission			
Net increase in borrowed funds			
Net increase in funds of repurchase business			
Net cash received from securities trading agency services			
Refund of taxes		**678,308.13**	33,036.12
Other cash received from operating-related activities	1	**65,834,350.86**	117,264,037.28
Sub-total of cash inflow from operating activities		**1,167,885,742.88**	1,114,214,418.64
Cash paid for goods purchased and labor service received		**645,895,907.48**	608,840,987.84
Net increase in loans and advances from customers			
Net increase in deposits in central bank and other financial institutions			
Cash paid for original insurance contract claims			
Net increase in lendings to banks and other financial institutions			
Cash paid for interest, handling charges and commissions			
Cash paid for policy dividend			
Cash paid to and for employees		**99,684,446.09**	89,815,412.39
Payments of taxes and surcharges		**48,280,070.66**	80,643,720.53
Other cash paid for operating-related activities	2	**146,973,234.52**	109,358,516.78
Sub-total of cash outflow from operating activities		**940,833,658.75**	888,658,637.54
Net cash flows from operating activities	7	**227,052,084.13**	225,555,781.10

CONSOLIDATED STATEMENT OF CASH FLOWS

2019

Items	Note	Amounts for the period	Amounts for the same period of prior year
II. Cash flows from investing activities:			
Cash from disinvestments			
Cash received from return of investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**286,000.00**	40,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash received from investing-related activities	3		30,588,058.50
Sub-total of cash inflows from investing activities		**286,000.00**	30,628,058.50
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		**128,408,630.85**	99,891,504.51
Cash paid for investment			39,900.00
Net increase in pledged loans			
Net cash paid for acquisition of subsidiaries and other business units		**10,422,990.25**	
Other cash paid for investing-related activities	4	**50,000,000.00**	
Sub-total of cash outflows from investing activities		**188,831,621.10**	99,931,404.51
Net cash flows from investing activities		**-188,545,621.10**	-69,303,346.01
III. Cash flows from financing activities:			
Cash received from investment			
Including: cash received by subsidiaries from minority shareholders' investment			
Cash received from borrowings		**240,000,000.00**	171,060,000.00
Other cash received from financing-related activities	5	**70,000,000.00**	
Sub-total of cash inflows from financing activities		**310,000,000.00**	171,060,000.00
Cash paid for repayment of debts		**114,810,000.00**	413,150,000.00
Cash paid for distribution of dividends and profits or repayment of interest		**100,142,233.23**	56,960,349.81
Including: dividends and profits paid to minority shareholders by subsidiaries		**1,741,600.14**	2,925,300.00
Other cash paid for financing-related activities	6	**908,144.42**	
Sub-total of cash outflows for financing activities		**215,860,377.65**	470,110,349.81
Net cash flows from financing activities		**94,139,622.35**	-299,050,349.81
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		**-139,707.28**	3,589,344.16
V. Net increase in cash and cash equivalents	7	**132,506,378.10**	-139,208,570.56
Add: Opening balance of cash and cash equivalents	7	**147,756,286.25**	286,964,856.81
VI. Closing balance of cash and cash equivalents	7	**280,262,664.35**	147,756,286.25

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

STATEMENT OF CASH FLOWS

2019

Unit: RMB

Items	Note	Amounts for the period	Amounts for the same period of prior year
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of labor service		**1,070,495,375.31**	988,357,670.84
Refund of taxes		**601,018.88**	
Other cash received from operating-related activities		**77,785,035.12**	116,545,919.75
Sub-total of cash inflow from operating activities		**1,148,881,429.31**	1,104,903,590.59
Cash paid for goods purchased and labor service received		**627,418,696.31**	619,009,812.86
Cash paid to and for employees		**96,348,038.08**	82,249,686.52
Payments of taxes and surcharges		**43,507,204.27**	74,613,564.89
Other cash paid for operating-related activities		**141,892,131.07**	109,316,560.17
Sub-total of cash outflow from operating activities		**909,166,069.73**	885,189,624.44
Net cash flows from operating activities		**239,715,359.58**	219,713,966.15
II. Cash flows from investing activities:			
Cash from disinvestments			
Cash received from return of investments			3,044,700.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**286,000.00**	40,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash received from investing-related activities			30,588,058.50
Sub-total of cash inflow from investing activities		**286,000.00**	33,672,758.50
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		**124,194,728.15**	99,891,504.51
Cash paid for investment		**10,500,000.00**	39,900.00
Net cash paid for acquisition of subsidiaries and other business units			
Other cash paid for investing-related activities		**50,000,000.00**	
Sub-total of cash outflow from investing activities		**184,694,728.15**	99,931,404.51
Net cash flows from investing activities		**-184,408,728.15**	-66,258,646.01

STATEMENT OF CASH FLOWS

2019

Items	Note	Amounts for the period	Amounts for the same period of prior year
III. Cash flows from financing activities:			
Cash received from investment			
Cash received from borrowings		**210,000,000.00**	171,060,000.00
Other cash received from financing-related activities		**70,000,000.00**	
Sub-total of cash inflow from financing activities		**280,000,000.00**	171,060,000.00
Cash paid for repayments of debts		**114,810,000.00**	413,150,000.00
Cash paid for distribution of dividends and profits or repayment of interest		**97,518,549.75**	54,035,049.81
Other cash paid for financing-related activities		**908,144.42**	
Sub-total of cash outflow from financing activities		**213,236,694.17**	467,185,049.81
Net cash flows from financing activities		**66,763,305.83**	-296,125,049.81
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		**-161,113.00**	3,589,344.16
V. Net increase in cash and cash equivalents		**121,908,824.26**	-139,080,385.51
Add: Opening balance of cash and cash equivalents		**134,667,086.47**	273,747,471.98
VI. Closing balance of cash and cash equivalents		**256,575,910.73**	134,667,086.47

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2019

Unit: RMB

Items	Amounts for the period												
	Equity attributed to owners of parent company												
		Other equity instruments											
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Undistributed profits	Equity of minority shareholders	Total owners' equity
I. Closing balance of prior year	448,920,000.00				830,651,223.40				75,365,015.60		472,193,106.48	70,517,745.50	1,897,647,090.98
Add: Changes in accounting policies													
Correction of errors in prior periods									-2,887,750.33		-26,232,025.62	-166,732.36	-29,286,508.31
Combination of enterprises under common control													
Others													
II. Opening balance of current year	448,920,000.00				830,651,223.40				72,477,265.27		445,961,080.86	70,351,013.14	1,868,360,582.67
III. Increase or decrease for the period ("-" for decreases)									18,514,147.85		105,275,909.06	4,834,139.48	128,624,196.39
(I) Total comprehensive income											193,821,576.91	2,901,518.77	196,723,095.68
(II) Capital invested and decreased by owners												3,674,220.85	3,674,220.85
1. Ordinary shares invested by owners													
2. Capital invested by holders of other equity instruments													
3. Amounts of share-based payments included in owners' equity													
4. Others												3,674,220.85	3,674,220.85
(III) Profit distribution									18,514,147.85		-88,545,667.85	-1,741,600.14	-71,773,120.14
1. Appropriation to surplus reserve									18,514,147.85		-18,514,147.85		
2. Withdraw of provision for general risks													
3. Distribution to owners (or shareholders)											-70,031,520.00	-1,741,600.14	-71,773,120.14
4. Others													
(IV) Internal carry-forward of owners' equities													
1. Capital reserve transferred to capital (or share capital)													
2. Surplus reserves transferred to capital (or share capital)													
3. Surplus reserves offsetting losses													
4. Changes arising from defined benefit plans carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
(V) Special reserves													
1. Amount withdrawn in current period													
2. Amount used in current period													
(VI) Others													
IV. Closing balance of current period	448,920,000.00				830,651,223.40				90,991,413.12		551,236,989.92	75,185,152.62	1,996,984,779.06

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2019

Items	Amounts for the same period of prior year												
	Equity attributed to owners of parent company												
		Other equity instruments											
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Undistributed profits	Equity of minority shareholders	Total owners' equity
I. Closing balance of prior year	448,920,000.00				830,651,223.40		9,906,750.00		57,746,133.99		317,423,110.62	71,448,837.06	1,736,096,055.07
Add: Changes in accounting policies							-9,906,750.00				9,906,750.00		
Correction of errors in prior periods									-1,168,203.83		-10,751,098.99	24,667.03	-11,894,635.79
Combination of enterprises under common control													
Others													
II. Opening balance of current year	448,920,000.00				830,651,223.40				56,577,930.16		316,578,761.63	71,473,504.09	1,724,201,419.28
III. Increase or decrease for the period ("-" for decreases)									15,899,335.11		129,382,319.23	-1,122,490.95	144,159,163.39
(I) Total comprehensive income											162,969,102.34	1,802,809.05	164,771,911.39
(II) Capital invested and decreased by owners													
1. Ordinary shares invested by owners													
2. Capital invested by holders of other equity instruments													
3. Amounts of share-based payments included in owners' equity													
4. Others													
(III) Profit distribution									15,899,335.11		-33,586,783.11	-2,925,300.00	-20,612,748.00
1. Appropriation to surplus reserve									15,899,335.11		-15,899,335.11		
2. Withdraw of provision for general risks													
3. Distribution to owners (or shareholders)											-17,687,448.00	-2,925,300.00	-20,612,748.00
4. Others													
(IV) Internal carry-forward of owners' equities													
1. Capital reserve transferred to capital (or share capital)													
2. Surplus reserves transferred to capital (or share capital)													
3. Surplus reserves offsetting losses													
4. Changes arising from defined benefit plans carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
(V) Special reserves													
1. Amount withdrawn in current period													
2. Amount used in current period													
(VI) Others													
IV. Closing balance of current period	448,920,000.00				830,651,223.40				72,477,265.27		445,961,080.86	70,351,013.14	1,868,360,582.67

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

STATEMENT OF CHANGES IN OWNERS' EQUITY

2019

Unit: RMB

Items	Amounts for the same period of prior year										
		Other equity instruments									
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owners' equity
I. Closing balance of the prior year	448,920,000.00				831,739,615.96				75,365,015.60	447,503,432.93	1,803,528,064.49
Add: Changes in accounting policies											
Correction of errors in prior periods									-2,887,750.33	-25,989,753.94	-28,877,504.27
Others											
II. Opening balance of the current year	448,920,000.00				831,739,615.96				72,477,265.27	421,513,678.99	1,774,650,560.22
III. Increase or decrease for the period ("-" for decreases)									18,514,147.85	96,595,810.70	115,109,958.55
(I) Total comprehensive income										185,141,478.55	185,141,478.55
(II) Capital invested and decreased by owners											
1. Ordinary shares invested by owners											
2. Capital invested by holders of other equity instruments											
3. Amounts of share-based payments included in owners' equity											
4. Others											
(III) Profit distribution									18,514,147.85	-88,545,667.85	-70,031,520.00
1. Appropriation to surplus reserve									18,514,147.85	-18,514,147.85	
2. Distribution to owners (or shareholders)										-70,031,520.00	-70,031,520.00
3. others											
(IV) Internal carry-forward of owners' equities											
1. Capital reserve transferred to capital (or share capital)											
2. Surplus reserves transferred to capital (or share capital)											
3. Surplus reserves offsetting losses											
4. Changes arising from defined benefit plans carried forward to retained earnings											
5. Other comprehensive income carried forward to retained earnings											
6. Others											
(V) Special reserves											
1. Amount withdrawn in the period											
2. Amount used in the period											
(VI) Others											
IV. Closing balance of the period	448,920,000.00				831,739,615.96				90,991,413.12	518,109,489.69	1,889,760,518.77

STATEMENT OF CHANGES IN OWNERS' EQUITY

2019

Items	Amounts for the same period of prior year										
		Other equity instruments									
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owners' equity
I. Closing balance of the prior year	448,920,000.00				831,739,615.96		9,906,750.00		57,746,133.99	296,714,196.48	1,645,026,696.43
Add: Changes in accounting policies							-9,906,750.00			9,906,750.00	
Correction of errors in prior periods									-1,168,203.83	-10,513,835.51	-11,682,039.34
Others											
II. Opening balance of the current year	448,920,000.00				831,739,615.96				56,577,930.16	296,107,110.97	1,633,344,657.09
III. Increase or decrease for the period ("-" for decreases)									15,899,335.11	125,406,568.02	141,305,903.13
(I) Total comprehensive income										158,993,351.13	158,993,351.13
(II) Capital invested and decreased by owners											
1. Ordinary shares invested by owners											
2. Capital invested by holders of other equity instruments											
3. Amounts of share-based payments included in owners' equity											
4. Others											
(III) Profit distribution									15,899,335.11	-33,586,783.11	-17,687,448.00
1. Appropriation to surplus reserve									15,899,335.11	-15,899,335.11	
2. Distribution to owners (or shareholders)										-17,687,448.00	-17,687,448.00
3. others											
(IV) Internal carry-forward of owners' equities											
1. Capital reserve transferred to capital (or share capital)											
2. Surplus reserves transferred to capital (or share capital)											
3. Surplus reserves offsetting losses											
4. Changes arising from defined benefit plans carried forward to retained earnings											
5. Other comprehensive income carried forward to retained earnings											
6. Others											
(V) Special reserves											
1. Amount withdrawn in the period											
2. Amount used in the period											
(VI) Others											
IV. Closing balance of the period	448,920,000.00				831,739,615.96				72,477,265.27	421,513,678.99	1,774,650,560.22

Legal representative: Zhang Haijun

Person in charge of accounting: Wu Jinyu

Head of Finance Section: Yang Yunjuan

NOTES TO THE FINANCIAL STATEMENTS

2019

Amount unit: RMB

1. GENERAL INFORMATION OF THE COMPANY

Hebei Yichen Industrial Group Corporation Limited (hereinafter referred to as the Company) was formerly known as Hebei Yichen Industrial Group Co., Ltd. (河北翼辰實業集團有限公司) (hereinafter referred to as Yichen Industrial Ltd.). Yichen Industrial Ltd. was jointly funded by 22 natural persons including Zhang Haijun. On 9 April 2001, Yichen Industrial Ltd. was registered in the Shijiazhuang City Market Supervision and Administration Bureau (石家莊市市場監督管理局) with its headquarters located in Shijiazhuang City, Hebei Province. The Company currently holds the business license for an enterprise as a legal person with a unified social credit code of 91130100107907438Y. The registered capital of the Company is RMB448,920,000 and its total number of shares is 897,840,000 shares of RMB0.50 each, among which, domestic shares were 673,380,000 shares and H shares were 224,460,000 shares. The H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 21 December 2016.

The Company belongs to the manufacturing sector, and it is principally engaged in research and development, manufacturing and sales of products included rail fastening system, flux cored wire and railway sleeper. Its main products include rail fastening, flux cored wire and sleeper.

These financial statements have been approved for publication at the 16th meeting of the second session of the Board of the Company on 11 May 2020. The Company has included 5 subsidiaries in the consolidation scope for the consolidated financial statements, i.e. 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) (hereinafter referred to as Yichen Corporate Management), Hebei 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) (hereinafter referred to as Yichen Railway Engineering Equipment), Hebei Yichen Trading Co., Ltd.* (河北翼辰貿易有限公司) (hereinafter referred to as Yichen Trading), Beijing Chenteng Technology Co., Ltd.* (北京辰騰科技有限公司) (hereinafter referred to as Chenteng Technology) and 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). For details, please refer to notes 6 and 7 to these financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

These financial statements of the Company are prepared on a going concern basis.

(2) Evaluation on ability of continuing operation

The Company has no events or circumstances that may cast significant doubts upon the Company's ability to continue as a going concern within the 12 months after the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Important note: The Company has developed specific accounting policies and accounting estimates regarding transaction or events such as impairment on financial assets, depreciation of fixed assets, depreciation of right-of-use assets, amortisation of intangible asset and revenue recognition according to actual production and operation features.

(1) Statement of compliance with the Accounting Standards for Business Enterprises

The Company has prepared the financial statements in compliance with the Accounting Standards for Business Enterprises in order to give a true and full view of the information on the financial conditions, operating results and cash flow of the Company.

(2) Accounting period

The fiscal year is from 1 January to 31 December of the Gregorian calendar.

(3) Operating cycle

The Company has a relatively short operating cycle for its business, and an asset or a liability is classified as current if it is expected to be realized or due within 12 months.

(4) Functional currency

The Company's functional currency is Renminbi (RMB).

(5) Accounting treatments of business combination under and not under common control

1. *Accounting treatment of business combination under common control*

   Assets and liabilities arising from business combination are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, and if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

2. *Accounting treatment of business combination not under common control*

   Where the combination cost exceeds the fair value of the acquiree's identifiable net assets on the acquisition date in the business combination, the difference is recognised as goodwill. Where the combination cost is less than the fair value of the acquiree's identifiable net assets in the business combination, the measurement to the fair value of various identifiable assets, liabilities and contingent liabilities acquired from the acquirees and the combination cost will be reviewed first and the difference is recognised in profit or loss for the current period in the event the combination cost by the acquirer is still less than the fair value of the acquiree' s identifiable net assets in the business combination after review.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(6) Preparation of consolidated financial statements

The Company includes all subsidiaries under its control in the consolidation scope for consolidated financial statements, which are prepared by the Company pursuant to the Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements based on the financial statements of the Company and its subsidiaries and other relevant information.

(7) Classification of joint arrangement and accounting treatment for joint operation

1. A joint arrangement is divided into joint operation and joint venture.

2. A joint operator shall recognize in relation to its interest in a joint operation:

   (1) its assets, including its share of any assets held jointly;

   (2) its liabilities, including its share of any liabilities incurred jointly;

   (3) its revenue from the sale of its share of the output arising from the joint operation;

   (4) its share of the revenue from the sale of the output by the joint operation;

   (5) its expenses including its share of any expenses incurred jointly.

(8) Standards for determination of cash and cash equivalents

Cash presented in the cash flow statement refers to cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group’s short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(9) Foreign currency transactions and translation of financial statements in foreign currency

1. *Translation of foreign currency transactions*

Transactions denominated in foreign currency are translated into RMB at the rates that approximate the spot exchange rate at the date of transaction upon initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date, with the exchange difference arising from different exchange rates, except for those arising from the principal and interest of exclusive borrowings relating to setup of assets meeting the capitalization conditions, to be included in profit or loss; foreign currency non-monetary items measured at historical cost are translated at the rates that approximate the spot exchange rate at the date of transaction, without changing its RMB amount; foreign currency non-monetary items measured at fair value are translated at the spot exchange rate at the date of determination of fair value, with the difference included in profit or loss or other comprehensive income.

2. *Translation of financial statements in foreign currency*

The assets and liabilities on the balance sheet are translated at the spot exchange rate at the balance sheet date; owner's equity items except for "undistributed profits" are translated at the spot exchange rates at the date of transaction; income and expenses in the income statement are translated at the rates that approximate the spot exchange rate at the balance sheet date. The difference arising from the above translation is included in other comprehensive income.

(10) Financial instruments

1. *Classification of financial assets and financial liabilities*

Financial assets are classified into the following three categories at initial recognition: (1) financial assets measured at amortized cost; (2) financial assets measured at fair value through other comprehensive income; (3) financial assets measured at fair value through profit or loss for the current period.

Financial liabilities are classified into the following four categories at initial recognition: (1) financial liabilities measured at fair value through profit or loss; (2) financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continue to be involved in transferred financial assets; (3) the financial guarantee contracts which do not fall into (1) or (2) above, and the commitments to grant loans which do not fall into (1) above and have an interest rate lower than the market rate; (4) financial liabilities measured at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

2. Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities

(1) Recognition criteria and initial measurement method of financial assets and financial liabilities

When the Company becomes a party to a financial instrument contract, it is recognised as a financial asset or financial liability. The financial assets or financial liabilities initially recognised by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss for the current period, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets or financial liabilities, the transaction expenses thereof are included into the initially recognised amount. However, accounts receivable initially recognised by the Company which do not contain a significant financing component, or financing components in a contract valid for less than one year which are not considered by the Company, are initially measured at transaction price as defined in the Accounting Standard for Business Enterprises No.14 – Revenue.

(2) Subsequent measurement of financial assets

1) Financial assets measured at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship shall be included in profit or loss when the financial asset is derecognized, reclassified, amortized using the effective interest method or recognised in respect of impairment.

2) Debt instrument investments at fair value through other comprehensive income

These debt instrument investments are subsequently measured at fair value. Interest, impairment losses or gains or foreign exchange gains and losses calculated using the effective interest method are included in profit or loss in the current period. Other gains or losses are included in other comprehensive income. On derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to profit or loss for the current period.

3) Equity instrument investments at fair value through other comprehensive income

These equity instrument investments are subsequently measured at fair value. Dividends obtained (excluding those obtained as investment costs recovered) are included in profit or loss for the current period, while other gains or losses are included in other comprehensive income. On derecognition, cumulative gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.

4) Financial assets at fair value through profit or loss

These financial assets are subsequently measured at fair value, and any gain or loss therefrom (including interest and dividend income) is included in profit or loss for the current period, unless such financial assets are part of the hedging relationship.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

2. *Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities (Continued)*

(3) Subsequent measurement of financial liabilities

1) Financial liabilities at fair value through profit or loss for the current period

These financial liabilities include trading financial liabilities (including derivative instruments classified as financial liabilities) and financial liabilities designated as at fair value through profit or loss for the current period. These financial liabilities are subsequently measured at fair value. Changes in fair value of financial liabilities designated as at fair value through profit or loss for the current period as a result of changes in the Company's own credit risk are included in other comprehensive income, unless this approach creates or enlarges an accounting mismatch in the profit or loss. Other gains or losses on these financial liabilities (including interest expenses and changes in fair value other than as a result of changes in the Company's own credit risk) are included in profit or loss for the current period, unless these financial liabilities are part of the hedging relationship. On derecognition, cumulative gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.

2) Financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continue to be involved in transferred financial assets are measured in accordance with the Accounting Standard for Business Enterprises No.23 – Transfer of Financial Assets.

3) Financial guarantee contracts which do not fall into 1) or 2) above, and the commitments to grant loans which do not fall into 1) above and have an interest rate lower than the market rate

After initial recognition, these financial guarantee contracts and commitments to grant loans are subsequently measured at the higher of: ① provisions for losses determined according to requirements on the impairment of financial instruments; ② balance from the initially recognised amount less accumulated amortisation determined according to the Accounting Standard for Business Enterprises No.14 – Revenue.

4) Financial liabilities measured at amortised cost

These financial liabilities are measured at amortised cost using the effective interest method. Any gains or losses on financial liabilities measured at amortised cost which are not part of the hedging relationship are included in profit or loss for the current period when derecognised or amortised using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

2. *Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities (Continued)*

(4) Derecognition of financial assets and financial liabilities

1) Financial assets are derecognised when one of the following conditions is met:

① the contractual right to the cash flows from such financial assets has expired;

② such financial assets have been transferred, which meets the requirements of Accounting Standard for Business Enterprise No. 23 – Transfer of Financial Assets in relation to derecognition of financial assets.

2) A financial liability (or part of it) is derecognized accordingly where its present obligation (or part of it) is discharged.

3. *Recognition and measurement of transfer of financial assets*

A financial asset is derecognized when the Company has transferred substantially all the risks and rewards associated with the ownership of a financial asset, and the rights and obligations arising from or retained in such transfer shall be separately recognized as assets or liabilities. A transferred financial asset will remain recognized if the Company retains substantially all the risks and rewards associated with the ownership of such financial asset. Where the Company has neither transferred nor retained substantially all the risks and rewards associated with the ownership of the financial asset, it may either (1) derecognize the financial asset if control of the financial asset has not been retained, and the rights and obligations arising from or retained in the transfer shall be separately recognized as assets or liabilities; (2) recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognize associated liability accordingly if control has been retained.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred on the date of derecognition; (2) the sum of the consideration received from the transferred financial asset and the amount (which involves investments in debt instruments at FVTOCI being the transferred financial assets) for derecognition of the cumulative changes in fair value previously included in comprehensive income, is included in profit or loss for the current period. If a partial transfer of a financial asset as a whole qualifies for derecognition, the carrying amount of the financial asset prior to such transfer is allocated between the part that subject to derecognition and the part subject to recognition, in proportion to the respective fair values of those parts on the date of transfer. The difference between (1) the carrying amount of the part derecognized; (2) the sum of the consideration of the part derecognized and the amount (which involves investments in debt instruments at FVTOCI being the transferred financial assets) for derecognition of the cumulative changes in fair value for the part derecognized which has been previously directly included in other comprehensive income, is included in profit or loss for the current period.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

4. Determination of fair value of financial assets and financial liabilities

The Company adopts valuation techniques that are appropriate under the circumstances and supported by sufficient data and other information available to determine the fair value of the relevant financial assets and financial liabilities. The Company classifies the inputs used by the valuation techniques into the following hierarchies, and applies in the following sequence:

(1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the date of measurement;

(2) Level 2 inputs are direct or indirect observable inputs for the relevant asset or liability other than Level 1 inputs, including: quoted price for similar assets or liabilities in an active market; quoted price for the same or similar assets or liabilities in an inactive market; other observable inputs excluding quoted price, such as interest rates and yield curves observable at commonly quoted intervals; inputs that are evidenced in market, etc.;

(3) Level 3 inputs are unobservable inputs for the relevant asset or liability, including interest rates, stock volatility, future cash flows from the disposal obligations assumed in a business combination, financial forecast using internal data that are not directly observable or cannot be verified by observable market data.

5. Impairment of financial instruments

(1) Impairment measurement and accounting treatment of financial instruments

Based on the expected credit losses (ECLs), the Company impairs and recognizes the loss allowance with respect to financial assets amortized at costs, investments in debt instruments at FVOCI, contract assets, lease receivables, loan commitments other than financial liabilities at FVTPL for the current period, financial liabilities that disqualify for those at FVTPL for the current period and financial guarantee contracts for financial liabilities arising from the transfer of financial assets that do not qualify for the derecognition criteria or continue to be involved in the financial assets being transferred.

The expected credit losses are the weighted average credit losses with probability of default as the weight. Credit loss refers to the difference between all contractual cash flows receivable according to the contract and discounted according to the original effective interest rate and all cash flows that the Company expects to receive, that is, the present value of all cash shortages. For purchased or originated credit-impaired financial assets, the ECLs are discounted at the credit-adjusted effective interest rate of such financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

5. Impairment of financial instruments (Continued)

(1) Impairment measurement and accounting treatment of financial instruments *(Continued)*

For purchased or originated credit-impaired financial assets, the Company only recognizes the cumulative change in lifetime ECLs after initial recognition on the balance sheet date as loss provision.

For trade receivables and contract assets without significant financing components or financing components in contracts less than one year that are not considered by the Company arising from transactions regulated by the Accounting Standard for Business Enterprises No.14 – Revenue, the Company measures loss provision based on the amount of lifetime ECLs by using a simplified measurement method.

For lease receivables, trade receivables and contract assets with significant financing components arising from transactions regulated by the Accounting Standard for Business Enterprises No.14 – Revenue, the Company measures loss provision based on the amount of lifetime ECLs by using a simplified measurement method.

In addition to financial assets in respect of which the aforesaid measurement approaches are adopted, the Company assesses whether there has been a significant increase in its credit risk at each balance sheet date. If there has been a significant increase in the credit risk since initial recognition, the loss reserves are measured at the amount of lifetime ECLs; if there has not been a significant increase in the credit risk since initial recognition, the loss reserves are measured at the amount of 12-month expected credit loss.

To assess whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument on the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition through reasonable and supportable information, including forward-looking information.

The Company assumes that there has not been a significant increase in the credit risk, if a financial instrument is determined to have a low credit risk at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

5. Impairment of financial instruments (Continued)

(1) Impairment measurement and accounting treatment of financial instruments *(Continued)*

The Company assesses expected credit risk and measures expected credit loss on either an individual basis or a collective basis of financial instruments. When the assessment is performed on a collective basis, the financial instruments are classified into various groups by the Company based on shared risk characteristics.

Expected credit losses are remeasured by the Company at each balance sheet date, and any increase or reversal of loss reserves arising therefrom is included in profit or loss for the current period as impairment losses or gains. For a financial asset at amortised cost, the loss reserve reduces the carrying amount of the financial asset as shown in the balance sheet; for a debt instrument investment at fair value through other comprehensive income, the loss reverse is recognised in other comprehensive income without reducing the carrying amount of the financial asset.

(2) Financial instruments with expected credit risk assessed and expected credit loss measured both on a group basis

Items	Grouping basis	Expected credit loss measurement approach
Other receivables – group of security deposits receivable Other receivables – group of imprest receivable Other receivables – other groups Other receivables – group of related parties within the scope of combination	Nature of amounts	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

5. Impairment of financial instruments (Continued)

(3) Receivables and contract assets with expected credit losses measured on a group basis

1) Specific group and expected credit loss measurement approach

Items	Grouping basis	Expected credit loss measurement approach
Bank acceptance notes receivable	Type of notes	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate
Trade acceptance notes receivable Other notes receivable Accounts receivable – grouped by payment	Ageing	The lifetime expected credit loss is calculated based on a comparison table of the age of accounts receivable prepared with reference to historical credit loss experience, and in consideration of current conditions and prediction of future economic conditions
Contract assets – grouped by retention monies Accounts receivable – group of related parties within the scope of combination	Retention monies Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(10) Financial instruments *(Continued)*

5. *Impairment of financial instruments (Continued)*

(3) Receivables and contract assets with expected credit losses measured on a group basis *(Continued)*

2) Comparison table of trade acceptance notes receivable, other notes receivable and accounts receivable – grouped by age and the lifetime expected credit loss

Ageing	Expected credit loss rate of trade acceptance notes receivable *(%)*	Expected credit loss rate of other notes receivable *(%)*	Expected credit loss rate of accounts receivable – grouped by payment *(%)*
Within 1 year (inclusive, same below)	2.00	2.00	2.00
1 to 2 years	10.00	10.00	10.00
2 to 3 years	30.00	30.00	30.00
3 to 4 years	50.00	50.00	50.00
4 to 5 years	80.00	80.00	80.00
Over 5 years	100.00	100.00	100.00

6. *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are presented separately in the balance sheet, and are not offset. However, if the following conditions are met, the net amount offset by each other is presented in the balance sheet: (1) the Company has a statutory right to offset the recognised amount, and such legal right is currently enforceable; (2) the Company plans to settle in net amount or to realise the financial assets and liquidate the financial liabilities at the same time.

For transferred financial assets not qualify for derecognition, the Company will not offset the transferred financial assets against related liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XI) Inventories

1. Categories of inventories

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials and supplies etc. to be consumed in the production process or in the rendering of services.

2. Accounting method for dispatching inventories

Dispatched inventories are accounted for with the moving weighted average method.

3. Basis for determining net realisable value

At the balance sheet date, inventories are measured at the lower of cost and net realisable value; provisions for inventory write-down are made on the excess of its cost over the net realisable value. The net realisable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realisable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realisable value is determined separately and is compared with their costs to determine the provision for inventory write-down to be made or reversed.

4. Inventory system

Perpetual inventory method is adopted.

5. Amortisation method of low-value consumables and packages

(1) Low-value consumables

Low-value consumables are amortised in full when received for use.

(2) Packages

Packages are amortised in full when received for use.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XII) Contract Costs

Assets related to contract costs include costs of obtaining a contract and costs to fulfil a contract.

Incremental costs incurred by the Company to obtain a contract which are expected to be recovered are treated as costs of obtaining a contract and recognised as assets. Costs of obtaining a contract which are amortised over a period of less than one year are directly recorded in current profit or loss as incurred.

Costs incurred by the Company to perform a contract which are excluded from the scope of standards on inventories, fixed assets, intangible assets or otherwise but meet the following conditions are treated as costs to fulfil a contract and recognised as assets:

1. Such costs are directly related to a contract currently or expected to be acquired, including direct labor costs, direct material costs, manufacturing costs (or similar costs), costs to be borne by customers as agreed, and other costs solely as a result of such contract;

2. Such costs help increase resources for the Company to perform obligations in the future;

3. Such costs are expected to be recovered.

Assets related to contract costs are amortised on a basis similar to that for recognising revenue from goods or services related to such assets, and are recorded in current profit or loss.

If the carrying amount of assets related to contract costs exceeds the remaining consideration expected to be obtained due to the transfer of goods or services related to the assets less estimated costs to be incurred, a provision for impairment is made for the excess, which is recognised as impairment losses on assets. If the remaining consideration expected to be obtained due to the transfer of goods or services related to the assets less estimated costs to be incurred exceeds the carrying amount of assets as a result of subsequent changes in impairment conditions existing in prior periods, the provision previously made for impairment of the assets is reversed and recorded in current profit or loss, provided that the carrying amount of the assets after the reversal is not more than the carrying amount of the assets which would have been recorded at the date of reversal if the provision for impairment had not been made.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XIII) Long-term Equity Investments

1. Judgement on joint control and significant effects

Joint control is recognised as control held for a certain arrangement under the relevant agreement, the relevant activity of which should be unanimously agreed by the parties sharing the control. The influence is deemed as significant if there involves the power of participating in decision making on the financial and operational policies of the investee, but the power cannot control or jointly control with other parties the formulation of the policies.

2. Determination of investment cost

(1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investment and the carrying amount of the combination consideration paid or the aggregate nominal amount of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “package deal”. If it is a “package deal”, transactions as a whole are treated as one transaction obtaining the right to control in accounting treatment. If it is not a “package deal”, on the combination date, investment cost is initially recognised at the share of the carrying amount of net assets of the combined party included in the consolidated financial statements of the ultimate controlling party after the combination. The difference between the acquisition-date investment cost of long-term equity investments and the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XIII) Long-term Equity Investments *(Continued)*

2. Determination of investment cost (Continued)

(2) For business combination not under common control, investment cost is initially recognised at the acquisition-date fair value of combination considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages through various transactions, the Company determined whether they are separate financial statements or consolidated financial statements in accounting treatment:

1) In separate financial statements, investment cost which is accounted for using the newly adopted cost method is initially recognised at the carrying amount of the previously held long-term equity investments plus the newly increased initial investment cost.

2) In consolidated financial statements, the Company determines whether it is a "package deal". If it is a "package deal", transactions as a whole are treated as one transaction obtaining the right to control in accounting treatment. If it is not a "package deal", the carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognised in investment income; when the acquirer's previously held equity interest in the acquiree involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or net assets from premeasurement of defined benefit plan of the acquiree.

(3) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to "Accounting Standards for Business Enterprises No.12 – Debt Restructuring"; and that obtained through non-cash assets exchange is determined according to "Accounting Standards for Business Enterprises No. 7 – Non-cash Assets Exchange".

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XIII) Long-term Equity Investments *(Continued)*

3. *Subsequent measurement and recognition in profit or loss*

When the Company controls the investee, a long-term equity investment is accounted for using the cost method. The equity method is applied to long-term equity investment of associates and joint ventures.

4. *Accounting treatment of disposal of investment in a subsidiary to loss of control in stages through various transactions*

(1) Separate financial statements

For equity interests disposed of, the difference between the carrying amount and the actual consideration obtained is recognised as current profit or loss. For the remaining equity interests, those which are still entitled to a significant influence on the investee or perform joint control with other parties are accounted for using equity method, while those which do not control, jointly control or have a significant influence on the investee are accounted for pursuant to the relevant regulations of Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments.

(2) Consolidated financial statements

1) For the disposal of investment in a subsidiary to loss of control in stages through various transactions that are not categorized as "package deal"

Prior to the loss of control, the capital reserve (capital premium) is adjusted with the difference between the consideration of the disposal and the entitled share of the net assets of the subsidiary that would have been entitled to by the disposed long-term equity investment and continuously accounted for from the acquisition date or combination date. If the balance of the capital premium is insufficient for the set-off, then the retained earnings will be set off accordingly.

When the control over the former subsidiary is lost, the remaining equities are premeasured at fair value at the date when the control is lost. The sum of the consideration obtained from disposal and the fair value of the remaining equity interests less the share of the net assets of the subsidiary that would have been entitled to and continuously accounted for according to the original shareholding percentage from the acquisition date or combination date is recognised as investment income for the period covering the date of loss of control, offsetting the goodwill at the same time. Other comprehensive income related to the equity investment in the former subsidiary shall be transferred to the investment income for the period covering the date of loss of control.

2) For the disposal of investment in a subsidiary to loss of control in stages through various transactions that are categorized as "package deal"

The transactions as a whole are treated as one single transaction of disposal of a subsidiary and loss of control in accounting treatment. However, prior to the loss of control, the difference between each of the consideration of disposal and the share of net assets of that subsidiary that would have been entitled to by the disposed investment is recognised as other comprehensive income in the consolidated financial statements and transferred to profit or loss for the period when the control is lost.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XIV) Fixed Assets

1. *Recognition criteria of fixed assets*

   Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year, and are measured when the inflow of economic benefits is probable and the cost can be reliably measured.

2. *Depreciation method of each category of fixed assets*

Categories	Depreciation method	Useful life (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line method	10-20	5.00	4.75-9.50
Transportation tools	Straight-line method	5	5.00	19.00
Machinery and equipment	Straight-line method	5-10	5.00	9.50-19.00
Electronics equipment	Straight-line method	3-5	5.00	19.00-31.67
Other equipment	Straight-line method	3-5	5.00	19.00-31.67

(XV) Construction in Progress

1. Construction in progress is recognised when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost incurred until it is ready for intended use.

2. Construction in progress is transferred to fixed assets when it is ready for its intended use based on the actual cost. For a completed project ready for intended use but with final account unsettled, the asset is transferred to fixed assets based on estimated value. After final account of the project has been settled, the Company shall make adjustment to the previous estimated value based on actual cost, but need not to adjust the depreciation retrospectively.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XVI) Borrowing Costs

1. *Recognition principles on capitalisation of borrowing costs*

The Company's borrowing costs that are directly attributable to the acquisition, construction or production of an asset eligible for capitalisation shall be capitalised in the cost of relevant assets. Other borrowing costs are recognised as expenses in current profit or loss when incurred.

2. *Capitalisation period of borrowing costs*

(1) Borrowing costs shall be capitalised when: 1) capital expenditures have been incurred; 2) borrowing costs have been incurred, and 3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

(2) Capitalisation of borrowing costs should be suspended during a period in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production of assets eligible for capitalisation. The borrowing cost incurred during interruption is recognised as current expenses until the acquisition, construction or production activities resume.

(3) The capitalisation of borrowing costs ceases when the assets acquired, constructed or produced and qualified for capitalisation are ready for their intended use or sale.

3. *Capitalisation rate and amount of borrowing costs*

For specific borrowings used to acquire, construct or produce assets eligible for capitalisation, the amount of interest costs (including amortisation of discount or premium determined using the effective interest method) actually incurred on such borrowings for the period shall be capitalised after deducting any interest earned from depositing the unused borrowings in bank or any investment income arising from the temporary investment of those borrowings during the capitalisation period. For general borrowings used to acquire, construct or produce assets eligible for capitalisation, the capitalised amount of interests on general borrowings shall be determined on the basis that the weighted average (of the excess of cumulative assets expenditures over the specific borrowings) times capitalisation rate (of used general borrowings).

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XVII) Right-of-use Assets

1. *Recognition conditions of right-of-use assets*

The right-of-use assets represent the right of the Company as a lessee to use the leased assets during the lease term. The Company recognises the right-of-use assets for the lease at the inception of the lease term. The right-of-use assets are recognised when it is probable that economic benefits will flow in and the cost can be measured reliably.

2. *Initial measurement of right-of-use assets*

The right-of-use assets shall be initially measured at costs. Such costs include: (1) the initial amount of measurement of the lease liabilities; (2) the lease payment paid on or before the commencement date of the lease term(if there is a lease incentive, the amount of the lease incentive that has been received shall be deducted); (3) initial direct costs incurred by the leasee; (4) the cost that the leasee expects to occur for dismantling and removing the leased assets, restoring the site where the leased assets are, or restoring the leased assets to the agreed status under the terms of the lease terms.

3. *Subsequent measurement of right-of-use assets*

(1) The Company subsequently measured the right-of-use assets by using the cost model.

(2) the Company shall make a provision for depreciation on the right-of-use assets. If it is reasonable to determine that the ownership of the leased assets can be obtained at the expiration of the lease term, the Company shall make a provision for depreciation within the remaining useful life of the leased asset. If it is not reasonable to determine that the ownership of the leased asset can be obtained at the expiration of the lease term, the Company shall make a provision for depreciation at the shorter of the lease term and the remaining useful life of the leased asset. The specific depreciation method of various right-of-use assets are as follows:

Categories	Depreciation method	Depreciation term (years)
Buildings and structures	Straight-line method	2

(3) When the Company re-measures the lease liability based on the present value of the changed lease payments and adjusts the carrying amount of the right-of-use asset accordingly. If the carrying amount of the right-of-use asset has been reduced to zero but the lease liability still needs to be further reduced, the Company accounts for the remaining amount in the current profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XVIII) Intangible Assets

1. Intangible assets, including land use rights, software, are initially measured at cost.

2. Intangible assets with definite useful lives are reasonably and systematically amortised over their useful lives based on the pattern of the economic benefits relating to the intangible assets that are expected to be realised. Intangible assets whose economic benefits realisation pattern cannot be reliably anticipated are amortised on a straight-line basis over the following useful life:

Item	Years of amortization (year)
Land use rights	50
Software	5

3. Expenditures for internal research and development projects during the development stage are expensed in the period as incurred. The expenses of internal research and development projects during the development stage are recognised as intangible assets when all of the following conditions are satisfied: (1) the completion of such intangible assets for use or sale is technically feasible; (2) the Company has the intention to use or sell the intangible assets upon completion; (3) the way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation; (4) the Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale; (5) the expenses attributable to such intangible assets can be measured reliably at the development stage.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XIX) Partial Long-term Asset Impairment

For long-term assets such as long-term equity investment, fixed assets, construction in progress, right-of-use assets and intangible assets with definite useful lives, when there is evidence at the balance sheet date showing that the assets are impaired, the recoverable amounts are estimated. For goodwill arising from business combination and intangible assets with uncertain useful life, whether there is an evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group portfolio. If the recoverable amounts of the abovementioned long-term assets are lower than their carrying amounts, the differences are recognised as provision for asset impairment and recorded in current profit or loss.

(XX) Long-term Deferred Expenses

Long-term deferred expenses are expenses that have been recognised but with amortisation period over one year (excluding one year). Long-term deferred expenses are recognised as incurred, and evenly amortised within its beneficial period or stipulated period. If items of long-term deferred expenses fail to be beneficial to the subsequent accounting periods, the residual values of such items are included in current profit or loss.

(XXI) Employee Benefits

1. *Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long term employee benefits.*

2. *Accounting treatment of short-term remuneration*

   During the accounting period when the staff provides service, the Company will recognise the short-term remuneration incurred as liabilities, and the liabilities would be included in current profit or loss or the relevant costs of assets.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXI) Employee Benefits *(Continued)*

3. Accounting treatment of post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plan or defined benefit plan.

(1) During the accounting period when the staff provides service, the Company will recognise the amount payable calculated under defined contribution plan as liabilities, and the liabilities would be included in current profit or loss or the relevant costs of assets.

(2) Accounting treatment of defined benefit plan normally comprises steps as follow:

1) According to the projected unit credit method, the Company adopted unbiased and mutually agreed actuarial assumptions to estimate the relevant demographic variables and financial variables, calculate the obligations arising from the defined benefit plan and determine the period of relevant obligations belonging to. Meanwhile, the obligation arising from the defined benefit plan is discounted to determine the present value of such obligation under the defined benefit plan and the service cost for the current period;

2) Where there are assets in the defined benefit plan, the deficit or surplus from the present value of the defined benefit plan less the fair value of the defined benefit plan are recognised as a net debt or asset of a defined benefit plan. Where there are surplus in the defined benefit plan, the lower of the surplus of the defined benefit plan and the upper limit of the assets will be used to calculate the net assets of the defined benefit plan;

3) At the end of the period, the cost of employee benefits from the defined benefit plan will be recognised as three parts, such as the service cost, the net interest on the net liabilities or net assets from the defined benefit plan and the changes arising from the remeasurement of the net liabilities or net assets from the defined benefit plan. Of these, the service cost and the net interest on the net liabilities or net assets from the defined benefit plan will be recognised in current profit or loss or relevant assets cost. The changes arising from the remeasurement of the net liabilities or net assets from the defined benefit plan will be recognised in other comprehensive income and shall not be reversed to profit or loss in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXI) Employee Benefits *(Continued)*

4. *Accounting treatment of termination benefits*

When providing termination benefits to employees, the employee benefits liabilities arising from the recognition of termination will be recognised in current profit or loss at the earlier of: (1) when the Company cannot unilaterally withdraw the termination benefits for the release of the labour relationship plan or the termination proposal; (2) when the Company recognised relevant costs or expenses associated with the reorganisation of the payment of the termination benefits.

5. *Accounting treatment of other long-term employee' benefits*

Other long-term benefits provided by the Company to employees that satisfy the conditions of defined contribution plan will apply accounting treatment according to the relevant provisions of the defined contribution plans. Other long-term benefits other than this will conduct accounting treatment according to the defined benefit plan. In order to simplify the relevant accounting treatment, the generated staff remuneration is recognised as service cost and the total net amount of the components such as net interest amount of net liabilities or net assets in terms of other long-term employees' benefits and changes arising from re-measuring the net liabilities or net assets in terms of other long-term employees' benefits is recognised as current profit or loss or the relevant cost of asset.

(XXII) Provision for Liabilities

1. Provisions for liabilities are recognised when the Company has a present obligation as a result of contingencies such as provision of external guarantee, litigation, product quality warranty, and lossmaking contract, and it is very likely that an outflow of economic benefits will be resulted from settlement of the obligation, and a reliable estimate of the amount of the obligation can be made.

2. Provisions for liabilities are initially stated at the best estimate of the expenditure that is required for settling the present obligation. Carrying amounts of provisions for liabilities are reviewed at balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXIII) Revenue

1. *Principles on recognition of revenue*

At contract inception, the Company assesses the contract to identify each individual performance obligation thereunder and to determine whether the performance obligation is satisfied over time or at a point in time.

If one of the following criteria is met, the Company satisfies a performance obligation over time, otherwise the performance obligation is satisfied at a point in time: (1) the customer simultaneously receives and consumes the economic benefits provided by the Company's performance as the Company performs; (2) the Company's performance creates goods or services that the customer controls as goods or services are created; (3) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date during the term of the contract.

For a performance obligation satisfied over time, the Company shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. If the Company is unable to reasonably measure its progress towards complete satisfaction of a performance obligation and expects to recover the costs incurred, the Company shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure progress towards complete satisfaction of the performance obligation. For a performance obligation satisfied at a point in time, the Company shall recognise revenue when customer obtains control of relevant goods or services. To determine whether a customer obtains control of goods, the Company shall consider the following indicators: (1) the Company has a present right to receive the payment for the goods, i.e. a customer has a present obligation to pay for the goods; (2) the Company has transferred the legal title of the goods to the customer, i.e. the customer has the legal title of the goods. (3) the Company has transferred physical possession of the goods to the customer, i.e. the customer has physical possession of the goods; (4) the Company has transferred significant risks and rewards of ownership of the goods to the customer, i.e. the customer has the significant risks and rewards of ownership of the goods; (5) the customer has accepted the goods; (6) other indications that the customer has obtained control of the goods.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXIII) Revenue *(Continued)*

2. Principles on the measurement of revenue

(1) The Company measures revenue through allocating the transaction price to each performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts expected to be refunded to the customers.

(2) If the consideration promised in a contract includes a variable amount, the Company shall estimate the amount of consideration by using either of the expected value or the most likely amount. But the transaction price which concludes the variable consideration does not exceed the amount that the accumulative recognised income is unlikely to undergo a major reversal when the relevant uncertainty is eliminated.

(3) Where there is a significant financing component in the contract, the Company determines the transaction price based on the amount payable in cash when it is assumed that the customer has taken the control of goods or services. The difference between the transaction price and the contract consideration is amortised using the effective interest method during the contract period. On the contract start date, the Company does not consider the major financing components in the contract when it expects that the difference between customer taking the control of goods or services and the payment of the customer price is not more than one year.

(4) Where the contract includes two or more performance obligations, the Company shall amortise the transaction price to each individual performance obligation on the contract start date in line with the relative proportion of the individual selling prices of the goods.

3. Specific methods for revenue recognition

Revenue recognition at a point in time

The Company sells products such as railway fasteners, flux cored wires and railway sleepers and etc., and fulfills its performance obligations. The recognition of the revenue from the domestic sales of products should meet the following conditions: the Company has transported the products to the project sites based on contract and the project construction unit has signed for receipt, the payment has been recovered or the receipt of goods has been obtained; the relevant economic benefits are likely to flow in; the significant risks and rewards of ownership of goods have been transferred and the customer has obtained control over the goods. The recognition of the revenue of the exported products should meet the following conditions: the Company has declared the goods according to the contract and obtained the bill of lading, has recovered the payment or obtained the receipt certificate and the relevant economic benefits are likely to flow in; the significant risks and rewards of ownership of goods have been transferred and the customer has obtained control over the goods.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXIV) Government Grants

1. Government grants are recognised when (1) the Company is able to comply with the conditions attaching to the government grants; (2) the Company is able to receive the government grants. Government grants which are monetary assets shall be measured at the amount received or receivable. Government grants which are non-monetary assets shall be measured at fair value, or at nominal amount if the fair value cannot be reliably measured.

2. *Judgment basis and accounting treatment on the government grants relating to assets*

Government grants which shall be used for constructing or otherwise forming long-term assets as specified in government documents are classified as government grants related to assets. In the absence of specific requirements in government documents, the determination is made according to basic conditions for obtaining the grants; if constructing or otherwise forming long-term assets is treated as a basic condition, the grants are classified as government grants related to assets. Government grants relating to assets are offset against the carrying amount of such assets or recognised as deferred income. Government grants relating to assets recognised as deferred income are included in profit or loss on a reasonable and systematic basis over the useful lives of the relevant assets. Government grants measured at notional amount are directly recorded in profit or loss. For assets sold, transferred, disposed or damaged prior to the end of their useful lives, balance of unallocated deferred income is transferred to profit or loss for the period in which the disposal occurred.

3. *Judgment basis and accounting treatment on the government grants relating to revenue*

Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss or offset the related costs.

4. Government grants related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government grants that are not related to the Company's daily operations are included in the non-operating income or expenses.

5. *Accounting treatment of interest subsidies for policy-related preferential loans*

(1) For interest subsidies appropriated by government to a loan bank which will provide loans to the Company at a policy-related preferential rate, the actual amount of the borrowings received is recorded as the book value and the relevant borrowing costs are calculated according to the principal of the borrowings and the policy-related preferential interest rate.

(2) For interest subsidies directly appropriated by government to the Company, the interest subsidies shall be used to offset against relevant borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXV) Deferred Income Tax Assets and Deferred Income Tax Liabilities

1. Deferred income tax assets or deferred income tax liabilities are recognised based on the difference between the carrying amounts of the assets or liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount), and are calculated at the tax rates expected to apply to the period in which the assets are recovered or the liabilities are settled.

2. Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred income tax assets unrecognised in previous accounting periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilised.

3. The carrying amount of deferred income tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred income tax assets can be utilised. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

4. The Company's current and deferred income taxes are recognised in current profit or loss as tax expense or profit, excluding income tax arising from: (1) business combination; (2) transactions or items directly recognised in equity.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVI) Lease

1. *Identification of lease*

On the date of commencement of the contract, the Company assesses whether the contract is a lease or contains a lease, if one of the parties to the contract assigns the right to control the use of one or more identified assets for a certain period of time in exchange for consideration, the contract is a lease or contains a lease. To determine whether a contract assigns the right to control the use of an identified asset for a certain period of time, the Company assesses whether the customer in the contract is entitled to receive almost all of the economic benefits arising from the use of the identified asset during the period of use and to dominate the use of the identified asset during that period of use.

2. *Identification of separate lease*

For contract containing multiple separate leases, the Company splits the contract and analyses each separate lease for accounting treatment. The right to use the identified asset constitutes a separate lease in the contract if the following conditions are met: (1) the lessee may profit from the use of the asset alone or with other resources that are readily available; and (2) the asset is not highly dependent or highly related to other assets in the contract.

3. *The accounting treatment of the Company as a lessee*

On the commencement date of the lease term, the Company recognizes the leases which have a term of 12 months or less and does not include any purchase options as a short-term lease; the separate leased asset has a low value when new is recognized as a lease of low-value assets. If the Company subleases or expects to sublease the leased assets, the original lease is not recognized as a lease of low-value assets.

For all short-term leases and leases of low-value assets, the Company accounts the lease payments into the relevant asset costs or the current profit or loss using the straight-line method in each period of the lease term.

In addition to the above-mentioned accounting treatment for short-term leases and leases of low-value assets using simplified approach, the Company recognizes the right-of-use assets and lease liabilities for the lease at the beginning of the lease term.

On the lease start date, the Company recognizes the present value of the unpaid lease payments as lease liabilities. When calculating the present value of lease payments, the implied interest rate of lease is used as the discount rate. If the implied interest rate of lease cannot be determined, the incremental borrowing rate of the Company is used as the discount rate. The difference between the lease payments and its present value is regarded as the unrecognized financing expense. During each period of the lease term, its interest expense is measured at the discount rate for determining the present value of the lease payments, and is included in the current profit or loss. The variable lease payments not included in the measurement of lease liabilities are included in the current profit or loss when they actually occur.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVI) Lease *(Continued)*

3. *The accounting treatment of the Company as a lessee (Continued)*

After the commencement date of the lease term, when there is a change in the actual fixed payments, the estimated payable amount of the guarantee residual value, the index or ratio used to determine the lease payments, the evaluation result or the actual exercise situation of the purchase option, the renewal option or the termination option change, the Company remeasures the lease liabilities according to the present value of the changed lease payments.

4. *The accounting treatment of the company as the lessor*

On the lease start date, the Company classifies the leases which have actually transferred almost all the risks and rewards related to the ownership of the leased assets as financial leases, and all other leases are classified as operating leases.

Operating lease

In each period of the lease term, the Company recognizes the lease receipts as rental income using the straight-line method, capitalizes the initial direct expenses incurred, apportions them on the same basis as the recognition of rental income, and records them into the current profit or loss by stages. The variable lease payments obtained by the Company which are related to the operating leases but not included in the lease receipts are included in the current profit or loss when they are actually incurred.

In case of any change to the operating leases, the Company shall take it as a new lease for accounting treatment since the effective date of the change, and the lease payments received in advance or receivable related to the lease before the change shall be deemed as the receipt of the new lease.

5. *Accounting treatment of lease change*

(1) Lease change as a separate lease

If the lease changes and meets the following conditions at the same time, the Company will treat the lease change as a separate lease for accounting treatment: 1) The change of lease expands the scope of lease by adding the right to use one or more leased assets; 2) The increased consideration is equivalent to the amount adjusted according to the conditions of the contract for the individual price of the expanded lease scope.

(2) Lease change not as a separate lease

1) The Company as lessee

On the effective date of the lease change, the Company redetermines the lease term, and uses the revised discount rate to discount the changed lease payments, so as to remeasure the lease liabilities. When calculating the present value of the lease payments after the change, the Company adopts the interest rate implied in the lease of the remaining lease period as the discount rate; if the interest rate implied in the lease of the remaining lease period cannot be determined, the Company's incremental borrowing rate on the effective date of the lease change shall be used as the discount rate.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVI) Lease *(Continued)*

5. Accounting treatment of lease change (Continued)

(2) Lease change not as a separate lease *(Continued)*

1) The Company as lessee *(Continued)*

In terms of the impact of the above lease liabilities adjustment, the Company conducts accounting treatment according to the following situations:

① If the lease scope is narrowed or the lease term is shortened as a result of the lease change, the Company shall reduce the book value of the right-of-use assets, and record the relevant gains or losses of partial or complete termination of the lease into the current profit or loss.

② For other lease changes, the Company shall adjust the book value of the right-of-use assets accordingly.

2) The Company as lessor

If the lease change takes effect on the lease start date, the lease will be classified as an operating lease. The Company will take it as a new lease for accounting treatment since the effective date of the lease change, and take the net lease investment before effective date of the lease change as the book value of the leased asset. If the lease change takes effect on the lease start date, the lease will be classified as a financial lease, and the Company will carry out accounting treatment in accordance with the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments on the modification or renegotiation of the contract.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVI) Lease *(Continued)*

6. *Leaseback*

The Company as lessee

If the asset transfer in the sale and leaseback transaction belongs to the sale, the Company measures the right-of-use assets formed by the sale and leaseback according to the book value of the original assets related to the right to use obtained by the leaseback, and recognize the relevant gains or losses only for the right transferred to the lessor.

If the fair value of the sale consideration is different from the fair value of the assets, or the lessor does not receive the rent according to the market price, the Company accounts for the amount of the sale consideration lower than the market price as the prepaid rent, and the amount higher than the market price as the additional financing provided by the lessor to the Company; at the same time, the Company shall adjust the amount according to the fair value, and the lessor shall adjust the rental income according to the market price.

When making the above adjustments, the Company bases on the more easily determined items: the difference between the fair value of the sales consideration and the fair value of the assets, the difference between the present value of the payments in the lease contract and the present value of the payments calculated according to the market price of the lease.

If the transfer of assets in the sale and leaseback transaction does not belong to the sale, the Company continues to recognize the transferred assets, at the same time recognize a financial liability equal to the transfer income, and carry out accounting treatment for the financial liability in accordance with the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVII) Significant Accounting Judgments and Estimates

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions of the estimates and judgments of uncertain factors are reviewed on an ongoing basis by the Company. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty are as follows:

1. *Recognition of deferred income tax assets*

   As stated in note III(25) to these financial statements, deferred income tax assets are recognized on the basis of the deductible temporary differences between the carrying amounts of the assets and liabilities and their tax bases (for an item not recognized as asset and liability but for which tax base can be determined under tax laws, the difference between its tax base and its carrying amount), and are calculated by applying the tax rates applicable to the period in which the assets are expected to be recovered or the liabilities are expected to be settled. Deferred income tax assets are recognized for deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

2. *Impairment of financial instruments and contract assets*

   As per note III(10)to these financial statements, based on expected credit losses, the Company accounts for the impairment of, and recognizes provisions for losses on, financial assets (notes receivable and accounts receivable, other receivables) and contract assets amortized at costs.

3. *Provision for impairment of inventories*

   As stated in note III(11) to these financial statements, at the balance sheet date, the Company's inventories are measured at the lower of cost and net realisable value. Provision for impairment is made for the excess of the cost over the net realisable value of individual inventory. For inventories for immediate sale, net realisable value is determined as the estimated selling price of the inventories less the estimated costs of sales and relevant taxes and levies in the ordinary course of business. For inventories that require processing, net realisable value is determined as the amount of the estimated selling price of the finished goods produced less the estimated costs to completion, the estimated costs of sales and relevant taxes and levies in the ordinary course of business. At the balance sheet date, where part of an inventory item is subject to an agreed contractual price while the remainder is not, their net realisable values are determined separately and compared with their respective costs to determine the amount of provision for impairment made or released.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVII) Significant Accounting Judgments and Estimates *(Continued)*

4. Impairment of long-term assets

As stated in note III (19) to these financial statements, for long-term assets such as long-term equity investments, fixed assets, construction in progress, right-of-use assets and intangible assets with limited useful lives, its recoverable amount will be estimated when there is an indication of impairment at the balance sheet date. Goodwill arising from a business combination and an intangible asset with an indefinite useful life shall be subject to the annual impairment test, irrespective of whether there is any indication of impairment. Impairment test will be conducted on goodwill together with the related asset group or asset group portfolio. If the result of recoverable amount measurement indicates that the recoverable amount of such long-term assets is less than its carrying amount, the carrying amount of the assets will be reduced to its recoverable amount. That reduction is recognized as an impairment loss of assets and charged to profit or loss for the current period. A provision for impairment of the assets is recognized accordingly.

(XXVIII) Changes in Significant Accounting Policies

Changes in accounting policies arising from alteration in accounting standards for business enterprises

1. The 2019 financial statements were prepared by the Company in accordance with the Notice on Revising and Issuing the Format of 2019 Financial Statements of General Enterprises (Cai Kuai [2019] No.6)《關於修訂印發2019年度一般企業財務報表格式的通知》(財會[2019]6號) and the Notice on Revising and Issuing the Format of 2019 Consolidated Financial Statements (Cai Kuai [2019] No. 16)《關於修訂印發合併財務報表格式(2019版)的通知》(財會[2019]16號)issued by the Ministry of Finance, and the Accounting Standards for Business Enterprises, and such change of accounting policy is subject to the retrospective adjustments. Items and amounts in 2018 financial statements which are significantly affected are as follows:

Old item and amount		New item and amount	
Notes receivable and accounts receivable	1,275,806,458.10	Notes receivable	12,286,259.23
		Accounts receivable	1,261,114,665.87
		Receivable financing	2,405,533.00
Notes payable and accounts payable	407,296,522.23	Notes payable	63,276,286.30
		Accounts payable	344,020,235.93

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVIII) Changes in Significant Accounting Policies *(Continued)*

Changes in accounting policies arising from alteration in accounting standards for business enterprises (Continued)

2. The Company has implemented the Accounting Standards for Business Enterprises No.21 – Lease (hereinafter referred to as the New Lease Standards, as amended) since 1 January 2019.

   (1) For contracts that substituted before 1 January 2019, the Company did not assess whether they were leases or contain leases.

   (2) As a lessee, the Company does not make any adjustments to the information for the comparable period in accordance with the transition requirements under the New Lease Standards, and the retained earnings and other related items at the beginning of the reporting period is retrospectively adjusted for the difference between the implementation of the New Lease Standards and the original standards on the initial implementation date.

      1) The main impact of the implementation of the New Lease Standards on the Company's financial statements as at 1 January 2019 is as follows:

Items	31 December 2018	Balance sheet Impact of the adjustments under the New Lease Standards	1 January 2019
Right-of-use assets		1,869,532.99	1,869,532.99
Non-current liabilities due within one year		959,988.46	959,988.46
Lease liabilities		909,544.53	909,544.53

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(XXVIII) Changes in Significant Accounting Policies *(Continued)*

Changes in accounting policies arising from alteration in accounting standards for business enterprises (Continued)

2. The Company has implemented the Accounting Standards for Business Enterprises No.21 – Lease (hereinafter referred to as the New Lease Standards, as amended) since 1 January 2019. *(Continued)*

   (2) *(Continued)*

   2) Reconciliation of the minimum unpaid lease payments in major operating leases and the lease liabilities (on 1 January 2019) as at the end of 2018 reporting period

Items	Amounts
Minimum lease payments under the significant operating lease as at 31 December 2018	2,012,944.12
Less: Minimum lease payments treated using simplified approach	10,000.00
Minimum lease payments under the New Lease Standards as at 1 January 2019	2,002,944.12
The weighted average value of incremental borrowing rate as at 1 January 2019	5.70%
Lease liabilities as at 1 January 2019(inclusive of lease liabilities under non-current liabilities due within one year)	1,869,532.99

   3) The Company applied simplified approach for the treatment of operating leases where the leased assets prior to 1 January 2019 were low value and did not recognize the right-of-use assets and lease liabilities, and no retrospective adjustment method has been applied.

3. The Company has implemented the Accounting Standards for Business Enterprises No. 7 – Non-cash Assets Exchange since 10 June 2019 and the Accounting Standards for Business Enterprises No.12 – Debt Restructuring since 17 June 2019. The changes in the accounting policies will adopt the future applicable methods for treatment.

4. TAXATION

(I) Major Taxes and Tax Rates

Type of tax	Basis	Tax rate
Value added tax	Sales of goods or rendering of taxable services	16%, 13%, 10%, 9%
Property tax	For ad valorem taxes, the taxes is calculated based on 1.2% of the property value less 30%	1.2%
Urban maintenance and construction tax	Amount of turnover tax payable	5%, 7%
Education surcharge	Amount of turnover tax payable	3%
Local education surcharge	Amount of turnover tax payable	2%
Corporate income tax	Amount of taxable income	15%, 20%, 25%

Details of corporate income tax rates of different entities

Name of entity	Income tax rate
The Company	15%
Yichen Corporate Management and Yichen Trading	20%
Other entities excluding those above-mentioned	25%

(II) Tax Incentives

1. On 12 November 2018, the Company obtained the High-tech Enterprise Certificate (No. GR201813000775), which was approved by review and valid for three years. Therefore, from 2018 to 2020, the Company is subject to a corporate income tax rate of 15%.

2. According to the Notice on the Implementation of the Policies on Incentive Tax Reduction for Small Profit Enterprises (Cai Shui [2019] No.13) (《關於實施小微企業普惠性稅收減免政策的通知》(財稅[2019]13號) issued by the Ministry of Finance and State Taxation Administration, from 1 January 2019 to 31 December 2021, the qualified small profit enterprises with an annual income tax payable of less than RMB1 million is subject to an enterprise income tax rate of 20% after an reduction of 25% of the assessable tax amount; and for those with an annual income tax payable of over RMB1 million but less than RMB3 million, they are subject to an enterprise income tax of 20% after an reduction of 50% of the assessable tax amount. Yichen Corporate Management and Yichen Trading both were qualified as small profit enterprises, and are entitled to enjoy the enterprise income tax incentive in 2019.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Remark: Opening balances in the notes to these financial statements represent the figures as at 1 January 2019, which were the adjusted closing balance of last year in accordance with new lease standards.

(I) Notes to the Consolidated Balance Sheet

1. Cash on hand and at bank

(1) Breakdown

Item	Closing balance	Closing balance of last year
Cash on hand	**85,611.57**	119,042.18
Bank deposits	**330,177,052.78**	147,637,244.07
Other monetary funds	**73,809,068.88**	34,285,641.85
Total	**404,071,733.23**	182,041,928.10
Including: total funds placed in overseas	**87.52**	742.75

(2) Other description

Item	Closing balance	Closing balance of last year
Term deposits	**50,000,000.00**	
Other monetary funds	**73,809,068.88**	34,285,641.85
Including: Performance bond	**60,270,406.20**	21,851,503.09
Bank draft deposits	**12,580,000.00**	10,080,725.00
Migrant workers' advance deposits	**958,662.68**	2,353,413.76
Sub-total	**123,809,068.88**	34,285,641.85

On 31 December 2019, term deposit of RMB50,000,000.00 in bank deposits was pledged for the issuance of bank acceptance notes.

Other monetary funds primarily include performance bond, bank draft deposits and migrant workers' advance deposit, all of which has restricted usage.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

2. Financial assets held for trading

(1) Breakdown

Item	Closing balance	Closing balance of last year
Financial assets at fair value through profit or loss	**1,938,703.64**	128,770,000.00
Including: Investments in funds		128,770,000.00
Performance commitment compensation	**1,938,703.64**	
Total	**1,938,703.64**	128,770,000.00

(2) Other description

In 2019, Xingtai Juneng, the subsidiary acquired by the Company failed to fulfill its the performance commitment. The performance commitments for 2019, 2020 and 2021 were audited net profit (the less of the amounts before or after deducting non-recurring gain and loss) not less than RMB16 million, RMB17 million and RMB18 million, respectively. As agreed in the 2019 Performance Compensation Agreement on Xingtai Juneng Railway Electrical Equipment Co. LTD (關於邢台炬能鐵路電氣器材有限公司之2019年度業績補償協議) entered into by the Company with Hebei Mingju Corporate Management Company Limited (hereinafter referred to as "Hebei Mingju"), the former shareholders of Xingtai Juneng, the performance compensation receivable for the period amounted to RMB1,938,703.64. In comprehensive consideration of Xingtai Juneng's performance accomplishment in 2019, the estimated accomplishment for 2020 and 2021 and the expected credit risks of counterparties, the performance commitment compensation due from Hebei Mingju of RMB1,938,703.64 is recognized and stated as financial assets held for trading.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

3. *Notes receivable*

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually					
Including: Bank acceptance notes					
Trade acceptance notes					
Provision for bad debts made as per portfolio	92,089,649.60	100.00	7,457,221.55	8.10	84,632,428.05
Including: Bank acceptance notes	66,454,991.00	72.17			66,454,991.00
Trade acceptance notes	19,829,358.60	21.53	4,995,175.45	25.19	14,834,183.15
Other notes receivable	5,805,300.00	6.30	2,462,046.10	42.41	3,343,253.90
Total	92,089,649.60	100.00	7,457,221.55	8.10	84,632,428.05

Category	Closing balance of last year				
	Carrying amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually					
Including: Bank acceptance notes					
Trade acceptance notes					
Provision for bad debt by groups	49,628,356.51	100.00	2,574,832.56	5.19	47,053,523.95
Including: Bank acceptance notes	35,571,909.28	71.68			35,571,909.28
Trade acceptance notes	9,558,985.60	19.26	1,734,991.28	18.15	7,823,994.32
Other notes receivable	4,497,461.63	9.06	839,841.28	18.67	3,657,620.35
Total	49,628,356.51	100.00	2,574,832.56	5.19	47,053,523.95

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

3. *Notes receivable (Continued)*

(1) Breakdown *(Continued)*

2) Notes receivable with provision for bad debts made as per portfolio

Item	Closing balance Carrying amount	Closing balance Provision for bad debts	Closing balance Provision (%)
Portfolio of bank acceptance notes	**66,454,991.00**		
Portfolio of trade acceptance notes	**19,829,358.60**	**4,995,175.45**	**25.19**
Other notes receivable	**5,805,300.00**	**2,462,046.10**	**42.41**
Sub-total	**92,089,649.60**	**7,457,221.55**	**8.10**

(2) Changes in provision for bad debts

Item	Opening balance	Increase during the period: Provision	Increase during the period: Recovery	Increase during the period: Others	Decrease during the period: Reversal	Decrease during the period: Write-off	Decrease during the period: Others	Closing balance
Trade acceptance notes	1,734,991.28	3,260,184.17						**4,995,175.45**
Other notes receivable	839,841.28	1,622,204.82						**2,462,046.10**
Sub-total	2,574,832.56	4,882,388.99						**7,457,221.55**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

3. Notes receivable (Continued)

(3) The notes receivable that were not mature as at the balance sheet date but had been endorsed or discounted by the Company at the end of the period

Item	Amounts derecognized at the end of the period	Amounts not yet derecognized at the end of the period
Bank acceptance notes		**50,940,313.00**
Trade acceptance notes		**9,329,358.60**
Other notes receivable		**5,805,300.00**
Sub-total		**66,074,971.60**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

4. Accounts receivable

(1) Breakdown

1) Breakdown by category

Category	Closing balance: Book balance: Amount	Closing balance: Book balance: Proportion (%)	Closing balance: Provision for bad debts: Amount	Closing balance: Provision for bad debts: Percentage of provision (%)	Closing balance: Book value
Provision for bad debts made individually	8,315,467.76	0.82	8,315,467.76	100.00	
Provision for bad debts made as per portfolio	1,000,116,255.39	99.18	104,470,728.58	10.45	895,645,526.81
Total	1,008,431,723.15	100.00	112,786,196.34	11.18	895,645,526.81

Category	Closing balance of last year: Book balance: Amount	Closing balance of last year: Book balance: Proportion (%)	Closing balance of last year: Provision for bad debts: Amount	Closing balance of last year: Provision for bad debts: Percentage of provision (%)	Closing balance of last year: Book value
Provision for bad debts made individually	8,687,167.76	0.74	8,687,167.76	100.00	
Provision for bad debts made as per portfolio	1,166,483,590.44	99.26	104,440,234.39	8.95	1,062,043,356.05
Total	1,175,170,758.20	100.00	113,127,402.15	9.63	1,062,043,356.05

2) Accounts receivable with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Customer 6	2,658,928.00	2,658,928.00	100.00	Filed lawsuit
Customer 7	1,697,366.42	1,697,366.42	100.00	Filed lawsuit
Others	3,959,173.34	3,959,173.34	100.00	Filed lawsuit
Sub-total	8,315,467.76	8,315,467.76	100.00	

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

4. Accounts receivable (Continued)

(1) Breakdown *(Continued)*

3) Trade receivables with provision for bad debts made by grouping by age

Ageing	Closing balance Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year (inclusive, same below)	620,095,564.79	12,401,911.30	2.00
1 to 2 years	226,530,438.35	22,653,043.84	10.00
2 to 3 years	94,847,577.43	28,454,273.23	30.00
3 to 4 years	26,267,021.81	13,133,510.91	50.00
4 to 5 years	22,738,318.52	18,190,654.81	80.00
Over 5 years	9,637,334.49	9,637,334.49	100.00
Sub-total	1,000,116,255.39	104,470,728.58	10.45

(2) Ageing analysis

Ageing	Closing balance			Closing balance of last year		
	Book balance	Provision for bad debts	Percentage of provision (%)	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year (inclusive, same below)	620,095,564.79	12,401,911.30	2.00	729,103,751.05	14,582,075.02	2.00
1 to 2 years	226,530,438.35	22,653,043.84	10.00	292,649,102.23	29,264,910.23	10.00
2 to 3 years	94,847,577.43	28,454,273.23	30.00	89,695,313.55	26,908,594.06	30.00
3 to 4 years	26,267,021.81	13,133,510.91	50.00	41,927,686.29	21,793,196.15	51.98
4 to 5 years	24,215,923.52	19,668,259.81	81.22	7,099,453.39	5,883,175.00	82.87
Over 5 years	16,475,197.25	16,475,197.25	100.00	14,695,451.69	14,695,451.69	100.00
Total	1,008,431,723.15	112,786,196.34	11.18	1,175,170,758.20	113,127,402.15	9.63

The aging analysis of accounts receivable is based on the month in which the amount actually occurs. The amount that occurs first has priority in settlement upon receipt of funds.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

4. Accounts receivable (Continued)

(3) Changes in provision for bad debts

1) Breakdown

Item	Opening balance	Increase in the period			Decrease in the period			Closing balance
		Provision	Recovery	Others Note	Reversal	Write-off	Others	
Provision for bad debts made individually	8,687,167.76				371,700.00			**8,315,467.76**
Provision for bad debts made as per portfolio	104,440,234.39	-132,609.48		163,103.67				**104,470,728.58**
Sub-total	113,127,402.15	-132,609.48		163,103.67	371,700.00			**112,786,196.34**

Note: Other increases are due to changes in the consolidation scope.

2) Major recovery or reversal of provision for bad debts during the period

Name of entity	Recovery or reversal amount	Recovery method
Customer 8	371,700.00	Recovery of accounts receivable
Sub-total	371,700.00	

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

4. Accounts receivable (Continued)

(4) Top 5 entities by the amount of accounts receivable

Name of entity	Book balance	Percentage of the balance of accounts receivable (%)	Provision for bad debts
Customer 1	126,947,001.71	12.59	19,577,801.69
Customer 2	108,182,711.03	10.73	2,241,017.89
Customer 3	84,274,775.31	8.36	8,014,006.52
Customer 4	74,282,035.14	7.37	9,945,606.27
Customer 5	49,245,569.94	4.88	984,911.40
Sub-total	442,932,093.13	43.93	40,763,343.77

5. Financing of accounts receivables

(1) Breakdown

Item	Balance at the end of the period					
	Initial cost	Interest adjustment	Interest accrued	Change in fair value	Carrying amount	Impairment provision
Bank acceptance notes	12,931,420.16				12,931,420.16	
Total	12,931,420.16				12,931,420.16	

Item	Balance at the end of last year					
	Initial cost	Interest adjustment	Interest accrued	Change in fair value	Carrying amount	Impairment provision
Bank acceptance notes	2,405,533.00				2,405,533.00	
Total	2,405,533.00				2,405,533.00	

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

5. Financing of accounts receivables (Continued)

(2) Notes receivable that were not mature as at the balance sheet date but had been endorsed or discounted by the Company at the end of the period

Item	Amount derecognized at the end of the period
Bank acceptance notes	**91,705,934.71**
Sub-total	**91,705,934.71**

The Company derecognizes the bank acceptance notes of banks with higher credit levels upon endorsement or discounting of such notes. However, if such bank acceptance notes are not settled when they become due, the Company will still bear joint liability to bill holders in accordance with the provisions of the Negotiable Instruments Law.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

6. Prepayments

(1) Ageing analysis

Ageing	Closing balance				Closing balance of last year			
	Book balance	Proportion (%)	Provision for impairment	Book value	Book balance	Proportion (%)	Provision for impairment	Book value
Within 1 year	18,573,748.61	99.01		18,573,748.61	25,017,559.74	97.70		25,017,559.74
1 to 2 years	186,634.71	0.99		186,634.71	244,573.31	0.96		244,573.31
2 to 3 years					121,873.16	0.48		121,873.16
Over 3 years					219,836.00	0.86		219,836.00
Total	18,760,383.32	100.00		18,760,383.32	25,603,842.21	100.00		25,603,842.21

(2) Top 5 entities by the amount of prepayments

Name of entity	Book balance	Percentage of the balance of prepayments (%)
Supplier 1	4,000,000.00	21.33
Supplier 2	2,794,119.68	14.89
Supplier 3	2,770,014.21	14.77
Supplier 4	1,676,100.00	8.93
Supplier 5	829,440.02	4.42
Sub-total	12,069,673.91	64.34

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

7. Other receivables

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually	2,410,369.22	8.75	2,410,369.22	100.00	
Including: Interests receivable					
Dividend receivable					
Other receivables	2,410,369.22	8.75	2,410,369.22	100.00	
Provision for bad debts made as per portfolio	25,139,507.20	91.25	4,862,995.99	19.34	20,276,511.21
Including: Interests receivable					
Dividend receivable					
Other receivables	25,139,507.20	91.25	4,862,995.99	19.34	20,276,511.21
Total	27,549,876.42	100.00	7,273,365.21	26.40	20,276,511.21

Category	Closing balance of last year				
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually	2,730,418.96	10.92	2,730,418.96	100.00	
Including: Interests receivable					
Dividend receivable					
Other receivables	2,730,418.96	10.92	2,730,418.96	100.00	
Provision for bad debts made as per portfolio	22,272,588.74	89.08	4,767,070.66	21.40	17,505,518.08
Including: Interests receivable					
Dividend receivable					
Other receivables	22,272,588.74	89.08	4,767,070.66	21.40	17,505,518.08
Total	25,003,007.70	100.00	7,497,489.62	29.99	17,505,518.08

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

7. Other receivables (Continued)

(1) Breakdown *(Continued)*

2) Other receivables with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Other receivables				
Counterparty 3	2,410,369.22	2,410,369.22	100.00	Filed lawsuit
Sub-total	2,410,369.22	2,410,369.22	100.00	

3) Other receivables with provision for bad debts made as per portfolio

Portfolios	Closing balance		
	Book balance	Provision for bad debts	Percentage of provision (%)
Security deposits	**23,721,144.20**	**4,834,628.73**	**20.38**
Imprest	**862,003.55**	**17,240.07**	**2.00**
Others	**556,359.45**	**11,127.19**	**2.00**
Sub-total	**25,139,507.20**	**4,862,995.99**	**19.34**

(2) Aging

Item	Book balance at the end of the period
Within 1 year	**11,115,560.70**
1 to 2 years	**5,752,440.50**
2 to 3 years	**3,293,333.00**
3 to 4 years	**1,627,000.00**
4 to 5 years	**3,050,369.22**
Over 5 years	**2,711,173.00**
Sub-total	**27,549,876.42**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

7. *Other receivables (Continued)*

(3) Changes in provision for bad debts

1) Breakdown

Item	Phase I Expected credit loss in following 12 months	Phase II Lifetime expected credit loss (without credit impairment)	Phase III Lifetime expected credit loss (with credit impairment)	Total
Opening balance	223,685.25	367,321.60	6,906,482.77	7,497,489.62
Opening balance for the period				
– Transfer to phase II	(107,147.50)	107,147.50		
– Transfer to phase III		(59,510.80)	59,510.80	
– Transfer to phase II				
– Transfer to phase I				
Provision for the period	68,768.73	776,714.64	(797,769.21)	47,714.16
Recovery for the period				
Reversal for the period			320,049.74	320,049.74
Write-off for the period				
Increase in the consolidation scope	48,211.17			48,211.17
Closing balance	233,517.65	1,191,672.94	5,848,174.62	7,273,365.21

2) Major recovery or reversal of provisions for bad debts for the period

Name	Recovered or reserved amount	Recovery method
Counterparty 3	320,049.74	Receipt of the amounts executed by court
Sub-total	320,049.74	

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

7. Other receivables *(Continued)*

(4) Classification of other receivables by nature

Nature	Closing balance	Closing balance of last year
Other receivables		
Security deposits	**23,721,144.20**	21,631,399.92
Imprest	**862,003.55**	479,430.65
Current account	**2,410,369.22**	2,730,418.96
Others	**556,359.45**	161,758.17
Total	**27,549,876.42**	25,003,007.70

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

7. *Other receivables (Continued)*

(5) Top 5 entities by the amount of other accounts receivable

Name of entity	Nature	Book balance	Ageing	Percentage of the balance of other receivables (%)	Provision for bad debts
Counterparty 1	Security deposits	643,620.39	Within 1 year	2.33	34,143.06
		10,000.00	1 to 2 years	0.04	1,500.00
		50,000.00	2 to 3 years	0.18	5,000.00
		10,000.00	3 to 4 years	0.04	3,000.00
		1,940,000.00	Over 5 years	7.04	1,552,000.00
Sub-total		2,653,620.39		9.63	1,595,643.06
Counterparty 2	Security deposits	211,100.23	Within 1 year	0.77	31,665.03
		2,246,075.00	1 to 2 years	8.15	336,911.25
Sub-total		2,457,175.23		8.92	368,576.28
Counterparty 3	Current account	2,410,369.22	4 to 5 years	8.75	2,410,369.22
Counterparty 4	Security deposits	2,000,000.00	Within 1 year	7.26	40,000.00
Counterparty 5	Security deposits	1,240,000.00	Within 1 year	4.50	24,800.00
		440,000.00	1 to 2 years	1.60	66,000.00
Sub-total		1,680,000.00		6.10	90,800.00
Total		11,201,164.84		40.66	4,505,388.56

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

8. *Inventories*

(1) Breakdown

Items	Closing balance Book balance	Closing balance Provisions for write-down	Closing balance Book value	Closing balance of the previous year Book balance	Closing balance of the previous year Provisions for write-down	Closing balance of the previous year Book value
Raw materials	**44,977,697.33**	**99,336.43**	**44,878,360.90**	42,029,357.44		42,029,357.44
Work in process	**101,649,676.47**		**101,649,676.47**	86,905,448.48		86,905,448.48
Finished goods	**213,233,479.36**	**4,531,794.13**	**208,701,685.23**	154,149,374.55	6,434,876.50	147,714,498.05
Total	**359,860,853.16**	**4,631,130.56**	**355,229,722.60**	283,084,180.47	6,434,876.50	276,649,303.97

(2) Provisions for inventory write-down

1) Breakdown

Items	Opening balance	Increase in the current period Provision	Increase in the current period Others	Decrease in the current period Reversal or write-off	Decrease in the current period Others	Closing balance
Raw materials		99,336.43				**99,336.43**
Finished goods	6,434,876.50	870,608.87		2,773,691.24		**4,531,794.13**
Sub-total	6,434,876.50	969,945.30		2,773,691.24		**4,631,130.56**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

8. Inventories (Continued)

(2) Provisions for inventory write-down *(Continued)*

2) Specific basis for determining net realisable value, the reasons for reversal or write-off of provisions for inventory write-down in in the current period

	Specific basis for determining net realisable value	Reason for reversal of provisions for inventory write-down for the period	Reason for write-off of provisions for inventory write-down for the period
Raw materials	The net realizable value of relevant products is determined based on the amount of the estimated selling price less estimated costs to be incurred for completion, estimated sales expenses and relevant taxes and surcharges		
Finished goods	The net realizable value of relevant products is determined based on the amount of the estimated selling price less estimated sales expenses and relevant taxes and surcharges	Increase in the net realizable value of inventories with provisions for inventory write-down for prior periods	In the current period, inventories with provisions for write-down at the beginning of the period were sold

3) Explanation of provision for impairment of inventories during the period

Considering economic production, the production volume of special model inventories applicable to special road sections will be slightly higher than the inventories of sales orders. Besides, the Company has not specifically sold these special customized products afterwards, resulting in a long-term backlog of special customized products. Hence, provisions are made for impairment of such products.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

9. Contract assets

(1) Breakdown

Item	Balance at the end of the period			Balance at the end of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Retention monies portfolio	**217,352,037.14**	**32,602,805.57**	**184,749,231.57**	191,155,523.72	28,673,328.55	162,482,195.17
Total	**217,352,037.14**	**32,602,805.57**	**184,749,231.57**	191,155,523.72	28,673,328.55	162,482,195.17

(2) Provision for impairment of contract assets

Contract assets with provision for impairment made as per portfolio

Item	Balance at the end of the period		
	Book balance	Provision for impairment	Percentage of provision (%)
Retention monies portfolio	**217,352,037.14**	**32,602,805.57**	**15.00**
Sub-total	**217,352,037.14**	**32,602,805.57**	**15.00**

10. Other current assets

Items	Closing balance	Closing balance of the previous year
Input value added tax deductible		2,506,098.47
Input value added tax retained for deduction	**460,624.28**	5,704,630.92
Input value added tax to be certified	**1,574,021.08**	15,357.68
Prepaid taxes	**19,497.40**	
Total	**2,054,142.76**	8,226,087.07

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

11. Long-term equity investments

(1) Breakdown by category

Items	Closing balance Book balance	Closing balance Provision for impairment	Closing balance Book value	Closing balance of the previous year Book balance	Closing balance of the previous year Provision for impairment	Closing balance of the previous year Book value
Investments in associates	**158,998,481.82**		**158,998,481.82**	131,874,303.48		131,874,303.48
Total	**158,998,481.82**		**158,998,481.82**	131,874,303.48		131,874,303.48

(2) Breakdown

Investee	Opening balance	Increase or decrease during the period: Additional investments	Decrease in investments	Investment profit or loss recognized using equity method	Adjustment to other comprehensive income
Associate					
Hebei Tieke Yichen New Material Technology Co., Ltd.	131,874,303.48			27,124,178.34	
Total	131,874,303.48			27,124,178.34	

Investee	Increase or decrease during the period: Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others	Closing balance	Closing balance of provision for impairment
Associate						
Hebei Tieke Yichen New Material Technology Co., Ltd.					**158,998,481.82**	
Total					**158,998,481.82**	

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

12. Fixed assets

(1) Breakdown

Items	Buildings and structures	Machinery and equipment	Transportation vehicles	Electronic equipment	Other equipment	Total
Original carrying amount						
Opening balance	64,098,117.82	150,291,955.36	15,910,772.41	6,837,826.57	2,397,581.86	239,536,254.02
Increase in the current period	9,790,998.05	44,702,579.39	1,269,139.77	638,248.66	7,200.00	56,408,165.87
1) Purchase	640,508.42	4,165,588.66	1,253,688.68	581,545.59	7,200.00	6,648,531.35
2) Transferred from construction in progress	773,480.64	23,749,119.53				24,522,600.17
3) Increase in business combination	8,377,008.99	16,787,871.20	15,451.09	56,703.07		25,237,034.35
Decrease in the current period		2,390,352.17	150,000.00	78,576.53	2,800.00	2,621,728.70
1) Disposal or scrap		2,390,352.17	150,000.00	78,576.53	2,800.00	2,621,728.70
Closing balance	73,889,115.87	192,604,182.58	17,029,912.18	7,397,498.70	2,401,981.86	293,322,691.19
Accumulated depreciation						
Opening balance	26,694,704.04	104,463,271.74	8,950,253.52	5,979,410.97	1,356,297.04	147,443,937.31
Increase in the current period	4,031,316.74	15,082,729.31	2,275,586.84	969,562.99	463,891.29	22,823,087.17
1) Provision	3,090,007.77	12,292,858.10	2,272,035.75	936,859.92	463,891.29	19,055,652.83
2) Increase in combination	941,308.97	2,789,871.21	3,551.09	32,703.07		3,767,434.34
Decrease in the current period		2,131,689.46	113,760.00	74,647.61	2,660.00	2,322,757.07
1) Disposal or scrap		2,131,689.46	113,760.00	74,647.61	2,660.00	2,322,757.07
Closing balance	30,726,020.78	117,414,311.59	11,112,080.36	6,874,326.35	1,817,528.33	167,944,267.41
Provision for impairment						
Opening balance						
Increase in the current period						
1) Provision						
Decrease in the current period						
1) Disposal or scrap						
Closing balance						
Book value						
Closing carrying amount	43,163,095.09	75,189,870.99	5,917,831.82	523,172.35	584,453.53	125,378,423.78
Opening carrying amount	37,403,413.78	45,828,683.62	6,960,518.89	858,415.60	1,041,284.82	92,092,316.71

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

12. Fixed assets (Continued)

(2) Information about fixed assets without certificate of title

Project	Book value	Reason for not obtaining certificate of title
Punching workshop	4,255,778.32	Under process
Workshop	2,827,604.83	Under process
Office building	2,055,052.48	Under process
Power-coating workshop	2,004,617.60	Under process
Sub-total	11,143,053.23	

13. Construction in progress

(1) Breakdown

Items	Closing balance			Closing balance of the previous year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	**329,511,772.57**		**329,511,772.57**	247,318,301.36		247,318,301.36
Sand processing				2,376,068.49		2,376,068.49
Harmonic management	**1,265,324.37**		**1,265,324.37**	1,265,324.37		1,265,324.37
Blasting machine				1,103,448.27		1,103,448.27
Flux cored wire automatic packaging line				1,045,000.00		1,045,000.00
Andafa AX lean Manufacturing management system	**1,026,663.44**		**1,026,663.44**	781,835.86		781,835.86
Air compressor room, warehouse				773,480.64		773,480.64
Environmental and energy-saving transformation of railway accessory molding lines (RD2019-21)	**3,001,111.25**		**3,001,111.25**			
Sporadic projects	**3,340,795.12**		**3,340,795.12**	2,380,051.18		2,380,051.18
Total	**338,145,666.75**		**338,145,666.75**	257,043,510.17		257,043,510.17

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

13. Construction in progress (Continued)

(2) Movement of material construction in progress projects during the period

Project name	Budget	Opening balance	Increase in the current period	Transfer to fixed assets	Others	**Closing balance**
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	1,000,000,000.00	247,318,301.36	100,582,788.06	18,389,316.85		**329,511,772.57**
Sand processing	2,780,000.00	2,376,068.49		2,376,068.49		
Harmonic management	2,000,000.00	1,265,324.37				**1,265,324.37**
Blasting machine	1,103,448.27	1,103,448.27		1,103,448.27		
Flux cored wire automatic packaging line	1,520,000.00	1,045,000.00		1,045,000.00		
Andafa AX lean manufacturing management system	1,800,000.00	781,835.86	244,827.58			**1,026,663.44**
Air compressor room, warehouse	773,480.64	773,480.64		773,480.64		
Environmental and energy-saving transformation of railway accessory molding lines (RD2019-21)	7,000,000.00		3,001,111.25			**3,001,111.25**
Sporadic projects		2,380,051.18	1,796,029.86	835,285.92		**3,340,795.12**
Sub-total	1,016,976,928.91	257,043,510.17	105,624,756.75	24,522,600.17		**338,145,666.75**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

13. Construction in progress (Continued)

(2) Movement of material construction in progress projects during the period *(Continued)*

Project name	Percentage of accumulative invested amount to budget (%)	Construction progress (%)	Accumulated amount of capitalized interests	Amount of capitalized interests during the period	C Interest rate of capitalized interests during the period (%)	Source of funds
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	43.97	43.97				Fund raising and other sources
Sand processing	100.00	100.00				Other sources
Harmonic management	63.27	63.27				Other sources
Blasting machine	100.00	100.00				Other sources
Flux cored wire automatic packaging line	100.00	100.00				Other sources
Andafa AX lean manufacturing management system	57.04	57.04				Other sources
Air compressor room, warehouse	100.00	100.00				Other sources
Environmental and energy-saving transformation of railway accessory molding lines (RD2019-21)	42.87	42.87				Other sources
Sporadic projects						Other sources

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

14. Right-of-use assets

Items	Buildings and structures	Total
Cost		
Opening balance	1,869,532.99	1,869,532.99
Increase in the current period		
Decrease in the current period	336,028.08	336,028.08
Closing balance	1,533,504.91	1,533,504.91
Accumulated depreciation		
Opening balance		
Increase in the current period	934,766.49	934,766.49
1) Provision	934,766.49	934,766.49
Decrease in the current period		
Closing balance	934,766.49	934,766.49
Provision for impairment		
Opening balance		
Increase in the current period		
1) Provision		
Decrease in the current period		
Closing balance		
Carrying amount		
Closing carrying amount	598,738.42	598,738.42
Opening carrying amount	1,869,532.99	1,869,532.99

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

15. Intangible assets

(1) Breakdown

Items	Land use rights	Software	Total
Original carrying amount			
Opening balance	94,658,684.84	751,872.96	95,410,557.80
Increase in the current period	5,260,078.77	675,371.83	5,935,450.60
1) Purchase		675,371.83	675,371.83
2) Increase in business combination	5,260,078.77		5,260,078.77
Decrease in the current period			
1) Disposal			
Closing balance	99,918,763.61	1,427,244.79	101,346,008.40
Accumulated depreciation			
Opening balance	7,227,169.24	680,409.65	7,907,578.89
Increase in the current period	2,067,243.98	86,683.83	2,153,927.81
1) Provision	1,987,165.21	86,683.83	2,073,849.04
2) Increase in business combination	80,078.77		80,078.77
Decrease in the current period			
1) Disposal			
Closing balance	9,294,413.22	767,093.48	10,061,506.70
Provision for impairment			
Opening balance			
Increase in the current period			
1) Provision			
Decrease in the current period			
1) Disposal			
Closing balance			
Carrying amount			
Closing carrying amount	90,624,350.39	660,151.31	91,284,501.70
Opening carrying amount	87,431,515.60	71,463.31	87,502,978.91

No intangible assets are acquired from internal R&D of the Company at the end of the period.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

15. Intangible assets (Continued)

(2) Analysis of book value of the land use rights

Items	Closing balance	Closing balance of last year
Outside Hong Kong Including: medium-term lease	**90,624,350.39**	87,431,515.60
Sub-total	**90,624,350.39**	87,431,515.60

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

16. Goodwill

(1) Original book value of goodwill

Name of investees or events generating goodwill	Opening balance	Arising from combination of enterprises in the period	Decrease in the period	**Closing balance**
Xingtai Juneng		114,280,454.01		**114,280,454.01**
Total		114,280,454.01		**114,280,454.01**

(2) Provision for goodwill impairment

Name of investees or events generating goodwill	Opening balance	Provided in the period	Decrease in the period	**Closing balance**
Xingtai Juneng		11,540,960.76		**11,540,960.76**
Sub-total		11,540,960.76		**11,540,960.76**

(3) Goodwill impairment test process

1) Information about the asset group or asset group portfolio goodwill belonging to

Composition of asset group or asset group portfolio	**Long-term assets of Xingtai Juneng**
Book value of asset group or asset group portfolio	29,183,436.28
Book value and allocation method of goodwill allocated to the asset group or asset group portfolio	Book value of complete goodwill: 130,606,233.16 Allocation method: all included in the asset group
Book value of asset group including goodwill	159,789,669.44
Whether the asset group or asset group portfolio is consistent with that determined in the goodwill impairment test on the purchase date or of last year	Yes

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

16. Goodwill (Continued)

(3) Goodwill impairment test process *(Continued)*

2) The process, method and conclusion of goodwill impairment test

The recoverable amount of goodwill is calculated according to the present value of the expected future cash flow. The expected cash flows are based on the five-year cash flow forecast approved by the Company. The discount rate used in the cash flow forecast is 14.37%. The cash flows after the forecast period are inferred from the growth rate of 0%, which is approximate to the overall long-term average growth rate of the manufacturing industry.

Other key data used in the impairment test include estimated sales price, sales volume, production costs and other related expenses.

The Company determines the above key data based on historical experience and market development forecast. The discount rate adopted by the Company is the pre-tax interest rate reflecting the time value of the current market currency and the specific risk of the relevant asset group.

According to the Assets Assessment Report on the Recoverable Amount Items of the Asset Group Portfolio of Xingtai Juneng Railway Electrical Equipment Co. Ltd. under the Proposed Goodwill Impairment Test by Hebei Yichen Industrial Group Co., Ltd. (《河北翼辰實業集團股份有限公司擬進行商譽減值測試涉及的邢臺炬能鐵路電氣器材有限公司資產組組合可收回金額項目資產評估報告》) issued by Chungrui Worldunion Assets Appraisal Group Co.,Ltd (Zhong Rui Ping Bao Zi [2020] No. 000133) engaged by the Company, the recoverable amount of the asset group or asset group portfolio containing goodwill is RMB146,600,000.00, which is lower than the book value of RMB13,189,669.44. In the current period, the impairment loss of goodwill of RMB13,189,669.44 should be recognized, of which the impairment loss of goodwill of RMB11,540,960.76 attributed to the Company should be recognized.

3) The completion of performance commitment and its impact on goodwill impairment test

Xingtai Juneng's net profit in 2019 is RMB15.78 million, which is lower than the commitment of RMB16 million, and the performance commitment of this year has not been completed. The reason why Xingtai Juneng failed to fulfill the performance commitment of this year is that the revenue growth did not meet the expectation. The Company has taken into consideration the impact of such matter when conducting its goodwill impairment test. According to the relevant provisions of the Performance Compensation Agreement(《業績補償協議》), Hebei Mingju needs to compensate the Company by RMB1.94 million.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

17. *Deferred income tax assets and deferred income tax liabilities*

(1) Non-offsetting deferred income tax assets

Item	Closing balance		Closing balance of last year	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	164,707,938.45	24,744,782.23	158,121,159.37	23,726,184.50
Gain and loss of changes in fair value			730,000.00	109,500.00
Provisions	15,215,282.44	2,282,292.37	15,125,029.12	2,268,754.37
Accounts payable over 3 years	6,001,235.31	1,270,330.80	1,586,444.43	237,966.66
Unrealized profits from internal transactions	6,543,439.34	984,933.56		
Total	192,467,895.54	29,282,338.96	175,562,632.92	26,342,405.53

(2) Non-offsetting deferred income tax liabilities

Item	Closing balance		Closing balance of last year	
	Taxable temporary differences	Deferred Income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Appreciation in asset valuation of business combination not under common control	2,647,302.42	661,825.61		
Accelerated depreciation of fixed assets	9,949,845.79	1,884,535.42		
Gain and loss from changes in fair value	1,938,703.64	290,805.55		
Total	14,535,851.85	2,837,166.58		

(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Items	Closing balance		Closing balance of last year	
	Offset amount of deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting	Offset amount of deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting
Deferred income tax assets	2,175,340.97	27,106,997.99		26,342,405.53
Deferred income tax liabilities	2,175,340.97	661,825.61		

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

17. Deferred income tax assets and deferred income tax liabilities (Continued)

(4) Breakdown of unrecognized deferred income tax assets

Items	Closing balance	Closing balance of last year
Deductible temporary differences	**42,780.78**	186,770.02
Deductible losses	**233,375.00**	325,981.96
Unrealized sales profit		538,635.25
Sub-total	**276,155.78**	1,051,387.23

(5) Deductible losses of unrecognized deferred income tax assets will expire in the following years

Year	Closing balance	Closing balance of last year	Note
2022			
2023	**233,375.00**	325,981.96	
Sub-total	**233,375.00**	325,981.96	

18. Other non-current assets

Item	Closing balance	Closing balance of last year
Prepayment for long-term assets	**23,319,359.02**	9,067,510.39
Total	**23,319,359.02**	9,067,510.39

19. Short-term borrowings

Items	Closing balance	Closing balance of last year
Pledged borrowings	**70,000,000.00**	44,810,000.00
Guaranteed borrowings	**50,000,000.00**	50,000,000.00
Credit borrowings	**50,000,000.00**	
Total	**170,000,000.00**	94,810,000.00

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

20. Bills payable

Items	Closing balance	Closing balance of last year
Trade acceptance notes	**748,351.00**	30,000,000.00
Bank acceptance notes	**68,570,000.00**	32,915,787.80
Total	**69,318,351.00**	62,915,787.80

21. Accounts payable

(1) Breakdown

Items	Closing balance	Closing balance of last year
Payables for materials and others	**375,525,848.19**	339,923,461.85
Payables for transportation	**9,493,840.81**	18,689,256.16
Technology transfer fees	**15,215,282.44**	20,164,840.44
Payables for electricity and others	**4,832,869.21**	4,674,170.66
Total	**405,067,840.65**	383,451,729.11

(2) Ageing analysis

Ageing	Closing balance
Within 1 year	**271,758,186.16**
Over 1 year	**133,309,654.49**
Sub-total	**405,067,840.65**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

21. Accounts payable (Continued)

(3) Material accounts payable ageing over 1 year

Items	Amounts	Reasons of unsettlement or carrying-forward
Supplier 6	7,302,991.45	Overdue invoice and no notice of a call from the counterparty
Sub-total	7,302,991.45	

22. Contract liabilities

Items	Closing balance	Closing balance of last year
Receipts in advance	**8,580,621.57**	3,154,696.95
Total	**8,580,621.57**	3,154,696.95

23. Payroll payable

(1) Breakdown

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	5,529,884.05	92,937,017.84	91,347,487.76	**7,119,414.13**
Post-employment benefits – established withdrawal and deposit plan		8,341,476.64	8,341,476.64	
Total	5,529,884.05	101,278,494.48	99,688,964.40	**7,119,414.13**

Note: The correspondent payroll of RMB258,241.73 was transferred due to changes in consolidated scope for the period.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

23. *Payroll payable (Continued)*

(2) Breakdown of short-term remuneration

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonus, allowances and subsidies	5,529,884.05	80,814,326.90	79,232,171.82	**7,112,039.13**
Staff welfare		2,102,457.82	2,095,082.82	**7,375.00**
Social insurance		6,499,813.92	6,499,813.92	
Including: Medical insurance		5,535,231.94	5,535,231.94	
Work injury insurance		284,654.11	284,654.11	
Maternity insurance		679,927.87	679,927.87	
Housing funds		2,682,501.80	2,682,501.80	
Labour union funds and employee education funds		837,917.40	837,917.40	
Sub-total	5,529,884.05	92,937,017.84	91,347,487.76	**7,119,414.13**

(3) Breakdown of established withdrawal and deposit plan

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance		8,013,320.72	8,013,320.72	
Unemployment insurance		328,155.92	328,155.92	
Sub-total		8,341,476.64	8,341,476.64	

According to the "Labor Law of the People's Republic of China" and the relevant laws and regulations, the Company and its subsidiaries shall contribute to basic pension insurance for their employees. Pension will be paid by authorities of social insurances to employees in accordance with the law when such employees reach the retirement age stipulated by the nation or leave the labour force for some reasons. The Company and its subsidiaries will then be no longer responsible for providing further retirement benefits to the employees.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

24. Taxes payable

Items	Closing balance	Closing balance of last year
Value added tax	**2,741,130.18**	30,277.28
Corporate income tax	**13,117,782.08**	13,094,664.56
Withholding and payment of individual income tax	**42,262.10**	20,018,786.27
Urban maintenance and construction tax	**143,649.22**	2,119.41
Education surcharge	**82,233.91**	908.32
Local education surcharge	**54,822.60**	605.55
Stamp duty	**60,446.31**	44,909.30
Real estate tax	**47,685.91**	
Total	**16,290,012.31**	33,192,270.69

25. Other payables

Items	Closing balance	Closing balance of last year
Amounts for construction	**15,956,010.33**	27,550,633.32
Others	**1,589,029.58**	1,647,243.97
Total	**17,545,039.91**	29,197,877.29

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

26. Non-current liabilities due within one year

Items	Closing balance	Closing balance of last year
Long-term borrowings due within one year	**10,000,000.00**	
Long-term payables due within one year	**22,019,761.82**	
Lease liabilities due within one year	**625,360.49**	
Total	**32,645,122.31**	

27. Other current liabilities

Item	Closing balance	Closing balance of last year
Tax of items to be written off under VAT	**259,354.68**	450,017.56
Total	**259,354.68**	450,017.56

28. Long-term borrowings

(1) Breakdown

Items	Closing balance	Closing balance of last year
Collateralised borrowings	**70,000,000.00**	
Credit borrowings		20,000,000.00
Entrusted loans		10,000,000.00
Total	**70,000,000.00**	30,000,000.00

(2) Analysis of long-term borrowings by maturity date

Items	Closing balance	Closing balance of last year
Current or within 1 year	**10,000,000.00**	
1-2 years	**70,000,000.00**	30,000,000.00
Sub-total	**80,000,000.00**	30,000,000.00
Including: Long-term borrowings due within 1 year	**10,000,000.00**	
Long-term borrowings due over 1 year	**70,000,000.00**	30,000,000.00

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

29. Long-term payables

Item	Closing balance	Closing balance of last year
Payables for leaseback	**47,980,238.18**	
Total	**47,980,238.18**	

30. Deferred income

(1) Breakdown

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Reasons
Government grants	5,641,466.67		232,600.00	**5,408,866.67**	Compensation for land occupancy and construction of Yichen Bridge and Shangdong Road
Total	5,641,466.67		232,600.00	**5,408,866.67**	

(2) Breakdown of government grants

Item	Opening balance	Increase in grants during the period	Amounts included in the profit or loss for the period Note	Closing balance	Related to assets/ related to income
Grants for land acquisition	5,641,466.67		232,600.00	**5,408,866.67**	Related to assets
Sub-total	5,641,466.67		232,600.00	**5,408,866.67**	

Note: Details of the government grants included in the profit or loss for the period are set out in the explanation of note V(IV)3 to theses financial statements.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

31. Share capital

		Increase and decrease during the period ("–" for decrease)					
Items	Opening balance	Issuance of new shares	Bonus shares	Transfer from reserves	Others	Sub-total	Closing balance
Non-tradable shares	336,690,000.00						**336,690,000.00**
Shares held by domestic legal persons	7,000,000.00						**7,000,000.00**
Shares held by domestic natural persons	329,690,000.00						**329,690,000.00**
Shares without selling restrictions	112,230,000.00						**112,230,000.00**
H shares	112,230,000.00						**112,230,000.00**
Total	448,920,000.00						**448,920,000.00**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

32. Capital reserve

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	830,651,223.40			**830,651,223.40**
Total	830,651,223.40			**830,651,223.40**

33. Surplus reserve

(1) Breakdown

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	72,477,265.27	18,514,147.85		**90,991,413.12**
Total	72,477,265.27	18,514,147.85		**90,991,413.12**

(2) Other description

The increase during the period was due to the statutory surplus reserve calculated by the Company at 10% of the net profit realized by the parent company in 2019.

34. Undistributed profits

(1) Breakdown

Items	Amounts for the period	Amounts for the same period of last year
Undistributed profits at the end of last period before adjustment	**472,193,106.48**	317,423,110.62
Total adjustment of undistributed profits at the beginning of the period ("+" for increase, "–" for decrease)	**-26,232,025.62**	-844,348.99
Undistributed profits at the beginning of the period after adjustment	**445,961,080.86**	316,578,761.63
Add: Net profits attributable to owners of parent during the period	**193,821,576.91**	162,969,102.34
Less: Appropriation to statutory surplus reserve	**18,514,147.85**	15,899,335.11
Ordinary shares dividends payable	**70,031,520.00**	17,687,448.00
Undistributed profits at the end of the period	**551,236,989.92**	445,961,080.86

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(I) Notes to the Consolidated Balance Sheet *(Continued)*

34. Undistributed profits (Continued)

(2) Breakdown for adjustment of undistributed profits at the beginning of the period

1) Due to the implementation of new standards on financial instruments and the relevant provisions, the opening undistributed profit of RMB9,906,750.00 was retrospectively adjusted for the difference between the implementation of new standards and original standards on the initial implementation date.

2) The significant correction of errors in prior periods has affected the opening undistributed profit of RMB-10,751,098.99 in 2018 and the opening undistributed profit of RMB-26,232,025.62 in 2019.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement

1. Operating revenue/Operating cost

(1) Breakdown

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	**1,125,381,460.72**	**740,273,220.79**	1,097,379,652.16	724,638,234.82
Other operating revenue	**13,294,409.94**	**8,162,723.71**	14,080,331.09	9,297,593.48
Total	**1,138,675,870.66**	**748,435,944.50**	1,111,459,983.25	733,935,828.30

(2) Breakdown of revenue by main category

Reporting segment	Rail fastenings	Welding materials	Railway sleepers	Others	Sub-total
Main operating areas					
China	878,129,802.88	165,397,338.62	46,425,066.21	13,294,409.94	1,103,246,617.65
Other countries and regions		35,429,253.01			35,429,253.01
Sub-total	878,129,802.88	200,826,591.63	46,425,066.21	13,294,409.94	1,138,675,870.66

2. Taxes and surcharges

Items	Amounts for the period	Amounts for the same period of last year
Urban maintenance and construction tax	**1,243,428.44**	2,780,193.74
Education surcharge	**568,256.09**	1,184,955.28
Local education surcharge	**378,837.37**	789,970.24
Stamp duty	**411,231.41**	424,644.30
Real estate tax	**669,308.42**	603,286.78
Land use tax	**2,591,513.85**	2,584,534.63
Total	**5,862,575.58**	8,367,584.97

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement *(Continued)*

3. Sales expenses

Items	Amounts for the period	Amounts for the same period of last year
Payroll	**8,303,970.93**	7,078,804.00
Transportation cost	**25,888,746.47**	27,992,231.36
Travel expenses	**1,886,723.09**	1,882,228.99
Product test & certification costs	**4,167,312.88**	1,238,965.35
Entertainment charge	**1,773,243.35**	1,635,264.63
Cargo agency fees	**1,262,481.14**	1,232,305.03
Sample service fees	**2,528,920.45**	452,837.46
Amortization of low-value consumables	**214,859.66**	280,500.67
Others	**1,542,345.56**	1,512,799.22
Total	**47,568,603.53**	43,305,936.71

4. Management expenses

(1) Breakdown

Items	Amounts for the period	Amounts for the same period of prior year
Payroll	**22,127,452.23**	20,275,434.91
Technology transfer fee	**10,050,442.00**	11,068,886.32
Agency fee	**8,878,598.96**	12,404,281.70
Depreciation and amortization charges	**8,294,692.76**	7,208,178.74
Office expenses	**4,788,625.39**	4,385,091.19
Business entertainment expenses	**2,177,966.28**	2,019,781.17
Travel expenses	**2,045,828.49**	1,019,088.64
Amortization of low-value consumables	**2,099,649.42**	1,506,198.63
Lease payment	**61,989.47**	1,025,395.06
Others	**4,671,661.21**	4,706,162.37
Total	**65,196,906.21**	65,618,498.73

(2) The management expenses for the year include the auditor's remuneration of RMB3.73 million (2018: RMB4.56 million).

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement *(Continued)*

5. *Research and development expenses*

Items	Amounts for the period	Amounts for the same period of last year
Material costs	**27,430,156.49**	23,624,296.34
Payroll	**9,475,127.26**	7,852,161.27
Electricity charges	**5,265,993.93**	3,400,003.14
Depreciation	**2,172,461.30**	915,964.41
Others		270,669.71
Total	**44,343,738.98**	36,063,094.87

6. *Finance costs*

Items	Amounts for the period	Amounts for the same period of last year
Interest expense	**8,388,070.61**	17,142,030.33
Less: Interest income	**704,505.40**	1,421,101.33
Exchange gains or losses	**139,707.28**	–3,589,344.16
Bank charges	**1,881,720.43**	852,011.35
Total	**9,704,992.92**	12,983,596.19

7. *Other income*

Items	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Government grants related to assets Note	**232,600.00**	232,600.00	232,600.00
Government grants related to income Note	**506,625.39**	620,000.00	506,625.39
Total	**739,225.39**	852,600.00	739,225.39

Note: Details of the government grants included in other income for the period are set out in the explanation of note V(IV)3 to these financial statements.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement *(Continued)*

8. *Investment gains*

Items	Amounts for the period	Amounts for the same period of last year
Gains form long-term equity investment calculated under equity method	**27,124,178.34**	24,678,484.05
Investment gains during the period of holding financial instruments		-195,000.00
Including: Those classified as financial assets at fair value through profit or loss for the period		-195,000.00
Total	**27,124,178.34**	24,483,484.05

9. *Gains from changes in fair value*

Item	Amounts for the period	Amounts for the same period of last year
Financial assets held for trading (financial assets at fair value through profit or loss for the period)	**2,668,703.64**	-12,385,000.00
Total	**2,668,703.64**	-12,385,000.00

10. *Loss on credit impairment*

Item	Amounts for the period	Amounts for the same period of last year
Loss on bad debts	**-8,035,220.94**	-30,847,888.02
Total	**-8,035,220.94**	-30,847,888.02

11. *Impairment loss of assets*

Items	Amounts for the period	Amounts for the same period of last year
Impairment loss of inventories	**-969,945.30**	-6,089,783.89
Impairment loss of goodwill	**-11,540,960.76**	
Total	**-12,510,906.06**	-6,089,783.89

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement *(Continued)*

12. *Gains on disposal of assets*

Items	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Gains on disposal of fixed assets	**159,400.24**	6,845.58	159,400.24
Gains on disposal of intangible assets		1,654,003.87	
Total	**159,400.24**	1,660,849.45	159,400.24

13. *Non-operating incomes*

Items	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Government grants Note	**80,000.00**	1,410,000.00	80,000.00
Confiscated income	**88,322.19**	3,253.86	88,322.19
Others	**27,496.34**	15.51	27,496.34
Total	**195,818.53**	1,413,269.37	195,818.53

Note: Details of the government grants included in non-operating incomes for the period are set out in the explanation of note V(IV)3 to this financial statement.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement *(Continued)*

14. Non-operating expenses

Items	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Donation	**248,000.00**	392,400.00	248,000.00
Others	**91.69**	89,179.81	91.69
Total	**248,091.69**	481,579.81	248,091.69

15. Income tax expenses

(1) Breakdown

Items	Amounts for the period	Amounts for the same period of prior year
Current income tax expenses	**31,673,058.57**	31,582,998.83
Deferred income tax expenses	**-739,937.86**	-6,563,515.59
Total	**30,933,120.71**	25,019,483.24

Notes to the Financial Statements

For the year of 2019

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(II) Notes to the Consolidated Income Statement *(Continued)*

15. Income tax expenses (Continued)

(2) Accounting profit and adjustment process of income tax expenses

Items	Amounts for the period	Amounts for the same period of last year
Total profit	**227,656,216.39**	189,791,394.63
Income tax expenses calculated by the applicable tax rates of the parent	**34,148,432.46**	28,468,709.19
Effect of different tax rates applicable to subsidiaries	**1,780,004.90**	313,661.23
Effect of adjusting income tax from prior periods		33,444.77
Effect of profits and losses attributable to joint ventures and associates	**-4,068,626.75**	-3,701,772.61
Effect of non-taxable income	**-34,890.00**	-34,890.00
Effect of non-deductible costs, expenses and losses	**1,928,199.19**	225,870.12
Effect of utilising provisions for impairment of unrecognized deferred income tax assets in prior periods	**-21,250.76**	-45,721.54
Effect of deductible temporary differences or deductible losses of unrecognised deferred income tax assets during the period		113,441.44
Additional deduction on research and development expense	**-837,843.47**	-253,045.38
Additional deduction on salaries of disabled employees	**-71,901.07**	-90,213.98
Tax deduction on environmental-friendly equipment	**-242,268.73**	-10,000.00
Effect of utilising deductible losses of unrecognised deferred income tax assets in prior periods	**-1,658,750.93**	
Changes in opening balances of deferred income tax assets due to tax rate adjustments	**12,015.87**	
Income tax expenses	**30,933,120.71**	25,019,483.24

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(III) Notes to items of consolidated statement of cash flows

1. Other cash received relating to the operating activities

Items	2019	2018
Operating deposit and migrant workers reserve received	**64,427,401.54**	112,609,635.40
Government grants received	**586,625.39**	1,530,000.00
Interest income	**704,505.40**	1,060,631.87
Others	**115,818.53**	2,063,770.01
Total	**65,834,350.86**	117,264,037.28

2. Other cash payment relating to operating activities

Items	2019	2018
Payment for operating deposit and migrants reserve	**103,950,828.57**	74,255,296.73
Payment of expenses of the period	**37,734,060.13**	34,710,780.05
Others	**5,288,345.82**	392,440.00
Total	**146,973,234.52**	109,358,516.78

3. Other cash received relating to investing activities

Items	2019	2018
Withdrawal of time deposits		30,000,000.00
Withdrawal of interest income of time deposits		588,058.50
Total		30,588,058.50

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(III) Notes to items of consolidated statement of cash flows *(Continued)*

4. Other cash payment relating to investing activities

Item	2019	2018
Purchase of time deposits	**50,000,000.00**	
Total	**50,000,000.00**	

5. Other cash received relating to financing activities

Item	2019	2018
Receipt of financings from sale-and-leaseback equipment	**70,000,000.00**	
Total	**70,000,000.00**	

6. Other cash payment relating to financing activities

Item	2019	2018
Repayment of the principal of lease liabilities	**908,144.42**	
Total	**908,144.42**	

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(III) Notes to items of consolidated statement of cash flows *(Continued)*

7. Supplemental information on the statement of cash flows

(1) Supplemental information on the statement of cash flows

Supplemental information	2019	2018
1) Net profit adjusted to cash flows in relation to operating activities:		
Net profit	**196,723,095.68**	164,771,911.39
Add: Provision for impairment on assets	**20,546,127.00**	36,937,671.91
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	**19,055,652.83**	18,264,426.14
Depreciation of right-of-use assets	**934,766.49**	
Amortization of intangible assets	**2,073,849.04**	1,939,366.99
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("–" for gains)	**-159,400.24**	-1,660,849.45
Losses on write-off of fixed assets ("–" for gains)		
Losses on changes of fair value ("–" for gains)	**-2,668,703.64**	12,385,000.00
Financial expenses ("–" for gains)	**8,527,777.89**	13,192,216.71
Investment losses ("–" for gains)	**-27,124,178.34**	-24,483,484.05
Decrease in deferred income tax assets ("–" for increase)	**-711,763.75**	-6,563,515.59
Increase in deferred income tax liabilities ("–" for decrease)	**-28,174.11**	
Decrease in inventories ("–" for increase)	**-90,118,987.05**	-80,011,363.50
Decrease in operational receivables ("–" for increase)	**30,076,108.98**	-9,363,101.85
Increase in operational payables ("–" for decrease)	**69,925,913.35**	100,147,502.40
Others		
Net cash flows from operating activities	**227,052,084.13**	225,555,781.10
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt transfer to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Balance of cash at the end of the period	**280,262,664.35**	147,756,286.25
Less: Balance of cash at the beginning of the period	**147,756,286.25**	286,964,856.81
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	**132,506,378.10**	-139,208,570.56

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(III) Notes to items of consolidated statement of cash flows *(Continued)*

7. Supplemental information on the statement of cash flows (Continued)

(2) Net cash paid for acquisition of subsidiaries during the reporting period

Items	2019	2018
Cash or cash equivalents paid in the current period for business combination occurred for the current period		
Including: Xingtai Juneng	**10,500,000.00**	
Less: Cash and cash equivalents held by subsidiaries at the acquisition date		
Including: Xingtai Juneng	**77,009.75**	
Net cash paid for acquisition of subsidiaries	**10,422,990.25**	

(3) Composition of cash and cash equivalents

Items	2019	2018
1) Cash	**280,262,664.35**	147,756,286.25
Including: Cash on hand	**85,611.57**	119,042.18
Bank deposit readily available	**280,177,052.78**	147,637,244.07
Other monetary fund readily available		
Central bank deposit readily available		
Interbank deposit		
Interbank offer		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	**280,262,664.35**	147,756,286.25
Including: Restricted cash and cash equivalents used by parent or group subsidiaries		

(4) The transferred endorsed commercial bill which do not involve in cash receipt and payment

Items	2019	2018
Transferred endorsed commercial bill	**282,422,651.49**	255,176,424.49
Including: Bills payable	**281,722,651.49**	252,656,424.49
Payment for the purchase of fixed assets	**700,000.00**	2,520,000.00

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(III) Notes to items of consolidated statement of cash flows *(Continued)*

7. Supplemental information on the statement of cash flows (Continued)

(5) Explanation of supplementary information of cash flow statements

There is a difference of RMB123,809,068.88 between the closing balance of cash and cash equivalents in the consolidated statement of cash flows for 2019 and the amount of monetary capital in the consolidated balance sheet, because the closing balance of cash and cash equivalents in the consolidated statement of cash flows has been deducted by the term deposits of RMB50,000,000.00 and other monetary funds of RMB73,809,068.88 that do not fall within the definition of cash and cash equivalents.

There is a difference of RMB34,285,641.85 between the closing balance of cash and cash equivalents in the consolidated statement of cash flows for 2018 and the amount of monetary capital in the consolidated balance sheet, because the closing balance of cash and cash equivalents in the consolidated statement of cash flows has been deducted by other monetary funds of RMB34,285,641.85 that do not fall within the definition of cash and cash equivalents.

(IV) Others

1. Assets with restrictions on ownership or use rights

Items	Carrying amount at the end of the period	Reason for restriction
Monetary capital	**123,809,068.88**	Security deposits, migrant workers reserve and pledged time deposits
Notes receivable	**15,134,658.60**	Trade acceptance notes endorsed but not yet derecognized and other notes receivable
Fixed assets	**23,758,302.26**	Pledged security for sale-leaseback
Construction in progress	**178,176,101.90**	Pledged borrowings
Intangible assets	**81,284,874.32**	Pledged borrowings
Total	**422,163,005.96**	

2. Monetary items in foreign currencies

Items	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary capital			**33,118,201.42**
Including: US Dollar	**122,181.89**	**6.9762**	**852,365.30**
HK Dollar	**36,019,017.77**	**0.8958**	**32,265,836.12**
Accounts receivable			**375,352.00**
Including: US Dollar	**53,804.65**	**6.9762**	**375,352.00**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(IV) Others *(Continued)*

3. Government grants

(1) Breakdown

1) Government grants relating to assets

Total-value method

Items	Deferred income at the beginning of the period	Addition of grants during the period	Amortization during the period	Deferred income at the end of the period	Statement item of amortization during the period	Description
Land acquisition grants	5,641,466.67		232,600.00	5,408,866.67	Other gains	
Sub-total	5,641,466.67		232,600.00	5,408,866.67		

2) Government grants related to income and used for compensating the relevant cost expense or loss incurred by the Company

Items	Amount	Presented items	Description
Award funds for quality awards	200,000.00	Other gains	note 1
Returned funds for personnel stabilization	196,125.39	Other gains	
Award funds for high-tech enterprises	100,000.00	Other gains	note 2
Award funds and subsidies for scientific and technological innovation	10,000.00	Other gains	note 3
Subsidies for patent	500.00	Other gains	note 4
Award funds and subsidies from financial department and National People's Congress	80,000.00	Non-operating income	note 5
Sub-total	586,625.39		

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(IV) Others *(Continued)*

3. Government grants (Continued)

(1) Breakdown *(Continued)*

2) *(Continued)*

Note 1: the "Notice on Grant of Various Award Funds for Quality in 2018"《關於發放2018年度各項質量獎勵的通知》by Shijiazhuang Market Supervision Administration;

Note 2: the "Notice on Grant of Special Funds for Post-incentive Subsidies of High-tech Enterprises in 2019" (Shi Cai Jiao [2019] No. 40) (《關於下達2019年高新技術企業獎勵性後補助專項資金的通知》(石財教[2019]40號)) by Shijiazhuang Gaocheng District Bureau of Industry and Information;

Note 3: the "Award funds and Subsidies for Scientific and Technological Innovation in 2018" (Gao Gong Xin [2019] No. 45) (2018年科技創新獎補資金(藁工信[2019]45號))by Shijiazhuang Gaocheng District Bureau of Industry and Information;

Note 4: the "Notice on Application for Patent Grant in 2018"《關於申請2018年度專利資助的通知》by Shijiazhuang Municipal Science and Technology Bureau and Intellectual Property Office (Municipal Seismological Bureau);

Note 5: the "Opinion on Implementation for Award Funds and Subsidies of Jiazhan"《關於落實家站獎補資金的意見》by Shijiazhuang Gaocheng District Lianzhou Town Financial Department.

(2) Government grants credited to the current profit or loss for the period amounted to RMB819,225.39.

6. CHANGE IN CONSOLIDATION SCOPE

(I) Business combination not under common control for the period

Acquiree	Acquisition date	Acquisition cost	Shareholding (%)	Acquisition method
Xingtai Juneng	31 May 2019	140,000,000.00	87.5	Acquisition

Acquiree	Purchase date	Recognition basis of purchase date	Income of the acquiree from the purchase date to the period end	Net profits of acquiree from the purchase date to the period end
Xingtai Juneng	31 May 2019	Acquiring control	46,423,142.80	14,450,581.01

(II) Combination cost and goodwill

1. *Breakdown*

Items	Xingtai Juneng
Combination cost	
Cash	10,500,000.00
Fair value of non-cash assets	129,500,000.00
Total combination cost	140,000,000.00
Less: Share of fair value of the identifiable net assets acquired	25,719,545.99
Goodwill	114,280,454.01

6. CHANGE IN CONSOLIDATION SCOPE *(Continued)*

(II) Combination cost and goodwill *(Continued)*

2. *The method of determining the fair value of combination cost, description of the contingent consideration and its changes*

On 8 March 2019, the Company held the Second Meeting of the Second Session of the Board of Directors, considered and passed the Resolution on the Acquisition of Xingtai Juneng Railway Electrical Equipment Co. Ltd. (《關於收購邢台炬能鐵路電氣器材有限公司的議案》), pursuant to which the Company purchased 87.5% equity interest in Xingtai Juneng at RMB140 million.

On 9 March 2019, the Company and Hebei Mingju, signed the "Equity Transfer Agreement of Xingtai Juneng Railway Electrical Equipment Co. Ltd.", pursuant to which Hebei Mingju transferred 87.5% of its equity interests in Xingtai Juneng to the Company at a consideration of RMB140.00 million. Hebei Mingju promises that the audited net profit of Xingtai Juneng (whichever is lower before and after deduction of non-recurring profit and loss) for the year of 2019, 2020 and 2021, will not be less than RMB16.00 million, RMB17.00 million, and RMB18.00 million, respectively. If Xingtai Juneng' s audited net profit for the year of 2019, 2020, and 2021 does not meet the aforementioned targets, the Company is entitled to require Hebei Mingju to make cash compensation after the annual audit report has been issued. The calculation formula of cash compensation represents: total cash compensation = {(last year's target net profit – last year's actual net profit) ÷ last year's target net profit} × the amount of investment paid by the Company.

On 20 May 2019, Xingtai Juneng completed the industrial and commercial registration of changes on the above equity transfer. The Company commences participating in the production and operation of Xingtai Juneng in June 2019, it therefore has been included in the scope of consolidated financial statements since 1 June 2019.

3. *The main reason for generation of a large amount of goodwill*

The combination cost of the acquisition of 87.5% equity interest in Xingtai Juneng by Company is RMB140,000,000.00. As of 31 May 2019, the book value of Xingtai Juneng's net assets was RMB27,323,767.70, and the value-added assessment of identifiable net assets was RMB2,069,999.15. The fair value of identifiable net assets of Xingtai Juneng obtained by the Company at the combination date is RMB25,719,545.99. The difference between the combination cost paid and the fair value of identifiable net assets obtained by the Company, amounting to RMB114,280,454.01, is recognized as goodwill.

6. CHANGE IN CONSOLIDATION SCOPE *(Continued)*

(III) The acquiree's identifiable assets and liabilities on the acquisition date

1. Breakdown

Items	Xingtai Juneng Fair value on the acquisition date	Carrying amount on the acquisition date
Assets	43,202,737.54	41,132,738.39
Monetary capital	77,009.75	77,009.75
Accounts receivables	8,653,106.26	8,653,106.26
Inventories	7,982,515.14	7,982,515.14
Other current assets	477,677.39	477,677.39
Fixed assets	21,022,505.49	19,681,221.95
Intangible assets	4,937,094.80	4,208,379.19
Deferred income tax assets	52,828.71	52,828.71
Liabilities	13,808,970.69	13,808,970.69
Accounts payable	13,808,970.69	13,808,970.69
Net assets	29,393,766.85	27,323,767.70
Less: Minority interests		
Net assets acquired	29,393,766.85	27,323,767.70

2. Method for determining the fair value of identifiable assets and liabilities

The fair value of identifiable assets and liabilities are recognized in accordance with the Asset Appraisal Report on the Value of the Identifiable Assets, Liabilities and Contingent Liabilities of Xingtai Juneng Railway Electrical Equipment Co., Ltd. in Respect of the Proposed Allocation of Combination Consideration by Hebei Yichen Industrial Group Corporation Limited (《河北翼辰實業集團股份有限公司擬進行合併對價分攤涉及的邢臺炬能鐵路電氣器材有限公司可辨認資產、負債及或有負債價值項目資產評估報告》) issued by Chung Rui World Union Assets Appraisal Co., Ltd. (Chung Rui Ping Bao Zi [2019] No. 000845).

7. EQUITY IN OTHER ENTITIES

(1) Equity in significant subsidiaries

Particulars of significant subsidiaries

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%) Direct	Indirect	Acquisition method
Yichen Railway Engineering Equipment	Shijiazhuang	Shijiazhuang	Manufacturing	51.00		Establishment
Yichen Trading	Shijiazhuang	Shijiazhuang	Commerce	100.00		Establishment
Yichen Corporate Management	Shijiazhuang	Shijiazhuang	Manufacturing	100.00		Establishment
Xingtai Juneng	Xingtai	Xingtai	Manufacturing	87.50		Business combination not under common control

(2) Interest in associates

1. *Significant associates*

Name of associate	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%) Direct	Indirect	Accounting treatment for investments in associates
Hebei Tieke Yichen New Material Technology Co., Ltd (河北鐵科翼辰新材料科技有限公司)	Shijiazhuang	Shijiazhuang	Rail fastening system, waterproofing and drainage systems for transport tunnels, bridge bearing, research and development, production and sales of plastic products of railway locomotive accessories, production, sales and technological research and development, technological service and technological consultancy of railway business products, import and export of goods, product quality inspection service	49.00		Equity method

7. EQUITY IN OTHER ENTITIES *(Continued)*

(2) Interest in associates *(Continued)*

2. Key financial information of significant associates (Unit: RMB ten thousands)

Items	**Closing balance/ balance for the current period Tieke Yichen**	Closing balance of last year/ balance for the corresponding period last year Tieke Yichen
Current assets	**31,438.51**	27,461.52
Non-current assets	**12,687.73**	7,686.01
Total assets	**44,126.24**	35,147.53
Current liabilities	**9,560.31**	8,370.04
Non-current liabilities		
Total liabilities	**9,560.31**	8,370.04
Total equity attributable to owners of the parent	**34,565.93**	26,777.49
Net assets calculated in proportion to shareholding	**16,937.31**	13,120.97
Adjustments		
Unrealized profit from intra-group transactions	**-1,037.46**	-79.35
Impact of implementation of the new standards on financial instruments		145.81
Book value of equity investments in associates	**15,899.85**	13,187.43
Revenue	**36,939.50**	30,362.43
Net profit	**7,490.86**	4,900.79
Total comprehensive income	**7,490.86**	4,900.79

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

With the objective of achieving a balance between risks and revenue through risk management, the Company minimizes the negative impact of risks to its operating results in order to maximize the interest of its Shareholders and other equity investors. According to the objective set for risk management, the basic strategies of the Company's risk management include the identification and analysis of the Company's exposures to risks, establishment of an appropriate tolerance threshold and risk management. In addition, the Company supervises various risks in a timely and reliable manner in order to ensure the exposures are confined in a controlled scope.

During the daily operation, the Company is exposed to various risks associated with the financial instruments, which mainly include credit risk, liquidity risk and market risk. The management has reviewed and approved the policies for managing each of these risks which are summarized below.

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(I) Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty of the financial instruments.

1. Credit risk management practices

(1) Credit risk assessment method

The Company assesses whether credit risk on that financial instrument has increased significantly since initial recognition on each balance sheet date. In determining whether credit risk has increased significantly since initial recognition, the Company takes into consideration reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on historical data, external credit risk rating and forward-looking information. Based on a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Company determines the change of default risk of financial instruments in the expected life through comparing the default risk of financial instruments on the balance sheet date with that risk on the date of initial recognition.

When one or more of the following quantitative or qualitative criteria are triggered, the Company believes that the credit risk of financial instruments has significantly increased:

1) The quantitative criteria mainly represents an increase of the default probability of the remaining life on the balance sheet date by more than a certain percentage compared with that at the initial recognition;

2) The qualitative criteria mainly represents material and adverse changes of the debtor in the operating or financial situation, existing or expected changes in the technical, market, economic or legal environment, which will have a material and adverse impact on the debtor's ability of repayment to the Company;

(2) Definition of defaulted asset and credit-impaired asset

When a financial instrument meets one or more of the following conditions, the financial asset will be defined as having defaulted by the Company, whose criteria is consistent with the definition of credit-impaired asset:

1) The debtor has significant financial difficulties;

2) The debtor breaches the clauses binding on itself in the contract;

3) The debtor probably enters bankruptcy or other financial reorganisation;

4) The creditor, for economic or contractual reasons related to the debtor's financial difficulties, grants to the debtor concessions that the creditor would not otherwise grant.

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(I) Credit risk *(Continued)*

2. *Measurement of expected credit loss*

The key parameters for measurement of expected credit loss include probability of default, loss given default and exposure at default. The Company considers the quantitative analysis on historical statistical data (such as counterparty rating, method of security and types of collateral, method of repayment, etc.) and forward-looking information, and establishes the patterns of probability of default, loss given default and exposure at default.

3. Particulars of the reconciliation of opening and closing balance of provision for losses on financial instruments are set out in the explanation of note V(I)3, V(I)4 and V(I)7 to this financial statements.

4. *Credit risk exposure and concentration of credit risk*

Credit risks of the Company arise primarily from monetary capital and receivables. In order to control the relevant risks above, the Company has taken the following measures respectively.

(1) Monetary capital

The Company places bank deposits and other monetary capital in financial institutions with high credit ratings, therefore its credit risks are low.

(2) Receivables

The Company regularly conducts credit assessment on customers who trade on credit terms. Based on the assessment results, the Company chooses to trade with recognized and creditworthy customers, and carries out control on the balances of receivables to ensure that the Company's exposure to bad debts is not significant.

As the Company trades only with recognized and creditworthy third parties, no collateral is required. Concentration of credit risk is managed by customers. As of 31 December 2019, the Company had certain concentration of credit risk as 43.93% (31 December 2018: 52.16%) of the Company's accounts receivable were due from the five largest customers in terms of balances. The Company does not hold any collateral or other credit enhancements over the balance of accounts receivable.

The maximum credit risk exposure of the Company was the carrying amount of each financial asset in the balance sheet.

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(II) Liquidity risk

Liquidity risk is the risk that the Company will encounter shortage of funds in meeting obligations that are settled by delivering cash or other financial assets. It may arise when the Company is not able to sell financial assets at fair value in a timely manner; or the counterparties is not able to repay contractual liabilities; or the Company could be required to pay its liabilities earlier than expected; or the Company could not obtain sufficient cash flow as expected.

For the purpose of controlling the risk, the Company maintains a balance between continuity and flexibility of funding through the combination of several financing methods, such as bill settlement, bank borrowings, as well as optimizes financing structure through the combination of long and short-term financing. The Company has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

Classification of financial liabilities based on the remaining maturity

	Closing balance				
Items	Book value	Undiscounted contractual amount	Within 1 year	1 to 3 years	Over 3 years
Bank borrowings	250,000,000.00	261,224,635.61	189,862,915.06	71,361,720.55	
Bills payable	69,318,351.00	69,318,351.00	69,318,351.00		
Accounts payable	405,067,840.65	405,067,840.65	405,067,840.65		
Other payables	17,545,039.91	17,545,039.91	17,545,039.91		
Long-term payables and long-term payables due within one year	70,000,000.00	76,321,204.86	25,440,401.64	50,880,803.22	
Lease liabilities due within one year	625,360.49	651,513.26	651,513.26		
Sub-total	812,556,592.05	830,128,585.29	707,886,061.52	122,242,523.77	

	Closing balance of last year				
Items	Book value	Undiscounted contractual amount	Within 1 year	1 to 3 years	Over 3 years
Bank borrowings	124,810,000.00	130,139,765.78	99,739,032.45	30,400,733.33	
Bills payable	62,915,787.80	62,915,787.80	62,915,787.80		
Accounts payable	383,451,729.11	383,451,729.11	383,451,729.11		
Other payables	29,197,877.29	29,197,877.29	29,197,877.29		
Sub-total	600,375,394.20	605,705,159.98	575,304,426.65	30,400,733.33	

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(III) Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk mainly includes interest rate risk and foreign currency risk.

1. *Interest risk*

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest-bearing financial instrument with fixed interest rate exposes the Company to the fair value interest rate risk, while the interest-bearing financial instrument with floating interest rate exposes the Company to the cash flow interest rate risk. The Company determines the ratio of fixed to floating rate financial instrument in accordance with market circumstance, and maintains the appropriate portfolio of financial instrument through regular review and monitoring. The Company's exposure to cash flow interest rate risk relates primarily to the Company's interest-bearing bank borrowings with floating interest rate.

As of 31 December 2019, the Company's borrowings with interest accrued at floating interest rate totaled RMB70,000,000.00 (31 December 2018: RMB20,000,000.00). If interest rates had been 50 basis points higher/lower and all other variables were held constant, it would not have a significant impact on the Company's total profit and shareholders' interests.

2. *Foreign currency risk*

Foreign currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign exchange risk relates mainly to its foreign currency monetary assets and liabilities. The Company operates in Mainland China, and its main activities are dominated in RMB. Therefore, the Company's exposure to foreign exchange market risk is not significant.

For the Company's monetary assets and liabilities in foreign currencies at the end of the period, please see the explanation of note V(IV)2 to this financial statements.

9. FAIR VALUE DISCLOSURE

(I) Breakdown of fair values of assets and liabilities measured at fair value

Items	Fair value at the end of the period			
	Fair value measured at level 1	Fair value measured at level 2	Fair value measured at level 3	Total
Recurring fair value measurement				
1. Financial assets held for trading and other non-current financial assets				
(1) Financial assets at fair value through profit or loss for the period				
Performance commitment compensation			**1,938,703.64**	**1,938,703.64**
Total assets measured at fair value on a recurring basis			**1,938,703.64**	**1,938,703.64**

(II) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within level 3

Item	Fair value at the end of the period	Valuation technique	Unobservable inputs
Performance commitment compensation	**1,938,703.64**	Earnings approach	Expected return rate

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Related parties

1. *Parent company of the Company*

The Company is directly controlled by natural persons, the ultimate controller is Zhang Haijun, and the acting-in-concert persons are Zhang Junxia, Zhang Xiaogeng, Zhang Xiaosuo, Zhang Ligang, Wu Jinyu, Zhang Chao, Zhang Lijie, Zhang Lifeng, Zhang Yanfeng, Zhang Libin, Zhang Lihuan, Zhang Ning, Zhang Hong and Zhang Ruiqiu.

2. For details of the Company's subsidiaries, see Note 7 to these financial statements.

3. *Associates of the Company*

For details of the Company's major associates, see Note 7 to these financial statements. Associates with related party transactions with the Company for the current period or with a balance resulted from their related party transactions with the Company for the previous period are as follows:

Name of associate	Relationship with the Company
Hebei Tieke Yichen New Material Technology Co., Ltd.	A major associate of the Company

4. *Other related parties of the Company*

Name of other related parties	Relationship of other related parties with the Company
Zhang Haijun	Actual controller
Zhang Lifeng	Shareholder
Zhang Junxia	Shareholder
Zhang Libin	Shareholder
Zhang Xiaogeng	Shareholder
Zhang Xiaosuo	Shareholder
Zhou Qiuju	Spouse of the actual controller
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Enterprise controlled by actual controllers and their close family members
Shijiazhuang City TieLong DaoCha Company Limited	Enterprise controlled by actual controllers and their close family members
Hebei Chenxiang Electricity Sales Co., Ltd.* (河北辰翔售電有限公司)	Enterprise controlled by actual controllers and their close family members

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(II) Related party transactions

1. Related party transactions regarding purchase and sale of goods, provision and acceptance of labor services

(1) Breakdown

1) Related party transactions regarding purchase of goods and acceptance of services

Related parties	Content on related party transactions	Amounts for the period	Amounts for the same period last year
Hebei Tieke Yichen New Material Technology Co., Ltd.	Purchase of goods	**131,608,815.49**	103,925,746.48
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Acceptance of labor services	**4,499,172.49**	7,248,302.17
Hebei Chenxiang Electricity Sales Co., Ltd.	Acceptance of labor services	**619,226.03**	

2) Related party transactions for sales of goods and provision of labor services

Related parties	Information on related transactions	Amounts for the period	Amounts for the same period last year
Hebei Tieke Yichen New Material Technology Co., Ltd.	Sales of water and electricity	**8,684,433.48**	6,463,562.64
Hebei Tieke Yichen New Material Technology Co., Ltd.	Provision of labor services	**2,163,210.89**	123,450.76
Hebei Tieke Yichen New Material Technology Co., Ltd.	Sale of goods	**275,615.04**	

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(II) Related party transactions *(Continued)*

2. *Related party leases*

The Company as a lessee

Name of lessor	Type of leased assets	Depreciation charge recognized for the period	Lease payment recognized for the same period last year
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Building	**598,745.20**	642,028.39
Zhang Haijun	Building	**336,021.29**	360,000.00

3. *Guarantee with related parties*

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount	Commencement date of the guarantee	Expiry date of the guarantee	Type of the guarantee	Guarantee fully fulfilled
Zhang Haijun	RMB90,000,000	31 August 2019	30 August 2020	Secured by guarantee	No
Zhou Qiuju	RMB90,000,000	31 August 2019	30 August 2020	Secured by guarantee	No
Zhang Xiaosuo	RMB70,000,000	24 December 2019	24 December 2022	Secured by guarantee	No
Zhang Xiaogeng	RMB70,000,000	24 December 2019	24 December 2022	Secured by guarantee	No
Zhang Libin	RMB70,000,000	24 December 2019	24 December 2022	Secured by guarantee	No
Zhang Lifeng	RMB70,000,000	24 December 2019	24 December 2022	Secured by guarantee	No
Zhang Haijun	RMB70,000,000	24 December 2019	24 December 2022	Secured by guarantee	No
Zhang Junxia	RMB70,000,000	24 December 2019	24 December 2022	Secured by guarantee	No

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(II) Related party transactions *(Continued)*

4. Compensation to key management personnel

Item	Amount for the current period	Amount for the same period last year
Compensation to key management personnel	**3,082,954.47**	3,296,392.06

5. Remunerations of directors and supervisors

Items	Amounts for the period				
	Salaries, bonus, allowances and subsidies	Pension insurance	Housing funds	Other social insurance	Total
Executive director:					
Zhang Haijun	366,120.00				366,120.00
Zhang Ligang Note 1	236,030.04	6,473.85	2,208.00	5,700.59	250,412.48
Wu Jinyu	196,119.96	27,289.45	8,670.00	15,946.59	248,026.00
Zhang Lihuan	175,850.04	6,473.85	2,208.00	5,700.59	190,232.48
Zhang Chao	146,030.04	19,966.38	6,378.00	11,852.05	184,226.47
Fan Xiulan	175,850.04				175,850.04
Independent non-executive director:					
Jip Ki Chi	153,577.36				153,577.36
Zhang Liguo	39,999.96				39,999.96
Wang Qi	39,999.96				39,999.96
Supervisor:					
Zhang Xiaosuo Note 2	130,000.02	3,654.90	1,098.00	2,960.04	137,712.96
Liu Jiao Note 3	40,000.02	3,654.90	1,098.00	2,960.04	47,712.96
Hu Hebin	248,771.13	32,698.35	10,584.00	18,443.08	310,496.56
Guan En Note 4	43,219.19	6,810.43	1,578.00	3,278.73	54,886.35
Liu Jianbin Note 5	46,698.64	7,728.92	1,908.00	3,948.59	60,284.15
Total	2,038,266.40	114,751.03	35,730.00	70,790.30	2,259,537.73

Note 1: Zhang Ligang retired as the director of the Company on 23 December 2019.
Note 2: Zhang Xiaosuo retired as the supervisor of the Company on 29 July 2019.
Note 3: Liu Jiao retired as the supervisor of the Company on 29 July 2019.
Note 4: Guan En was appointed as the supervisor of the Company on 29 July 2019.
Note 5: Liu Jianbin was appointed as the supervisor of the Company on 29 July 2019.

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(II) Related party transactions *(Continued)*

5. Remunerations of directors and supervisors (Continued)

	Amounts for the same period last year				
Items	Salaries, bonus, allowances and subsidies	Pension insurance	Housing funds	Other social insurance	Total
Executive director:					
Zhang Haijun	360,000.00				360,000.00
Zhang Ligang	230,000.00	7,831.92	2,090.40	5,916.62	245,838.94
Fan Xiulan	170,000.00				170,000.00
Wu Jinyu	190,000.00	30,162.27	9,501.90	17,337.60	247,001.77
Zhang Lihuan	170,000.00	7,831.92	2,090.40	5,916.62	185,838.94
Zhang Chao	140,000.00	22,976.18	6,997.80	13,721.38	183,695.36
Independent non-executive director:					
Jip Ki Chi	151,078.08				151,078.08
Zhang Liguo	39,999.96				39,999.96
Wang Qi	39,999.96				39,999.96
Supervisor:					
Zhang Xiaosuo	260,000.00	7,831.92	2,090.40	5,916.62	275,838.94
Zhou Encheng Note 6	115,940.00	7,831.92	2,090.40	5,916.62	131,778.94
Liu Jiao	85,760.00	7,831.92	2,090.40	5,916.62	101,598.94
Hu Hebin	262,327.11	36,086.40	10,445.70	18,974.64	327,833.85
Total	2,215,105.11	128,384.45	37,397.40	79,616.72	2,460,503.68

Note 6: Zhou Encheng retired as the supervisor of the Company on 15 November 2018.

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(II) Related party transactions *(Continued)*

6. *Five highest paid employees*

The five employees whose emoluments were the highest for the year include 2 directors (2018: 3) whose details of emoluments are stated in Note X(I)5 to these financial statements. The details of the remaining 3 (2018: 2) non-director employees' total remunerations are as follows:

Items	Amounts for the period	Amounts for the same period last year
Salaries, bonus, allowances and subsidies	**826,228.50**	495,255.50
Housing funds	**12,360.00**	10,445.70
Pension insurance	**39,851.66**	
Other social insurance	**23,109.71**	3,379.30
Total	**901,549.87**	509,080.50

The emoluments of the remaining 3 (2018: 2) non-director employees fell within the following bands:

Item	Number for the period	Number for the same period last year
HKDnil – HKD1,000,000	**3**	2

Notes to the Financial Statements

For the year of 2019

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(III) Amount due to/from related parties

1. Amount due from related parties

Name of items	Related party	Closing balance		Closing balance of last year	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Hebei Tieke Yichen New Material Technology Co., Ltd.	**4,201,299.07**	**84,025.98**	4,527,627.01	90,552.54
	Shijiazhuang City TieLong DaoCha Company Limited			264,135.50	187,407.50
Subtotal		**4,201,299.07**	**84,025.98**	4,791,762.51	277,960.04

2. Amount due to related parties

Name of items	Related parties	Closing balance	Closing balance of last year
Accounts payable	Hebei Tieke Yichen New Material Technology Co., Ltd.	**54,411,330.05**	45,037,869.06
	Shijiazhuang City TieLong DaoCha Company Limited		113,420.00
	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	**2,807,100.07**	
Subtotal		**57,218,430.12**	45,151,289.06
Other payables	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	**1,055,000.00**	
Subtotal		**1,055,000.00**	

11. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

Lease contracts signed that are under implementation or to be implemented and their financial impact

Lessors	Lease location	Lease area (sqm)	Lease term	Annual rental
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd	No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City	3,151.62	From 1 August 2018 to 31 December 2020	700,000.00

(II) Contingencies

The Company had no significant contingencies that required to be disclosed as of 31 December 2019.

12. EVENTS AFTER THE BALANCE SHEET DATE

(I) Profit distribution after the balance sheet date

Profits or dividends proposed to distribute	3 37,709,280.00
Profits or dividends declared to distribute after review and approval	The meeting convened by the Board of the Company on 25 March 2020 approved the distribution proposal of profit for 2019. The Company intends to distribute RMB0.042 per share (inclusive of tax) in cash to all shareholders, amounting to a cash dividend of RMB37,709,280.00, based on a total of 897,840,000.00 shares as at 31 December 2019. The above profit distribution proposal is subject to the consideration and approval at the Company's general meeting.

(II) Description of other events after the balance sheet date

The Proposal on the Cancellation of Beijing Chenteng Technology Co., Ltd. was considered and approved at the Board meeting convened on 27 December 2019 by the Company, which agreed to cancel Chenteng Technology (辰騰科技), a wholly-owned subsidiary. Chenteng Technology completed its procedure of cancellation on 6 March 2020.

13. OTHER SIGNIFICANT EVENTS

(I) Correction on prior accounting errors

(1) Contents of amendments to accounting errors

Contents of amendments to accounting errors	Handling procedures
1. Adjustment should be made on the presentation of certain items based on the accounting standards for enterprises. 2. Customers' retention monies in accounts receivable should be presented separately as an item of contract assets in accordance with the relevant requirements on new income standard, and expected credit loss rate should be provided. 3. Ageing of account receivables was inaccurately calculated, and the provision for bad debts of accounts receivable should be re-calculated. 4. Tieke Yichen, our associate, had been re-audited by an auditing firm with securities qualification, and was adjusted retrospectively by equity method according to its adjustment, and the internal unrealized gain was off set. 5. Provisions for bad debt from notes receivable and impairment of inventories were re-calculated.	1. The resolution of adoption of PRC Enterprise Accounting Standards as the sole accounting standards for the preparation of the Company's financial statements starting from 2019 was considered and passed at the general meeting of the Company in 2019. 2. All errors had been considered and passed at the 16th meeting of the Second session of the Board of the Company, and corrections were made against all errors by the adoption of retrospective restatement method for the current period.

13. OTHER SIGNIFICANT EVENTS *(Continued)*

(I) Correction on prior accounting errors *(Continued)*

(2) Statement items and amounts subject to material impact

Statement items subject to material impact	Amounts affected
Balance Sheet items as at 31 December 2018	
Notes receivable	34,767,264.72
Accounts receivable	-199,071,309.82
Prepayments	-11,274,765.74
Other receivables	-503,978.24
Inventories	-3,789,272.17
Contract assets	162,482,195.17
Long-term equity investments	6,501,017.14
Deferred income tax assets	7,995,803.10
Other non-current assets	2,150,000.00
Notes payable	-360,498.50
Accounts payable	39,431,493.18
Contract liabilities	-450,017.56
Tax payable	20,307,173.41
Other payables	-30,834,705.62
Other current liabilities	450,017.56
Surplus reserve	-2,887,750.33
Undistributed profits	-26,232,025.62
Equity attributable to owners of the parent	-29,119,775.95
Minority interests	-166,732.36
Income statement items in 2018	
Operating cost	-35,659,468.80
Selling expenses	-11,068,886.32
Management expenses	11,068,886.32
Research and development expense	34,236,953.15
Investment gains	6,313,319.99
Loss on credit impairment	-27,580,669.66
Impairment loss of assets	-3,444,179.56
Income tax expenses	-5,897,141.06
Net profit	-17,391,872.52
Net profit attributable to owners of the parent	-17,200,473.13
Profit or loss of minority interests	-191,399.39

13. OTHER SIGNIFICANT EVENTS *(Continued)*

(II) Corrections to the disclosure of trading amounts with related parties

The disclosed amount of related party transactions for 2019 represents the amount of non-VAT transactions. At the same time, the amount of related party transactions in 2018 is disclosed on a non-VAT basis.

Based on the verification of the purchase transaction with Tieke Yichen, the Company corrected the amount of related party transactions of purchased goods in 2018 with Tieke Yichen and the accounts payable to Tieke Yichen. In particular, the amount of related party transactions of purchased goods with Tieke Yichen in 2018 increased by RMB1,464,816.71, with the Company's temporary estimated amount due to Tieke Yichen at the end of 2018 reduced by RMB43,154,549.38.

(III) Segment information

The Company does not have reporting segment as there is no multiple operations or cross-region operations. Breakdown of the Company's revenue from principal business and cost of principal business by products are as follows:

Items	Revenue from principal business	Cost of principal business
Railway fasteners	878,129,802.88	540,175,321.97
Flux cored wires	200,826,591.63	175,531,718.35
Sleepers	46,425,066.21	24,566,180.47
Subtotal	1,125,381,460.72	740,273,220.79

13. OTHER SIGNIFICANT EVENTS *(Continued)*

(IV) Lease

The Company as a lessee

1. For details of the right-of-use assets, see Note V(I)14 to these financial statements.

2. For details of the Company's accounting policies for short-term leases and low-value asset leases, see Note III(XXVI)3 to these financial statements. The amount of short-term lease expenses and low-value asset lease expenses through profit or loss for the current period are as follows:

Items	Amounts for the period
Short-term lease expenses	**268,845.92**
Low-value asset lease expenses (excluding short-term lease)	**80,484.13**
Total	**349,330.05**

3. Profit or loss and cash flows related to the lease for the current period

Items	Amounts for the period
Interest expenses of lease liability	**92,597.87**
Variable lease payments not included in the measurement of lease liabilities through profit or loss for the current period	
Total cash outflows related to the lease	**1,350,072.34**

4. For the analysis of the maturity of lease liabilities and the corresponding liquidity risk management, see Note VIII(II) to these financial statements.

5. The nature of lease activities

Type of leased assets	Number	Lease term	Renewal option
Office Building	1	1 August 2018 to 31 December 2020	Yes
Beijing office and parking space	2	1 August 2018 to 31 December 2019	Yes

6. Sale and leaseback transaction
The Company entered into the Sale and Leaseback Contract with Far Eastern Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信（天津）融資租賃有限公司) in December 2019, pursuant to which the fixed assets with an original book value of RMB65,936,564.98 as at 31 December 2019 and a book value of RMB23,758,302.26 at the end of the period were sold and leased back for use with a term of 3 years, commencing from 31 December 2019 to 31 December 2022. The total lease price amounted to RMB76,321,204.86 would be paid in 36 installments. The Company received a borrowing of RMB70,000,000.00 and under the contract, non-current liabilities of RMB22,019,761.82 due within one year and long-term payables of RMB47,980,238.18 remained outstanding as of 31 December 2019. The asset transfer in the sale and leaseback transaction is not a sale, and the Company continues to recognize the transferred assets, and at the same time recognize a financial liability equivalent to the amount of transfer revenue, and the financial liabilities should be accounted for in accordance with the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments.

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Notes to the balance sheet of the parent company

1. Accounts receivable

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually	**8,315,467.76**	**0.85**	**8,315,467.76**	**100.00**	
Provision for bad debts made as per portfolio	**970,245,001.06**	**99.15**	**103,713,704.60**	**10.69**	**866,531,296.46**
Total	**978,560,468.82**	**100.00**	**112,029,172.36**	**11.45**	**866,531,296.46**

Category	Closing balance of last year				
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually	8,687,167.76	0.74	8,687,167.76	100.00	
Provision for bad debts made as per portfolio	1,161,811,315.40	99.26	104,341,638.22	8.98	1,057,469,677.18
Total	1,170,498,483.16	100.00	113,028,805.98	9.66	1,057,469,677.18

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

1. Accounts receivable (Continued)

(1) Breakdown *(Continued)*

2) Accounts receivable with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Customer 6	2,658,928.00	2,658,928.00	100.00	Litigated
Customer 7	1,697,366.42	1,697,366.42	100.00	Litigated
Others	3,959,173.34	3,959,173.34	100.00	Litigated
Sub-total	8,315,467.76	8,315,467.76	100.00	

3) Trade receivables with provision for bad debts made as per portfolio

Trade receivables in portfolio for which provision for bad debts has been made using the comparison table of loss rates by age

	Closing balance		
Name of Items	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year (inclusive, same below)	592,219,296.59	11,844,385.94	2.00
1 to 2 years	224,535,452.22	22,453,545.22	10.00
2 to 3 years	94,847,577.43	28,454,273.23	30.00
3 to 4 years	26,267,021.81	13,133,510.91	50.00
4 to 5 years	22,738,318.52	18,190,654.81	80.00
Over 5 years	9,637,334.49	9,637,334.49	100.00
Sub-total	970,245,001.06	103,713,704.60	10.69

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

1. Accounts receivable (Continued)

(2) Aging analysis

Aging	Closing balance			Closing balance of last year		
	Book balance	Provision for bad debts	Percentage of provision (%)	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year (inclusive, same below)	592,219,296.59	11,844,385.94	2.00	724,432,376.31	14,483,764.69	2.00
1 to 2 years	224,535,452.22	22,453,545.22	10.00	292,648,944.66	29,264,894.47	10.00
2 to 3 years	94,847,577.43	28,454,273.23	30.00	89,694,807.11	26,908,442.13	30.00
3 to 4 years	26,267,021.81	13,133,510.91	50.00	41,927,450.00	21,793,078.00	51.98
4 to 5 years	24,215,923.52	19,668,259.81	81.22	7,099,453.39	5,883,175.00	82.87
Over 5 years	16,475,197.25	16,475,197.25	100.00	14,695,451.69	14,695,451.69	100.00
Sub-total	978,560,468.82	112,029,172.36	11.45	1,170,498,483.16	113,028,805.98	9.66

The aging analysis of accounts receivable is based on the month in which the amount actually occurs. The amount that occurs first has priority in settlement upon receipt of funds.

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

1. Accounts receivable (Continued)

(3) Changes in provision for bad debts

1) Breakdown

Items	Opening balance	Increase in the period: Provision	Increase in the period: Recovery	Increase in the period: Others	Decrease in the period: Reversal	Decrease in the period: Write-off	Decrease in the period: Others	Closing balance
Provision for bad debts made individually	8,687,167.76				371,700.00			**8,315,467.76**
Provision for bad debts made as per portfolio	104,341,638.22	-627,933.62						**103,713,704.60**
Sub-total	113,028,805.98	-627,933.62			371,700.00			**112,029,172.36**

2) Major recovery or reversal of provisions for bad debts during the period

Name of entity	Recovered or reserved amount	Recovery method
Customer 8	371,700.00	Recovery of accounts receivable
Sub-total	371,700.00	

(4) Top 5 entities by the amount of accounts receivable

Name of entity	Book balance	Percentage of the balance of accounts receivable (%)	Provision for bad debts
Customer 1	126,947,001.71	12.97	19,577,801.69
Customer 2	108,182,711.03	11.06	2,241,017.89
Customer 3	84,274,775.31	8.61	8,014,006.52
Customer 4	74,282,035.14	7.59	9,945,606.27
Customer 5	49,245,569.94	5.03	984,911.40
Sub-total	442,932,093.13	45.26	40,763,343.77

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

2. Other receivables

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book value
Provision for bad debts made individually	4,223,055.08	15.08	2,410,369.22	57.08	1,812,685.86
Including: Interests receivable					
Dividend receivable	1,812,685.86	6.47			1,812,685.86
Other receivables	2,410,369.22	8.61	2,410,369.22	100.00	
Provision for bad debts made as per portfolio	23,781,923.37	84.92	4,835,844.31	20.33	18,946,079.06
Including: Interests receivable					
Dividend receivable					
Other receivables	23,781,923.37	84.92	4,835,844.31	20.33	18,946,079.06
Total	28,004,978.45	100.00	7,246,213.53	25.87	20,758,764.92

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

2. Other receivables (Continued)

(1) Breakdown *(Continued)*

1) Breakdown by category (Continued)

	Closing balance of last year				
	Book balance		Provision for bad debts		
Category	Amount	Proportion (%)	Amount	Percentage of provision (%)	Book balance
Provision for bad debts made individually	2,730,418.96	10.96	2,730,418.96	100.00	
Including: Interests receivable					
Dividend receivable					
Other receivables	2,730,418.96	10.96	2,730,418.96	100.00	
Provision for bad debts made as per portfolio	22,177,959.55	89.04	4,764,978.08	21.49	17,412,981.47
Including: Interests receivable					
Dividend receivable					
Other receivables	22,177,959.55	89.04	4,764,978.08	21.49	17,412,981.47
Total	24,908,378.51	100.00	7,495,397.04	30.09	17,412,981.47

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

2. Other receivables (Continued)

(1) Breakdown *(Continued)*

2) Other receivables with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Dividend receivable	1,812,685.86			
Other receivables				
Counterparty 3	2,410,369.22	2,410,369.22	100.00	Litigated
Sub-total	4,223,055.08	2,410,369.22	57.08	

3) Other receivables with provision for bad debts made as per portfolio

Portfolios	31 December 2019		
	Book balance	Provision for bad debts	Percentage of provision (%)
Security deposits	22,615,144.20	4,812,508.73	21.28
Imprest	610,419.72	12,208.39	2.00
Others	556,359.45	11,127.19	2.00
Sub-total	23,781,923.37	4,835,844.31	20.33

(2) Aging

Item	Book balance at the end of the period
Within 1 year	11,570,662.73
1 to 2 years	5,752,440.50
2 to 3 years	3,293,333.00
3 to 4 years	1,627,000.00
4 to 5 years	3,050,369.22
Over 5 years	2,711,173.00
Sub-total	28,004,978.45

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

2. Other receivables (Continued)

(3) Changes in provision for bad debts

1) Breakdown

Item	Phase I Expected credit loss in following 12 months	Phase II Lifetime expected credit loss (without credit impairment)	Phase III Lifetime expected credit loss (with credit impairment)	Total
Opening balance	221,842.67	367,071.60	6,906,482.77	7,495,397.04
Opening balance for the period				
– Transfer to phase II	-107,147.50	107,147.50		
– Transfer to phase III		-59,510.80	59,510.80	
– Reverse to phase II				
– Reverse to phase I				
Provision for the period	91,670.80	776,964.64	-797,769.21	70,866.23
Recovery for the period				
Reversal for the period			320,049.74	320,049.74
Write-off for the period				
Other changes				
Closing balance	206,365.97	1,191,672.94	5,848,174.62	7,246,213.53

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

2. Other receivables (Continued)

(3) Changes in provision for bad debts *(Continued)*

2) Major recovery or reversal of provisions for bad debts for the period

Name of entity	Recovered or reserved amount	Recovery method
Counterparty 3	320,049.74	Receipt of the amounts executed by court
Sub-total	320,049.74	

(4) Classification of other receivables by nature

Nature	Closing balance	Closing balance of last year
Dividend receivable	**1,812,685.86**	
Other receivables		
Security deposits	**22,615,144.20**	21,631,399.92
Imprest	**610,419.72**	479,430.65
Current account	**2,410,369.22**	2,730,418.96
Others	**556,359.45**	67,128.98
Total	**28,004,978.45**	24,908,378.51

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

2. Other receivables (Continued)

(5) Top 5 entities by the amount of other accounts receivable

Name of entity	Nature	Book balance	Aging	Percentage of the balance of other receivables (%)	Provision for bad debts
Counterparty 1	Security deposits	643,620.39	Within 1 year	2.46	34,143.06
		10,000.00	1 to 2 years	0.04	1,500.00
		50,000.00	2 to 3 years	0.19	5,000.00
		10,000.00	3 – to 4 years	0.04	3,000.00
		1,940,000.00	Over 5 years	7.40	1,552,000.00
Sub-total		2,653,620.39		10.13	1,595,643.06
Counterparty 2	Security deposits	211,100.23	Within 1 year	0.81	31,665.03
		2,246,075.00	1 to 2 years	8.57	336,911.25
Sub-total		2,457,175.23		9.38	368,576.28
Counterparty 3	Current account	2,410,369.22	4 to 5 years	9.21	2,410,369.22
Counterparty 4	Security deposits	2,000,000.00	Within 1 year	7.64	40,000.00
Counterparty 5	Security deposits	1,240,000.00	Within 1 year	4.73	24,800.00
		440,000.00	1 to 2 years	1.68	66,000.00
Sub-total		1,680,000.00		6.41	90,800.00
Total		11,201,164.84		42.77	4,505,388.56

Notes to the Financial Statements

For the year of 2019

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

3. Long-term equity investments

(1) Breakdown

Items	Balance at the end of the period			Balance at the end of the last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	211,052,363.96	11,540,960.76	199,511,403.20	71,052,363.96		71,052,363.96
Investments in associates	158,998,481.82		158,998,481.82	131,874,303.48		131,874,303.48
Total	370,050,845.78	11,540,960.76	358,509,885.02	202,926,667.44		202,926,667.44

(2) Investment in subsidiaries

Investees	Book balance	Increase in the period	Decrease in the period	Closing balance	Provision for impairment in the period	Closing balance of provision for impairment
Yichen Railway Engineering Equipment	65,102,363.96			65,102,363.96		
Yichen Corporate Management	2,950,000.00			2,950,000.00		
Yichen Trading	3,000,000.00			3,000,000.00		
Xingtai Juneng		140,000,000.00		140,000,000.00	11,540,960.76	11,540,960.76
Sub-total	71,052,363.96	140,000,000.00		211,052,363.96	11,540,960.76	11,540,960.76

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(I) Notes to the balance sheet of the parent company *(Continued)*

3. Long-term equity investments (Continued)

(3) Investments in associates

Investee	Opening balance	Increase or decrease during the period: Additional investments	Decrease in investments	Investment profit or loss recognized using equity method	Adjustment to other comprehensive income
Associate					
Hebei Tieke Yichen New Material Technology Co., Ltd.	131,874,303.48			27,124,178.34	
Total	131,874,303.48			27,124,178.34	

Investees	Increase or decrease during the period: Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others	Closing balance	Closing balance of provision for impairment
Associates						
Hebei Tieke Yichen New Material Technology Co., Ltd.					**158,998,481.82**	
Total					**158,998,481.82**	

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(Ii) Notes to the items of statement of profit or lose of the parent

1. Revenue/cost of sales

(1) Breakdown

Items	Amounts for the period		Amounts for the same period last year	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	**1,080,635,451.80**	**720,387,563.15**	1,088,669,079.76	728,222,067.15
Other operating revenue	**14,379,935.23**	**9,249,284.40**	15,592,153.15	10,809,120.90
Total	**1,095,015,387.03**	**729,636,847.55**	1,104,261,232.91	739,031,188.05

(2) Breakdown of revenue by main category

Reporting segment	Rail fastenings	Flux cored wires	Railway sleepers	Others	Sub-total
Main operating areas					
China	875,549,092.81	165,397,311.04	4,259,794.94	14,379,935.23	1,059,586,134.02
Other countries and regions		35,429,253.01			35,429,253.01
Sub-total	875,549,092.81	200,826,564.05	4,259,794.94	14,379,935.23	1,095,015,387.03

14. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(Ii) Notes to the items of statement of profit or lose of the parent *(Continued)*

2. Research and development expense

Items	Amounts for the period	Amounts for the same period last year
Material costs	**25,200,540.96**	22,440,365.64
Payroll	**9,475,127.26**	7,852,161.27
Electricity charges	**5,265,993.93**	3,400,003.14
Depreciation	**2,172,461.30**	915,964.41
Others		270,669.71
Total	**42,114,123.45**	34,879,164.17

3. Investment gains

Items	Amounts for the period	Amounts for the same period last year
Gains from long-term equity investment calculated under cost method	**1,812,685.86**	3,044,700.00
Gains from long-term equity investment calculated under equity method	**27,124,178.34**	24,678,484.05
Investment gains during the period of holding financial instruments		-195,000.00
Including: those classified as financial assets at fair value through profit or loss for the period		-195,000.00
Total	**28,936,864.20**	27,528,184.05

15. OTHER SUPPLEMENTAL INFORMATION

(I) Non-recurring gain or loss

1. Breakdown of non-recurring gain or loss

Items	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of write-off of impairment provision for assets	159,400.24	
Unauthorized approvals or items without duly approved documents, or occasional tax rebate or tax credits		
Government grants (except for government grants which are closely related to the Company's ordinary business and conform with the national policies as well as continuous entitlement to a certain standard amount or quantities) recognized in current gains or losses	819,225.39	
Fees for usage of funds received from non-financial enterprises recognized in current gains or losses		
Gains generated on gain derived from the fair value of the investee's identifiable net assets at the time of investment less the investment cost in acquiring the subsidiaries, associates and joint ventures		
Gains or losses from the exchange of non-monetary assets		
Gains or losses from entrusted investment or assets management		
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		

15. OTHER SUPPLEMENTAL INFORMATION *(Continued)*

(I) Non-recurring gain or loss *(Continued)*

1. *Breakdown of non-recurring gain or loss* (Continued)

Items	Amount	Description
Net gains or losses for the period derived from the subsidiary generated by a business combination under common control from the beginning of the period to the date of combination		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Gains on change in fair value in financial assets and liabilities at fair value through profit or loss, investments income from disposal of financial assets and liabilities and AFS financial assets at fair value through profit or loss, other than effective hedging activities associated with normal business operations of the Company	2,668,703.64	
Reversal of impairment provisions for receivables subject to individual impairment test	691,749.74	
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties using fair value method for subsequent measurement		
Effect on the current gains and losses from one-off adjustment according to the requirements of the tax and accounting laws and regulations		
Trust income received from entrusted operation		
Other non-operating income and expenses apart from those stated above	-132,273.16	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	4,206,805.85	
Less: Effect on enterprise income tax ("–"for income tax decrease)	596,200.65	
Effect on interest of minority shareholders (after tax)	293.18	
Items of non-recurring gains or losses attributable to owners of the parent	3,610,312.02	

15. OTHER SUPPLEMENTAL INFORMATION *(Continued)*

(II) Return on net assets and earnings per share

1. Breakdown

Profit during the reporting period	Weighted average return on net assets ratio (%)	Earnings per share (RMB/share) Percentage of the balance of accounts receivable (%)	Provision for bad debts
Net profit attributable to ordinary shareholders of the Company	10.39	0.22	0.22
Net profit after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	10.19	0.21	0.21

2. Calculation progress of weighted average return on net assets ratio

Items	No.	Balance for the current period
Net profit attributable to ordinary shareholders of the Company	A	193,821,576.91
Non-recurring profit or loss	B	3,610,312.02
Net profits after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	C=A-B	190,211,264.89
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	1,798,009,569.53
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Number of months from the month after increase in assets to end of reporting period	F	
Decrease in net assets net of repurchase, bonus, etc. attributable to ordinary shareholders of the Company	G	70,031,520.00
Number of months from the month after decrease in assets to end of reporting period	H	5
Others Item One	I1	
Number of months from the month after change in assets to end of reporting period	J1	
Number of months during the reporting period	K	12
Weighted average net assets	L= D+A/2+ E×F/ K-G×H/K±I×J/K	1,865,740,557.99
Weighted average return on net assets ratio	M=A/L	10.39%
Weighted average return on net assets ratio, after deduction of non-recurring profit or loss	N=C/L	10.19%

15. OTHER SUPPLEMENTAL INFORMATION *(Continued)*

(II) Return on net assets and earnings per share *(Continued)*

3. *Calculations progress of basic and diluted earnings per share*

(1) Calculations progress of basic earnings per share

Items	No.	Balance for the current period
Net profits attributable to the ordinary shareholders of the Company	A	193,821,576.91
Non-recurring profit or loss	B	3,610,312.02
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	C=A-B	190,211,264.89
Total number of shares at beginning of the period	D	897,840,000.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Number of months calculated from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months calculated from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12
Weighted average number of outstanding ordinary shares	L=D+E+F×G/K-H×I/K-J	897,840,000.00
Basic earnings per share	M=A/L	0.22
Basic earnings per share after deducting non-recurring profit or loss	N=C/L	0.21

(2) Calculations progress of diluted earnings per share

Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

Hebei Yichen Industrial Group Corporation Limited
11 May 2020

* *For identification purpose only*

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"	Pan-China Certified Public Accountant LLP
"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 person(s)"	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)

DEFINITIONS

"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 thereto under the Listing Rules
"China Railway Test & Certification Center Limited"	China Railway Test & Certification Center Limited (中鐵檢驗認證中心有限公司), an official certification authority of railway construction products of China
"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
"Eight Vertical and Eight Horizontal High Speed Railway Corridors"	"Eight Vertical and Eight Horizontal" is a short-term plan of China's high-speed railway network, the national high speed railway network consisting of 16 trunk lines, where there are eight vertical lines and eight 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

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“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
“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, which is dedicated to serving cities or among city clusters

DEFINITIONS

"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 GEM of the Stock Exchange
"metro"	a passenger railway in an urban area with high capacity and frequency
"Model Code"	the Model Code for Securities Transactions 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
"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 system 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

DEFINITIONS

"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 thereto 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 overground 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.