



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

INTERIM REPORT
2020



* For identification purpose only

CONTENTS

- 2 | Corporate Information
- 4 | Report on Review of Interim Financial Information
- 5 | Consolidated Balance Sheet (Unaudited)
- 7 | Consolidated Income Statement (Unaudited)
- 9 | Consolidated Statement of Cash Flows (Unaudited)
- 11 | Consolidated Statement of Changes in Owners' Equity (Unaudited)
- 12 | Notes to the Interim Condensed Consolidated Financial Information
- 31 | Management Discussion and Analysis
- 37 | Other Information

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhang Haijun (*Chairman*)
Mr. Wu Jinyu
Mr. Zhang Lihuan
Mr. Zhang Chao
Ms. Fan Xiulan

Non-executive Director

Ms. Gu Xiaohui⁺

Independent non-executive Directors

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

SUPERVISORS

Mr. Guan En (*Chairman*)
Mr. Liu Jianbin
Mr. Hu Hebin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Mr. Jip Ki Chi (*Chairman*)
Mr. Wang Qi
Mr. Zhang Chao^{*}

STRATEGY COMMITTEE

Mr. Zhang Haijun (*Chairman*)
Ms. Fan Xiulan^{*}
Mr. Zhang Liguó

JOINT COMPANY SECRETARIES

Ms. Ng Wai Kam (ACIS, ACS)
Mr. Zhang Chao

AUTHORIZED REPRESENTATIVES

Mr. Zhang Haijun
Ms. Ng Wai Kam

ALTERNATES TO THE AUTHORIZED REPRESENTATIVES

Ms. Fan Xiulan
Mr. Zhang Chao

⁺ Appointed as an executive director on 18 March 2020 and redesignated as a non-executive director on 25 March 2020

^{*} Appointed on 25 March 2020

Corporate Information

AUDITOR

Pan-China Certified Public Accountants LLP
6/F, No. 128 Xixi Road
West Lake District, Hangzhou, Zhejiang Province
China

HONG KONG LEGAL ADVISER

Chiu & Partners
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Hong Kong

PRC LEGAL ADVISER

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China

REGISTERED OFFICE AND HEADQUARTERS

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Hebei Province
China

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STOCK CODE

1596

COMPANY WEBSITE

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

REVIEW REPORT

Tian Jian Shen [2020] No. 3-518

TO THE SHAREHOLDERS OF HEBEI YICHEN INDUSTRIAL GROUP CORPORATION LIMITED

We have reviewed the attached financial statements of Hebei Yichen Industrial Group Corporation Limited (hereinafter referred to as “Yichen Industrial Corporation”) for January to June 2020, which comprise the consolidated balance sheet as at 30 June 2020, the consolidated income statement for January to June 2020, the consolidated statement of cash flows for January to June 2020, the consolidated statement of changes in owners’ equity for January to June 2020, and relevant notes to the financial statements. Preparation of these financial statements is the responsibility of the management of Yichen Industrial Corporation. Our responsibility is to deliver a report on review of such financial statements based on our review.

We conducted our review in accordance with China Certified Public Accountant Review Standard No.2101 — Review of Financial Statements. The Standard requires us to plan and perform the review to obtain limited assurance about whether the financial statements are free from material misstatements. A review is limited primarily to the enquiry of relevant personnel of Yichen Industrial Corporation and the analytical procedures applied to the financial information, thus providing less assurance than an audit. As we have not performed an audit, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial statements of Yichen Industrial Corporation for January to June 2020 are not prepared in accordance with the Accounting Standards for Business Enterprises and cannot fairly present the consolidated financial position, operating performance and cash flows of Yichen Industrial Corporation in all material respects.

Pan-China Certified Public Accountants LLP

Hangzhou, the PRC

23 September 2020

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

*Chinese Certified Public Accountant: **Ouyang Caihua***

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited) (Restated)
Current assets			
Monetary capital		295,515	404,072
Financial assets held for trading		1,939	1,939
Bills receivable	1	76,245	84,632
Accounts receivable	2	950,238	921,552
Financing of receivables		6,889	12,931
Prepayments		34,201	18,760
Other receivables		17,020	20,277
Inventories		368,918	355,230
Contract assets		50,940	34,534
Other current assets		3,125	2,054
Total current assets:		1,805,030	1,855,981
Non-current assets:			
Long-term equity investments	3	169,584	158,998
Fixed assets	4	153,654	125,378
Construction in progress	5	370,566	338,146
Right-of-use assets		299	599
Intangible assets	6	91,566	91,285
Goodwill		102,739	102,739
Deferred income tax assets		27,908	27,107
Other non-current assets		126,441	147,628
Total non-current assets		1,042,757	991,880
Total assets		2,847,787	2,847,861

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Current liabilities			
Short-term borrowings	7	155,000	170,000
Bills payable		20,000	69,318
Accounts payable	8	357,097	405,068
Contract liabilities		13,305	8,581
Payroll payable		7,633	7,119
Tax payable		14,372	16,290
Other payables		56,644	17,545
Non-current liabilities due within one year	9	93,288	32,645
Other current liabilities		536	260
Total current liabilities		717,875	726,826
Non-current liabilities			
Long-term borrowings	10	–	70,000
Long-term payables		36,492	47,980
Deferred income		5,293	5,409
Deferred income tax liabilities		633	662
Total non-current liabilities		42,418	124,051
Total liabilities		760,293	850,877
Owners' equity			
Share capital		448,920	448,920
Capital reserve		830,651	830,651
Surplus reserve		90,991	90,991
Undistributed profits		640,149	551,237
Total equity attributable to owners of the parent		2,010,711	1,921,799
Minority interests		76,783	75,185
Total owner's equity		2,087,494	1,996,984
Total liabilities and owner's equity		2,847,787	2,847,861

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited) (Restated)
I. Total operating income	1	575,859	447,330
II. Total operating cost		439,282	375,028
Including: Operating cost	1	355,946	304,102
Taxes and surcharges		4,793	2,308
Selling expenses		19,767	20,035
Management expenses		33,644	28,232
Research and development expense		19,859	16,091
Finance costs	2	5,273	4,260
Including: Finance costs		7,465	3,159
Interest income		1,616	230
Add: Other income		1,041	317
Investment gains		17,761	14,574
Including: Gains on investments in associates and joint ventures		17,761	14,574
Gain from changes in fair value		–	730
Loss on credit impairment (“-” for losses)	3	(541)	15,309
Impairment loss of assets (“-” for losses)	4	(3,609)	2,262
Gains on disposal of assets		110	–
III. Operating profits		151,339	105,494
Add: Non-operating incomes		97	40
Less: Non-operating expenses		2,458	–
IV. Total profit		148,978	105,534
Less: Income tax expenses	5	20,760	14,737
V. Net profit		128,218	90,797
(I) Classified according to continuity:			
1. Net profit from continuing operations		128,218	90,797
2. Net profit from discontinued operations		–	–
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent		126,621	89,622
2. Profit or loss of minority interests		1,597	1,175

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited) (Restated)
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		-	-
(II) Other comprehensive income that will be reclassified to profit or loss		-	-
VII. Total other comprehensive income		128,218	90,797
Total comprehensive income attributable to owners of the parent		126,621	89,622
Total comprehensive income attributable to minority interests		1,597	1,175
VIII. Earnings per share:			
(I) Basic earnings per share (RMB)		0.14	0.10
(II) Diluted earnings per share (RMB)		0.14	0.10

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
I. Cash flows from operating activities		
Cash received from sales of goods or rendering of labor service	474,667	553,649
Refund of taxes	1,448	77
Other cash received from operating-related activities	23,731	471
Sub-total of cash inflow from operating activities	499,846	554,197
Cash paid for goods purchased and labor service received	381,785	367,830
Cash paid to and for employees	44,737	42,710
Payments of taxes	48,978	23,728
Other cash paid for operating-related activities	28,201	43,532
Sub-total of cash outflow from operating activities	503,701	477,800
Net cash flows from operating activities	(3,855)	76,397
II. Cash flows from investing activities:		
Cash from disinvestments		
Cash received from return of investments	7,176	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	254	
Other cash received from investing-related activities		
Sub-total of cash inflows from investing activities	7,430	
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	60,418	66,072
Cash paid for investment		
Net cash paid for acquisition of subsidiaries and other business units		10,423
Other cash paid for investing-related activities		
Sub-total of cash outflows from investing activities	60,418	76,495
Net cash flows from investing activities	(52,988)	(76,495)

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
III. Cash flows from financing activities		
Cash received from borrowings	5,000	90,000
Other cash received from financing-related activities		9
Sub-total of cash inflows from financing activities	5,000	90,009
Cash paid for repayment of debts	30,000	64,810
Cash paid for distribution of dividends and profit or repayment of interest	11,446	26,060
Other cash paid for financing-related activities	10,853	
Sub-total of cash outflows for financing activities	52,299	90,870
Net cash flows from financing activities	(47,299)	(861)
IV. Effect of changes in foreign exchange rates on cash and cash equivalents	665	(404)
V. Net increase in cash and cash equivalents	(103,477)	(1,363)
Add: Opening balance of cash and cash equivalents	280,263	150,110
VI. Closing balance of cash and cash equivalents	176,786	148,747

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (UNAUDITED)

For the six months ended 30 June 2020

Items	For the six months ended 30 June 2020							
	Equity attributed to owners of parent company						Equity of minority shareholders	Total owners' equity
	Share Capital	Capital reserve	Other comprehensive income	Surplus reserve	Undistributed profits	RMB'000		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Closing balance of prior year	448,920	830,651		90,991	551,237	75,185	1,996,984	
Add: Changes in accounting policies								
Opening balance of current year	448,920	830,651		90,991	551,237	75,185	1,996,984	
Increase or decrease for the period					88,912	1,597	90,509	
(I) Total comprehensive income					126,621	1,597	128,218	
(II) Capital invested and decreased by owners								
(III) Profit distribution					(37,709)		(37,709)	
Withdrawal of surplus reserve								
Distribution to owners (or shareholders)					(37,709)		(37,709)	
(IV) Closing balance of current period	448,920	830,651		90,991	640,149	76,783	2,087,494	

Items	For the six months ended 30 June 2019							
	Equity attributed to owners of parent company						Equity of minority shareholders	Total owners' equity
	Share Capital	Capital reserve	Other comprehensive income	Surplus reserve	Undistributed profits	RMB'000		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Closing balance of prior year	448,920	830,651		75,365	472,193	70,518	1,897,647	
Add: Correction of errors in prior periods				(2,888)	(26,232)	(167)	(29,287)	
Opening balance of current year	448,920	830,651		72,477	445,961	70,351	1,868,360	
Increase or decrease for the period					89,622	4,849	94,471	
(I) Total comprehensive income					89,622	1,175	90,797	
(II) Capital invested and decreased by owners						3,674	3,674	
(III) Profit distribution								
Withdrawal of surplus reserve								
Distribution to owners (or shareholders)								
(IV) Closing balance of current period	448,920	830,651		72,477	535,583	75,200	1,962,831	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 Mr. 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 with a nominal value 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 including rail fastening system, flux cored wire and railway sleeper. Its main products include rail fastening, flux cored wire and railway sleeper.

This financial statements in this interim report were approved for publication at the 22nd meeting of the second session of the Board of the Company on 23 September 2020.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The financial statements of the Company are prepared based on the going concern and actual transactions and events according to the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and other relevant regulations, as well as the disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance, and based on the accounting policies and estimates applicable to the Company.

(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

The accounting policies adopted by the Company are consistent with those for the financial report of last year, and give a true and full view of the financial position, operating results and cash flows of the Company.

Notes to the Interim Condensed Consolidated Financial Information

4. ADJUSTMENT IN THE FINANCIAL STATEMENTS FOR THE PRIOR PERIOD

In order to implement more cautiously the provisions of the Accounting Standards for Business Enterprises relating to provisions for bad debts, impairment loss of inventories, deferred income tax assets, investment income of associates and the presentation of financial statement items, the Company refers to the practices of A-share listed companies in the same industry to review and made adjustment for the income statement from January to June 2019. The Company has made presentation adjustment to the balance sheet as at 31 December 2019 pursuant to the new revenue standards.

Items and amounts in financial statements which are significantly affected

Items in financial statements which are significantly affected	Affected amount
Items in the balance sheet at 31 December 2019	
Accounts receivable	25,907
Contract assets	(150,216)
Other non-current assets	124,309
Items in the income statement for January to June 2019	
Selling expenses	(3,610)
Management expenses	3,610
Investment gains	(5,184)
Loss on credit impairment	11,778
Impairment loss of assets	3,789
Income tax expenses	3,810
Net profit	6,573
Net profit attributable to owners of the parent	6,573

Notes to the Interim Condensed Consolidated Financial Information

5. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Notes: The opening and closing balances in the notes to these financial statements represent the figures of financial statements as at 31 December 2019 and 30 June 2020 respectively, the current period refers to January to June 2020 and the same period of last year refers to January to June 2019. The figures for the same period of last year have not been audited.

(I) Notes to the Consolidated Balance Sheet

1. Notes receivable

Category	Carrying amount		30 June 2020 Provision for bad debts		Book value RMB'000
	Amount RMB'000	Proportion (%)	Amount RMB'000	Percentage of provision (%)	
Provision for bad debts made individually					
Including: Bank acceptance notes					
Trade acceptance notes					
Provision for bad debts made as per portfolio	79,074	100.00	2,829	3.58	76,245
Including: Bank acceptance notes	55,458	70.13			55,458
Trade acceptance notes	13,846	17.51	2,443	17.64	11,403
Other notes receivable	9,770	12.36	386	3.95	9,384
Total	79,074	100.00	2,829	3.58	76,245

Category	Carrying amount		31 December 2019 Provision for bad debts		Book value RMB'000
	Amount RMB'000	Proportion (%)	Amount RMB'000	Percentage of provision (%)	
Provision for bad debts made individually					
Including: Bank acceptance notes					
Trade acceptance notes					
Provision for bad debts made as per portfolio	92,089	100.00	7,457	8.10	84,632
Including: Bank acceptance notes	66,455	72.17			66,455
Trade acceptance notes	19,829	21.53	4,995	25.19	14,834
Other notes receivable	5,805	6.30	2,462	42.41	3,343
Total	92,089	100.00	7,457	8.10	84,632

Notes to the Interim Condensed Consolidated Financial Information

5. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. Accounts receivable

(1) Breakdown
Breakdown by category

Category	Book balance		30 June 2020		Book value RMB'000
	Amount RMB'000	Proportion (%)	Provision for bad debts Amount RMB'000	Percentage of provision (%)	
Provision for bad debts made individually	11,155	1.04	11,155	100.00	
Provision for bad debts made as per portfolio	1,062,323	98.96	112,085	10.55	950,238
Total	1,073,478	100.00	123,240	11.48	950,238

Category	Book balance		31 December 2019 (restated)		Book value RMB'000
	Amount RMB'000	Proportion (%)	Provision for bad debts Amount RMB'000	Percentage of provision (%)	
Provision for bad debts made individually	8,315	0.80	8,315	100.00	
Provision for bad debts made as per portfolio	1,030,595	99.20	109,043	10.58	921,552
Total	1,038,910	100.00	117,358	11.30	921,552

(2) Ageing

Items	Book balance	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	697,280	636,946
1 to 2 years	216,018	240,158
2 to 3 years	72,539	94,848
3 to 4 years	42,109	26,267
4 to 5 years	25,924	24,216
Over 5 years	19,608	16,475
Sub-total	1,073,478	1,038,910

Notes to the Interim Condensed Consolidated Financial Information

5. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Long-term equity investments

(1) Breakdown by category

Item	30 June 2020			31 December 2019		
	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000
Investments in associates	169,584		169,584	158,998		158,998
Total	169,584		169,584	158,998		158,998

(2) Breakdown

Investee	Increase or decrease during the period				
	31 December 2019 RMB'000	Additional investments RMB'000	Decrease in investments RMB'000	Investment profit or loss recognised using equity method RMB'000	Adjustment to other comprehensive income RMB'000
Associate					
Hebei Tieke Yichen New Material Technology Co., Ltd.	158,998			17,761	
Total	158,998			17,761	

Investee	Increase or decrease during the period				
	Other changes in equity RMB'000	Cash dividends or profit distribution declared RMB'000	Provision for impairment RMB'000	Others RMB'000	Closing balance of provision for impairment RMB'000
Associate					
Hebei Tieke Yichen New Material Technology Co., Ltd.		(7,175)			169,584
Total		(7,175)			169,584

Notes to the Interim Condensed Consolidated Financial Information

5. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. Fixed assets

Items	Buildings and structures	Machinery and equipment	Transportation vehicles	Electronic equipment	Other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Original carrying amount						
Opening balance	73,889	192,604	17,030	7,398	2,402	293,323
Increase in the current period	34,694	3,813	141	285		38,933
1) Purchase	116	1,781	99	285		2,281
2) Transferred from Construction in progress	34,578	2,032	42			36,652
3) Increase in business combination						
Decrease in the current period		112	90			202
1) Disposal or scrap		112	90			202
Closing balance	108,583	196,305	17,081	7,683	2,402	332,054
Accumulated depreciation						
Opening balance	30,726	117,414	11,112	6,875	1,818	167,945
Increase in the current period	1,756	7,305	1,129	195	144	10,529
1) Provision	1,756	7,305	1,129	195	144	10,529
2) Increase in combination						
Decrease in the current period			74			74
1) Disposal or scrap			74			74
Closing balance	32,482	124,719	12,167	7,070	1,962	178,400
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	76,101	71,586	4,914	613	440	153,654
Opening carrying amount	43,163	75,190	5,918	523	584	125,378

Notes to the Interim Condensed Consolidated Financial Information

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

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

5. *Construction in progress*

Items	30 June 2020			31 December 2019		
	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	358,024		358,024	329,512		329,512
Sand processing project						
Harmonic management project	1,265		1,265	1,265		1,265
Blasting machine						
Flux cored wire automatic packaging line						
Andafa AX lean Manufacturing management system	1,027		1,027	1,027		1,027
Air compressor room, warehouse						
Environmental and energy-saving transformation of railway accessory molding lines (RD2019-21)	4,735		4,735	3,001		3,001
Sporadic projects	5,515		5,515	3,341		3,341
Total	370,566		370,566	338,146		338,146

Notes to the Interim Condensed Consolidated Financial Information

5. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. *Intangible assets*

Items	Land use rights RMB'000	Software RMB'000	Total RMB'000
Original carrying amount			
Opening balance	99,918	1,427	101,345
Increase in the current period	1,311	73	1,384
1) Purchase	1,311	73	1,384
2) Increase in business combination			
Decrease in the current period			
1) Disposal			
Closing balance	101,229	1,500	102,729
Accumulated amortisation			
Opening balance	9,293	767	10,060
Increase in the current period	1,020	83	1,103
1) Provision	1,020	83	1,103
2) Increase in business combination			
Decrease in the current period			
1) Disposal			
Closing balance	10,313	850	11,163
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	90,916	650	91,566
Opening carrying amount	90,625	660	91,285

Notes to the Interim Condensed Consolidated Financial Information

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

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

7. Short-term borrowings

Items	30 June 2020 RMB'000	31 December 2019 RMB'000
Secured borrowings	30,000	30,000
Pledged borrowings	75,000	70,000
Guaranteed borrowings	50,000	50,000
Credit borrowings	–	20,000
Total	155,000	170,000

8. Accounts payable

(1) Breakdown

Items	30 June 2020 RMB'000	31 December 2019 RMB'000
Payables for materials and others	321,189	375,526
Payables for transportation	10,528	9,494
Payables for technology transfer	22,482	15,215
Payables for electricity and others	2,898	4,833
Total	357,097	405,068

(2) Ageing analysis

Ageing	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	304,559	348,659
1 to 2 years	37,633	42,699
2 to 3 years	3,446	1,453
Over 3 years	11,459	12,257
Sub-total	357,097	405,068

9. Non-current liabilities due within one year

Items	30 June 2020 RMB'000	31 December 2019 RMB'000
Long-term borrowings due within one year	70,000	10,000
Long-term payables due within one year	22,655	22,020
Lease liabilities due within one year	633	625
Total	93,288	32,645

Notes to the Interim Condensed Consolidated Financial Information

5. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Long-term borrowings

Items	30 June 2020 RMB'000	31 December 2019 RMB'000
Pledged borrowings		70,000
Total		70,000

(II) Notes to the Consolidated Income Statement

1. Operating Revenue/Operating cost

Items	January to June 2020		January to June 2019	
	Revenue RMB'000	Cost RMB'000	Revenue RMB'000	Cost RMB'000
Revenue from principal business	567,413	350,176	441,347	299,283
Other operating revenue	8,446	5,770	5,983	4,819
Total	575,859	355,946	447,330	304,102

2. Finance costs

Items	January to June 2020 RMB'000	January to June 2019 RMB'000
Interest expense	7,465	3,159
Less: Interest income	1,616	230
Combined profit or loss	(665)	404
Handling charges and other expenses	89	927
Total	5,273	4,260

3. Loss on credit impairment

Item	January to June 2020 RMB'000	January to June 2019 RMB'000 (Restated)
Loss on bad debts	(541)	15,309
Total	(541)	15,309

Notes to the Interim Condensed Consolidated Financial Information

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

(II) Notes to the Consolidated Income Statement *(Continued)*

4. Impairment loss of assets

Item	January to June 2020	January to June 2019
	RMB'000	RMB'000 (Restated)
Impairment loss on inventories	(3,609)	2,262
Total	(3,609)	2,262

5. Income tax expenses

Items	January to June 2020	January to June 2019
	RMB'000	RMB'000 (Restated)
Current income tax expenses	21,590	10,738
Deferred income tax expenses	(830)	3,999
Total	20,760	14,737

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

With the objective of achieving a balance between risks and revenue through risk management, the Company minimises the negative impact of risks on its operating results in order to maximise 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 summarised below.

(I) Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty of the financial instruments.

Credit risks of the Company arise primarily from bank deposits and receivables. In order to control the relevant risks above, the Company has taken the following measures respectively.

1. Bank deposits

The Company places bank deposits and other monetary capital in financial institutions with high credit ratings, as a result of which its credit risks are low.

Notes to the Interim Condensed Consolidated Financial Information

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(I) Credit risk *(Continued)*

2. Receivables

The Company continuously conducts credit assessment on customers who trade on credit terms. Based on the assessment results, the Company chooses to trade with recognised 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 recognised and creditworthy third parties, no collateral is required. Concentration of credit risk is managed by customers. As of 30 June 2020, the Company had certain concentration of credit risk as 46.84% (31 December 2019: 42.86%) 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.

(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 are 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 bank borrowings, as well as optimises 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

Items	30 June 2020				
	Book value RMB'000	Undiscounted contractual amount RMB'000	Within 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000
Bank borrowings	225,000	230,583	230,583		
Bills payable	20,000	20,000	20,000		
Accounts payable	357,097	357,097	357,097		
Other payables	22,934	22,934	22,934		
Long-term payables and long-term payables due within one year	59,147	63,601	25,440	38,161	
Lease liabilities due within one year	633	642	642		
Sub-total	684,811	694,857	656,696	38,161	

Notes to the Interim Condensed Consolidated Financial Information

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(II) Liquidity risk *(Continued)*

Classification of financial liabilities based on the remaining maturity (Continued)

Items	31 December 2019				
	Book value RMB'000	Undiscounted contractual	Within 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000
		amount RMB'000			
Bank borrowings	250,000	261,225	189,863	71,362	
Bills payable	69,318	69,318	69,318		
Accounts payable	405,068	405,068	405,068		
Other payables	17,545	17,545	17,545		
Long-term payables and long-term payables due within one year	70,000	76,321	25,440	50,881	
Lease liabilities due within one year	625	652	652		
Sub-total	812,556	830,129	707,886	122,243	

(III) Market risk

Interest risk is the risk of fluctuation in fair value or future cash flows of financial instruments due to changes in market interest. The Company's exposure to the risk of market interest changes relates mainly to borrowings with floating interest rate.

As of 30 June 2020, the Company's borrowings with interest accrued at floating interest rate totaled RMB70,000,000 (31 December 2019: RMB70,000,000). Assuming that interest rates had been 50 basis points higher/lower and all other variables were held constant, there will be no significant impact on the Company's total profit and shareholders' interests.

1. 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 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.

Notes to the Interim Condensed Consolidated Financial Information

7. FAIR VALUE DISCLOSURE

Breakdown of fair values of assets and liabilities measured at fair value at the end of the period

Items	Fair value on 30 June 2020			Total RMB'000
	Fair value measured at level 1 RMB'000	Fair value measured at level 2 RMB'000	Fair value measured at level 3 RMB'000	
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			1,939	1,939
2. Financing of receivables			6,889	6,889
Total assets measured at fair value on a recurring basis			8,828	8,828

Items	Fair value on 31 December 2019			Total RMB'000
	Fair value measured at level 1 RMB'000	Fair value measured at level 2 RMB'000	Fair value measured at level 3 RMB'000	
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			1,939	1,939
2. Financing of receivables			12,931	12,931
Total assets measured at fair value on a recurring basis			14,870	14,870

Notes to the Interim Condensed Consolidated Financial Information

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Related parties

1. Information on the associates of the Company

Name of associate	Relationship with the Company
Hebei Tieke Yichen New Material Technology Co., Ltd.	Significant associate of the Company

2. Information on other related parties of the Company

Name of other related parties	Relationship between other related parties and the Company
Zhang Haijun	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

Notes to the Interim Condensed Consolidated Financial Information

8. 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) Related party transactions regarding purchase of goods and acceptance of labor services

Related parties	Information on related party transactions	January to June 2020 RMB'000	January to June 2019 RMB'000
Hebei Tieke Yichen New Material Technology Co., Ltd.	Purchase of goods	87,528	65,513
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Acceptance of labor services		1,008
Total		87,528	66,521

(2) Related party transactions for sales of goods and provision of labor services

Related parties	Information on related party transactions	January to June 2020 RMB'000	January to June 2019 RMB'000
Hebei Tieke Yichen New Material Technology Co., Ltd	Sales of water, electricity and gas	4,034	3,638
Hebei Tieke Yichen New Material Technology Co., Ltd	Provision of labor services		423
Hebei Tieke Yichen New Material Technology Co., Ltd	Sales of goods	110	
Total		4,144	4,061

Notes to the Interim Condensed Consolidated Financial Information

8. 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 recognised in January to June 2020 RMB'000	Depreciation charge recognised in January to June 2019 RMB'000
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Building	299	294
Zhang Haijun	Building	–	168

3. Compensation to key management personnel

Item	January to June 2020 RMB'000	January to June 2019 RMB'000
Compensation to key management personnel	1,395	1,562

(III) Amount due from/to related parties

1. Amount due from related parties

Name of items	Related party	30 June 2020		31 December 2019	
		Book balance RMB'000	Provision for bad debts RMB'000	Book balance RMB'000	Provision for bad debts RMB'000
Accounts receivable	Hebei Tieke Yichen New Material Technology Co., Ltd.	3,871	77	4,201	84
Subtotal		3,871	77	4,201	84

Notes to the Interim Condensed Consolidated Financial Information

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(III) Amount due from/to related parties (Continued)

2. Amount due to related parties

Name of items	Related party	30 June 2020 RMB'000	31 December 2019 RMB'000
Accounts payable	Hebei Tieke Yichen New Material Technology Co., Ltd.	87,861	54,411
	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	2,807	2,807
Subtotal		90,668	57,218
Other payables	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	1,084	1,055
Subtotal		1,084	1,055
Non-current liabilities due within one year	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	633	625
Subtotal		633	625

9. OTHER SIGNIFICANT EVENTS

Segment information

The Company does not have any reporting segment as there are no multiple operations or cross-region operations. A breakdown of the Company's revenue from and cost of principal business by products is as follows:

Items	January to June 2020		January to June 2019	
	Revenue from principal business	Cost of principal business	Revenue from principal business	Cost of principal business
Railway fasteners	440,534	248,632	350,969	219,463
Flux cored wires	97,951	84,514	87,846	78,400
Railway sleepers	28,928	17,030	2,532	1,420
Subtotal	567,413	350,176	441,347	299,283

Notes to the Interim Condensed Consolidated Financial Information

10. EVENTS AFTER THE BALANCE SHEET DATE

Profit distribution after the balance sheet date

Profits or dividends proposed to distribute	15,263
Profits or dividends declared to distribute after review and approval	<p>On 28 August 2020, the Board of Directors of the Company convened a meeting to approve the interim profit distribution scheme for the year 2020, pursuant to which the Company intended to distribute RMB0.017 per share (inclusive of tax) in cash to all shareholders, amounting to a cash dividend of RMB15,263,280.00, based on the total share capital of 897,840,000 shares as at 30 June 2020. The above preliminary scheme for profit distribution is subject to review and approval at the general meeting of the Company. The Company completed the payment of its 2019 annual dividend of RMB37,709,280.00 in July 2020.</p>

11. OTHER SUPPLEMENTAL INFORMATION

Profit in January to June 2020	Earnings per share (RMB/share)	
	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	0.14	0.14

Profit in January to June 2019	Earnings per share (RMB/share)	
	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	0.10	0.10

Hebei Yichen Industrial Group Corporation Limited*

23 September 2020

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

2020 has been an unusual year, during which the global economy has been overshadowed by the raging novel coronavirus (COVID-19) epidemic, while the international trade and investments have also shrunk drastically. After experiencing the impact of the COVID-19 epidemic on the first quarter, China's economy has gradually overcome the adverse effects from the epidemic in the first half of the year as the economic operation has shown a restorative growth and steady recovery trend, demonstrating enhanced resilience and vitality in development. Railway construction is indispensable to the national development and the improvement of people's livelihood. The timely resumption of work and production of the railway in the first half of the year has also brought refreshing opportunities to numerous industrial chains.

In the first half of 2020, railway construction was pushed forward with high quality and efficiency according to the established objectives. The fixed asset investments in national railways amounted to RMB325.8 billion, with an increase of RMB3.8 billion over the same period last year, representing a year-on-year increase of 1.2%. Among which, the investments in national railway infrastructure amounted to RMB245.1 billion, representing a year-on-year increase of 3.7%, and RMB179.7 billion of which has been invested in the second quarter, representing a year-on-year increase of 16.4%. The investment plan has not only attained overfulfilment, but also compensated for the investment lag in the first quarter and achieved growth in railway investments in adversity, setting a new record. As of 1 July 2020, 1,178 km of new lines commenced operation, including 605 km of high-speed rail, highlighting the current development momentum of China's railway construction investment which is still growing in scale.

During the period, China's railway construction continued to serve the national development strategies. The preliminary work of key projects such as the Sichuan-Tibet Railway and the high-speed railways along the Yangtze River Delta made good progress, while the construction of 12 projects including the Zhengzhou-Jinan High-speed Railway (Shandong section) and the Shanghai-Suzhou-Huzhou Railway commenced smoothly, which fully reflects the facilitating role of railway investments in stabilising the economy, stabilising employment and stabilising expectations. The optimisation of the road network structure has also made positive contributions to regional economic development and poverty alleviation.

At the same time, China's urban rail transit construction has also made positive progress. According to the statistics of the China Association of Metros, for the urban rail transit approved projects nationwide, there are a total of 272.54 km of new lines and a total of RMB230.615 billion of additional investments in the first half of this year. As of the end of the period, an aggregate of 6,917.62 km of urban rail transit lines were in operation across a total of 41 cities in China. During the period, the Company firmly captured these opportunities and actively participated in the construction of high-speed rail, heavy-haul rail and urban rail transit in various regions, ensuring the safe, stable and efficient operation of railways with high-quality products and services.

Management Discussion and Analysis

BUSINESS REVIEW

The sudden arrival of the epidemic in early 2020 has affected the development of various industries to different degrees and has triggered turbulence in China and global economy to different degrees. As the business of the Group is predominantly carried out in domestic market, the continuing spread of the global epidemic has a relatively small impact on the Group's business. In terms of domestic market, local governments implemented lockdown policies in the first quarter, resulting in a suspension or slowdown of some railway constructions and causing delayed deliveries of some customer orders, which imposed a certain degree of adverse impact on the entire industry. However, China has begun to accelerate the resumption of work and production when entering the second quarter, as various industries have quickly returned to normal operation with some engineering projects even accelerated their construction. Since the outbreak of the epidemic, the Group has been closely monitoring the epidemic situation, strictly executing various epidemic prevention and control work, and has conducted various operational activities in an orderly manner and on the basis of ensuring the health of employees. Meanwhile, the Company has actively adjusted its market strategy and prepared emergency plans, kept optimizing customer structure and improving capital turnover efficiency, and actively expanded its customer base to obtain more diversified sources of income.

The Group is a leading rail fastening system product provider in the PRC, with its major business focused on three business segments, including 1) rail fastening system products; 2) flux cored wire products; and 3) railway sleeper products. For the six months ended 30 June 2020, the total revenue of the Group amounted to approximately RMB575.9 million, representing a year-on-year increase of approximately 28.8%.

Rail Fastening System Products

For the six months ended 30 June 2020, the revenue from rail fastening system products amounted to approximately RMB440.5 million, representing approximately 76.5% of the Group's total revenue and an increase of approximately 25.5% over the revenue of approximately RMB351 million from this segment in the corresponding period of last year. This was mainly attributable to the growing sales volume of rail fastening products during the period under review.

For the period under review, the cost of sales relating to rail fastening system products increased by approximately 13.3% from approximately RMB219.5 million for the first half of 2019 to approximately RMB248.6 million for the corresponding period of 2020. The change in cost was mainly attributable to the growing sales volume of rail fastening system products during the period under review.

For the period, the gross profit of rail fastening system products amounted to approximately RMB191.9 million, representing an increase of approximately 45.9% compared with the gross profit of approximately RMB131.5 million for the corresponding period of last year. The gross profit margin of rail fastening system products increased from approximately 37.5% for the first half of 2019 to approximately 43.6% for the first half of 2020.

As of 30 June 2020, the Group's initial value of entering into agreements on supplying rail fastening systems was approximately RMB604.5 million, representing an increase of approximately 7.3% from the corresponding period of last year. Of the amount, the initial value of entering into agreements on high-speed rail fastening systems amounted to approximately RMB369.9 million, representing an increase of approximately 19.3% compared with the corresponding period of last year; the initial value of entering into agreements on heavy-haul rail fastening systems amounted to approximately RMB28.5 million; the initial value of entering into agreements on urban transit fastening systems amounted to approximately RMB143.2 million; and the initial value of entering into agreements on normal speed rail fastening systems was approximately RMB62.8 million. As of 30 June 2020, the backlog of the Group amounted to approximately RMB1,331.2 million (value-added tax included).

Management Discussion and Analysis

Flux Cored Wire Products

For the six months ended 30 June 2020, the revenue from flux cored wire products amounted to approximately RMB98 million, accounting for approximately 17% of total revenue of the Group. Compared to the revenue of approximately RMB87.8 million for the first half of 2019, the increase in revenue was mainly attributable to the growing market demand for flux cored wire over the first half of 2020.

The Group's revenue from flux cored wire products was mainly generated from the sales to private shipbuilding companies and trading companies operating in the shipbuilding industry. The Group will further expand its customer range on the basis of continuous collaboration with the existing major customers.

Railway Sleeper Products

For the six months ended 30 June 2020, the revenue from railway sleeper products was approximately RMB28.9 million, accounting for approximately 5% of the Group's total revenue, while the revenue from railway fastening products increased by approximately 1,056% compared with the corresponding period of last year, mainly attributable to the increase in revenue from its subsidiary Xingtai Juneng Railway Electrical Equipment Co. LTD (邢臺炬能鐵路電氣器材有限公司).

FUTURE PROSPECTS

The "Outline for Planning on Nation with Strong Railway-oriented Transport System in the New Era (新時代交通強國鐵路先行規劃綱要)" (the "Outline"), which was issued by China State Railway Group Co., Ltd. on 12 August 2020, clearly stated that by 2035, it will be the first to achieve interconnection for domestic and international markets, multiple inter-regional connectivity, efficient connection of provincial capitals, quick access to prefectures and cities, basic coverage of counties, smooth connection of hubs, intelligent upgrade of network facilities, thereby effectively supporting the dynamic modern railway network; by 2050, the nation will be fully developed with higher standard of modern railway system. The Outline also stated that by 2035, the national railway network will cover an area of about

200,000 km with nearly 70,000 km of high-speed railways, while cities with a population of more than 200,000 people will be covered by railways and cities with a population of more than 500,000 population will be accessible by high-speed railways. The launch of the Outline has brought a new round of development opportunities for high-speed railways, normal-speed railways and intercity and municipal railways, injecting refreshing vitality and energy into the railway industry.

With the gradual deepening of "New Infrastructure (新基建)", the pace of railway construction has been accelerated through strengthening points of weakness in infrastructure for improvement of uneven regional development and speeding up construction of new infrastructure with information infrastructure as the core. China State Railway Group Co., Ltd., has launched numerous key projects such as the Yinchuan-Xi'an High-speed Railway, the Beijing-Xiong'an New Area Intercity Railway (Hebei section), the Hefei-Anqing High-speed Railway and the Huai'an-Zhenjiang Railway, which are scheduled to commence operation in the second half of 2020. The projects are proceeding in an orderly manner and will be in operation on schedule. It is expected that about 4,400 km of new rail lines will be in operation throughout 2020, including about 2,300 km of high-speed railways.

In the Government Work Report of this year, the Chinese Government pointed out that it is necessary to expand effective investment with priority given to construction of "New Infrastructure, New Urbanization Initiatives and Major Projects (兩新一重)", which not only boost consumption and benefit the people, but also facilitate structural adjustments and enhance the sustainability of growth. It is also proposed to increase the national railway development capital by RMB100 billion to facilitate "Effective Investment (有效投資)" in the transportation sector. As a major project to stimulate economic growth, railways are an important means to effectively expand domestic demands and realise the "Six Stability (六穩)" and "Six Guarantees (六保)", which is expected to receive additional support from national policies.

Management Discussion and Analysis

The development of railways in the new era has gradually shifted from the pursuit of speed and scale to focusing on quality and efficiency, therefore imposing higher and stricter requirements on the development of the industry as a whole. With the rapid development of railway construction, the emergence of a large number of new lines, new technologies, new demands and new business formats will bring new room for development to the Group. As a leading rail fastening system provider in the railway industry of China, the Group will closely follow the market development opportunities brought about by the continuous growth of railway construction, actively research and innovate, and strive to improve product quality and service standards to provide high standard and high quality rail fastening system products and railway sleeper products, thereby contributing to the high-level construction and safe operation of railways in China. On the other hand, the Group will also actively explore opportunities for vertical expansion in the industry and enhance the core competitiveness and profitability of the Group with a diversified product offering, so as to give back to shareholders and investors.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's business operations mainly comprise the research and development, manufacturing and sales of rail fastening system products, flux cored wire products and railway sleeper products. The above business segments have brought sustained and stable revenue to the Group. The revenue of the Group increased to approximately RMB575.9 million in the first half of 2020 from approximately RMB447.3 million in the first half of 2019, mainly as a result of the increase in revenue from rail fastening system products.

Revenue generated from rail fastening system products increased by approximately 25.5% to approximately RMB440.5 million in the first half of 2020 from approximately RMB351 million in the first half of 2019, mainly because of the increase in sales volume of rail fastening system products.

Revenue generated from flux cored wire products increased by approximately 11.6% from approximately RMB87.8 million in the first half of 2019 to approximately RMB98 million in the corresponding period of 2020, primarily owing to the higher market demand for flux cored wire during the first half of 2020.

Revenue related to railway sleeper products increased by approximately 1,056% from approximately RMB2.5 million in the first half of 2019 to approximately RMB28.9 million in the corresponding period of 2020, mainly because of the growth of revenue from its subsidiary Xingtai Juneng Railway Electrical Equipment Co. LTD. (邢臺炬能鐵路電氣器材有限公司).

Apart from the revenue generated from selling rail fastening system products, flux cored wire products and railway sleeper products, the Group also generated revenue mainly from the sales of raw materials and the provision of product processing services.

Cost of Sales

The Group's cost of sales increased by approximately 17.0% to approximately RMB355.9 million in the first half of 2020 from approximately RMB304.1 million in the first half of 2019, which was mainly attributable to the increase in product revenue, and the increase in cost of sales accordingly.

Cost of sales incurred by rail fastening system products increased by approximately 13.3% to approximately RMB248.6 million in the first half of 2020 from approximately RMB219.5 million in the same period of 2019, which was mainly attributable to the increase in product revenue, and the increase in cost of sales accordingly.

Cost of sales incurred by flux cored wire products increased by approximately 7.8% to approximately RMB84.5 million in the first half of 2020 from approximately RMB78.4 million in the same period of 2019, which was mainly attributable to an increase in the sales revenue of flux cored wire products which led to higher cost of sales.

Management Discussion and Analysis

Cost of sales relating to railway sleeper products increased by approximately 1,114.3% to approximately RMB17 million in the first half of 2020 from approximately RMB1.4 million in the same period of 2019, which was mainly attributable to an increase in the sales revenue of railway sleeper products which led to higher cost of sales.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB219.9 million from January to June 2020, representing an increase of approximately 53.6% from the gross profit of approximately RMB143.2 million recorded for the corresponding period of 2019, which was mainly due to (i) a decrease in cost of sales caused by the decreased price of raw materials; and (ii) sales revenue for the period increased by 28.8% compared with the corresponding period of last year.

Gross profit of rail fastening system products increased by approximately 45.9% to approximately RMB191.9 million in the first half of 2020 from approximately RMB131.5 million in the corresponding period of 2019. Gross profit margin of rail fastening system products increased to approximately 43.6% in the first half of 2020 from approximately 37.5% in the first half of 2019, which mainly resulted from the lower price of steel as a raw material.

Gross profit of flux cored wire products climbed by approximately 42.6% to approximately RMB13.4 million in the first half of 2020 from approximately RMB9.4 million in the corresponding period of 2019. Gross profit margin grew to approximately 13.7% in the first half of 2020 from approximately 10.7% in the first half of 2019, which mainly resulted from the increasing market share of special flux cored wire.

Gross profit of railway sleeper products climbed by approximately 981.8% to approximately RMB11.9 million in the first half of 2020 from approximately RMB1.1 million in the first half of 2019. Gross profit margin dropped to approximately 41.2% in the first half of 2020 from approximately 44% in the first half of 2019, which mainly resulted from the decrease in gross profit margin due to the sales of different types of railway sleeper products.

Selling Expenses

Selling expenses of the Group amounted to approximately RMB19.8 million from January to June 2020, compared to approximately RMB20 million (restated) from January to June 2019. For the six months ended 30 June 2020 and 2019, selling expenses as a percentage of total revenue were approximately 3.4% and approximately 4.5%, respectively. Lower selling expenses mainly resulted from the closer sales distance of rail fastening system products for the year which led to decreased transportation expenses.

Management Expenses

Management expenses of the Group increased to approximately RMB33.6 million from January to June 2020 from approximately RMB28.2 million (restated) from January to June 2019, mainly due to the increase in technology transfer fees.

Investment Profits of an Associate

From January to June 2020, the Group's share of investment profits of an associate was approximately RMB17.8 million, representing an increase of approximately RMB3.2 million as compared with the corresponding period of 2019 (restated). This was mainly attributable to the increase in net profit of the associate.

Net Finance Costs

For the first half of 2020, the Group incurred net finance cost totaling RMB5.3 million, as compared to net finance cost totaling approximately RMB4.3 million incurred in the first half of 2019. The increase in net finance costs was mainly due to the newly added interest expense on sale and leaseback during the period.

Operating Profits

Based on the aforesaid reasons, the Group recorded operating profits of approximately RMB151.3 million from January to June 2020, representing a growth of approximately 43.4% from approximately RMB105.5 million (restated) in the corresponding period of 2019, which was mainly attributable to the higher sales revenue of rail fastening system products.

Management Discussion and Analysis

Income Tax

Income tax expense of the Group increased to approximately RMB20.8 million from January to June 2020, from approximately RMB14.7 million from January to June 2019, which was mainly attributable to an increase in total profits.

Net Profit

Based on the aforesaid reasons, net profit increased by approximately 41.2% to approximately RMB128.2 million for the period ended 30 June 2020, from approximately RMB90.8 million for the period ended 30 June 2019. Net profit margin increased from 20.3% for the period ended 30 June 2019 to 22.3% for the period ended 30 June 2020, which was mainly attributable to an increase in sales revenue during the period.

Net Profit Attributable to Owners of the Parent

From January to June 2020, the Group's net profit attributable to owners of the parent company amounted to approximately RMB126.6 million, representing an increase of approximately 41.3% from approximately RMB89.6 million for the same period of 2019. For the first half of 2020, basic earnings per share amounted to RMB0.14, representing an increase of RMB0.04 from the basic earnings of RMB0.1 per share for the same period of 2019. The increase in the Company's net profit attributable to owners of the parent company was mainly due to the increase in net profit of the Group in the first half of 2020.

Total Assets

As at 30 June 2020, the total assets of the Group were approximately RMB2,847.8 million, representing a decrease of approximately RMB0.1 million from approximately RMB2,847.9 million as at 31 December 2019.

Total Liabilities

As at 30 June 2020, the total liabilities of the Group were approximately RMB760.3 million, representing a decrease of approximately RMB90.6 million or approximately 10.6% from that as at 31 December 2019. This was mainly due to the decrease in repayment of short-term borrowings and long-term payables.

Total Equity

As at 30 June 2020, the total equity of the Group was approximately RMB2,087.5 million, representing an increase of approximately RMB90.5 million from that as at 31 December 2019, which was mainly attributable to the increase in retained earnings.

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

As at 30 June 2020, the Group's gearing ratio was 5.0%, representing an increase of 3 percentage points from 2.0% as at 31 December 2019, mainly because of the decrease in cash and cash equivalents.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2020, the Group incurred total staff costs of approximately RMB45.3 million for 1,318 employees, representing an increase of approximately RMB2.5 million or approximately 5.8% as compared with the same period of 2019, which was mainly attributable to (i) the increase in the number of employees of the Group and (ii) improvement of results and increase in bonus for employees.

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.

OTHER INFORMATION

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 RMB558.2 million. Up to 30 June 2020, the Group had utilised approximately RMB485.31 million of the net proceeds from its initial public offering in December 2016. The remaining net proceeds from its initial public offering of approximately RMB72.88 million had yet been utilised as at 30 June 2020. As at 30 June 2020, 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 30 June 2020, 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 <i>RMB'000</i>	Utilised as at 30 June 2020 <i>RMB'000</i>	Unutilised as at 30 June 2020 <i>RMB'000</i>	Expected to be utilised before the following dates
Expansion of production capacity and fixed asset investments	31.00%	173,038	173,038	0	N/A
Domestic and overseas acquisitions	15.00%	83,728	10,850	72,878	June 2021
Purchase of raw materials	15.00%	83,728	83,728	0	N/A
R&D and testing of new products	15.00%	83,728	83,728	0	N/A
Deposits for project bids	10.00%	55,819	55,819	0	N/A
Working capital	10.00%	55,819	55,819	0	N/A
Upgrade of information systems and automated production facilities	4.00%	22,328	22,328	0	N/A
Total	100.00%	558,188	485,310	72,878	

The unutilised net proceeds as at 30 June 2020 had been deposited in banks in the People's Republic of China.

Other Information

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

As at 30 June 2020, 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 corporations (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 interests and short positions which 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:

Name	Capacity	Personal 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 the Company (%) (Note 3)
			Deemed interest pursuant to Section 317 of the SFO (Note 1)	Total number		
Mr. Zhang Haijun (張海軍)	Director	130,008,992 (Note 4)	457,543,782 (Note 4)	587,552,774	87.25	65.44
Mr. Zhang Ligang (張立剛) (Note 5)	Chief Executive Officer	27,034,580	560,518,194	587,552,774	87.25	65.44
Mr. Wu Jinyu (吳金玉)	Director	28,946,782	558,605,992	587,552,774	87.25	65.44
Mr. Zhang Chao (張超)	Director	18,726,392	568,826,382	587,552,774	87.25	65.44
Mr. Zhang Lihuan (張力歡)	Director	18,726,392 (Note 4)	568,826,382 (Note 4)	587,552,774	87.25	65.44
Ms. Fan Xiulan (樊秀蘭)	Director	923,132	N/A	923,132	0.14	0.10
Mr. Zhang Lifeng (張力峰) (Note 5)	Chief Executive Officer	18,726,392	568,826,382	587,552,774	87.25	65.44

Notes:

- (1) The relevant parties are members of the Controlling Shareholders Group. On 12 January 2018, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following the completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group together controlled approximately 65.44% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by other members of the Controlling Shareholders Group.
- (2) Based on the total number of 673,380,000 Domestic Shares in issue.
- (3) Based on the total number of 897,840,000 Shares in issue.
- (4) On 25 May 2020, Mr. Zhang Haijun entered into an agreement with Mr. Zhang Libin to transfer 1,582,512 Domestic Shares to Mr. Zhang Libin; Ms. Zhang Junxia entered into an agreement with Mr. Zhang Lihuan to transfer 1,582,512 Domestic Shares to Mr. Zhang Lihuan; Mr. Zhang Xiaosuo entered into an agreement with Mr. Zhang Ning to transfer 1,582,512 Domestic Shares to Mr. Zhang Ning; Mr. Zhang Xiaogeng entered into an agreement with Zhang Hong to transfer 1,582,512 Domestic Shares to Ms. Zhang Hong. The transferors and transferees abovementioned are all persons acting-in-concert. The above target Shares were not required to be delivered within 4 trading days after entering into the agreements, and the relevant equity transfer had not been completed on 30 June 2020. Therefore, the number of Shares held by Mr. Zhang Haijun, Ms. Zhang Junxia, Mr. Zhang Xiaogeng and Mr. Zhang Xiaosuo (as the transferors) has not deducted the 1,582,512 Shares under each transfer, while the number of Shares held by Mr. Zhang Libin, Mr. Zhang Lihuan, Mr. Zhang Ning and Ms. Zhang Hong (as the transferees) has been added with the 1,582,512 Shares under each transfer; the total number of Shares held by all persons acting-in-concert remained unchanged (587,552,774 Shares). As at 2 July 2020, transfers of the target Shares abovementioned to respective transferee were completed.
- (5) Mr. Zhang Ligang resigned as Chief Executive Officer on 16 June 2020, and Mr. Zhang Lifeng was appointed as Chief Executive Officer on 24 June 2020.

Other Information

Save as disclosed above, as at 30 June 2020, 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 30 June 2020, 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) (Notes 1 & 22)	Domestic Shares	Beneficial owner Deemed interest pursuant to Section 317 of the SFO	85,455,648 502,097,126		
			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) (Notes 1 & 22)	Domestic Shares	Beneficial owner Deemed interest pursuant to Section 317 of the SFO	85,060,020 502,492,754		
			587,552,774	87.25%	65.44%
Mr. Zhang Xiaosuo (張小鎖) (Notes 1 & 22)	Domestic Shares	Beneficial owner Deemed interest pursuant to Section 317 of the SFO	85,257,834 502,294,940	87.25%	65.44%
Ms. Liu Jiao (劉姣) (Note 6)	Domestic Shares	Interest of spouse	587,552,774		
			587,552,774	87.25%	65.44%

Other Information

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. Sun Shujing (孫書京) (Note 7)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Xiaoxia (張曉霞) (Note 8)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhai Junping (翟軍平) (Note 9)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Weihuan (張偉環) (Note 10)	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 11)	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%
Ms. Yang Yunjuan (楊雲娟) (Note 12)	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 13)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Libin (張力斌) (Notes 1 & 22)	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%

Other Information

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. Yin Yanping (尹彦萍) (Note 14)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Ning (張寧) (Note 1 & 22)	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. Huang Li (黃麗) (Note 15)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Hong (張宏) (Note 1 & 22)	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. Liu Chaohui (劉朝輝) (Note 16)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Ruiqiu (張瑞秋) (Note 1)	Domestic Shares	Beneficial owner	2,307,830		
		Deemed interest pursuant to Section 317 of the SFO	585,244,944		
			587,552,774	87.25%	65.44%
Ms. Gao Xiangrong (高香榮) (Note 17)	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 Securities Limited	H Shares	Beneficial owner	33,669,000	15.00%	3.75%
BOCOM International Holdings Company Limited (Note 18)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%

Other Information

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Bank of Communications (Nominee) Company Limited (Note 18)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Bank of Communications Co., Ltd. (Note 18)	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 19)	H Shares	Interest in controlled corporation	16,666,000	7.42%	1.86%
The Leading Group Office of Supervision and Management of State-owned Assets of Provincial Culture Enterprise in Hebei Province (河北省省級文化企 業國有資產監督管理領導小組辦公室) (Note 19)	H Shares	Interest in controlled corporation	16,666,000	7.42%	1.86%
Beijing Infrastructure Investment (Hong Kong) Limited	H Shares	Beneficial owner	38,102,000	16.97%	4.24%
Beijing Infrastructure Investment Co., LTD (Note 20)	H Shares	Interest in controlled corporation	38,102,000	16.97%	4.24%
GUOKONG (HONG KONG) INVESTMENT CO., LIMITED	H Shares	Beneficial owner	20,300,000	9.04%	2.26%
Shijiazhuang Guo Kong Investment Group Company Limited (Note 21)	H Shares	Interest in controlled corporation	20,300,000	9.04%	2.26%

Other Information

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. Liu Jiao (劉姣) is the spouse of Mr. Zhang Libin (張力斌). Under the SFO, Ms. Liu Jiao is deemed to be interested in the same number of Shares in which Mr. Zhang Libin is interested.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) 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.
- (13) 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.
- (14) 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.
- (15) 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.
- (16) 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.
- (17) 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.

Other Information

- (18) Bank of Communications (Nominee) Company Limited is wholly owned by Bank of Communications Co., Ltd.; BOCOM International Holdings Company Limited is wholly owned by Bank of Communications (Nominee) Company Limited; 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) Company Limited and BOCOM International Holdings Company Limited are deemed to be interested in the H Shares beneficially owned by BOCOM International Securities Limited.
- (19) 70% equity interest of North Ocean (Hong Kong) Holding Ltd. is controlled by Hebei Publishing and Media Group Co., Ltd., which is wholly owned by The Leading Group Office of Supervision and Management of State-owned Assets of Provincial Culture Enterprise in Hebei Province. Under the SFO, The Leading Group Office of Supervision and Management of State-owned Assets of Provincial Culture Enterprise in Hebei Province and Hebei Publishing and Media Group Co., Ltd. are deemed to be interested in the H Shares beneficially owned by North Ocean (Hong Kong) Holdings Ltd.
- (20) Beijing Infrastructure Investment (Hong Kong) Limited is wholly owned by Beijing Infrastructure Investment Co., LTD. Under the SFO, Beijing Infrastructure Investment Co., LTD is deemed to be interested in the H Shares beneficially owned by Beijing Infrastructure Investment (Hong Kong) Limited.
- (21) GUOKONG (HONG KONG) INVESTMENT CO., LIMITED is wholly owned by Shijiazhuang Guo Kong Investment Group Company Limited. Under the SFO, Shijiazhuang Guo Kong Investment Group Company Limited is deemed to be interested in the H Shares beneficially owned by GUOKONG (HONG KONG) INVESTMENT CO., LIMITED.
- (22) On 25 May 2020, Mr. Zhang Haijun entered into an agreement with Mr. Zhang Libin to transfer 1,582,512 Domestic Shares to Mr. Zhang Libin; Ms. Zhang Junxia entered into an agreement with Mr. Zhang Lihuan to transfer 1,582,512 Domestic Shares to Mr. Zhang Lihuan; Mr. Zhang Xiaosuo entered into an agreement with Mr. Zhang Ning to transfer 1,582,512 Domestic Shares to Mr. Zhang Ning; Mr. Zhang Xiaogeng entered into an agreement with Zhang Hong to transfer 1,582,512 Domestic Shares to Ms. Zhang Hong. The transferors and transferees abovementioned are all persons acting-in-concert. The above target Shares were not required to be delivered within 4 trading days after entering into the agreements, and the relevant equity transfer had not been completed on 30 June 2020. Therefore, the number of Shares held by Mr. Zhang Haijun, Ms. Zhang Junxia, Mr. Zhang Xiaogeng and Mr. Zhang Xiaosuo (as the transferors) has not deducted the 1,582,512 Shares under each transfer, while the number of Shares held by Mr. Zhang Libin, Mr. Zhang Lihuan, Mr. Zhang Ning and Ms. Zhang Hong (as the transferees) has been added with the 1,582,512 Shares under each transfer; the total number of Shares held by all persons acting-in-concert remained unchanged (587,552,774 Shares). As at 2 July 2020, transfers of the target Shares abovementioned to respective transferee were completed.

Save as disclosed above, as at 30 June 2020, 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.

EXTRAORDINARY GENERAL MEETING

The extraordinary general meeting (the “EGM”) will be held on Thursday, 15 October 2020. Shareholders may refer to the circular, notice and form of proxy of the EGM for details regarding the EGM.

INTERIM DIVIDEND

The Board resolved to recommend the payment of an interim dividend of RMB0.017 per share (tax inclusive) as of 30 June 2020 (the “2020 Interim Dividend”) with an aggregate net amount of RMB15,263,280 to the shareholders of the Company whose names are listed on the Company’s register of members as at Tuesday, 27 October 2020. Once the relevant resolution is passed in the EGM, the 2020 Interim Dividend is expected to be paid on or before 27 November 2020.

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.

Other Information

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 2020 Interim 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 Tuesday, 27 October 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稅收政策的通知》(財稅[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 2020 Interim Dividend pursuant to the register of members of domestic corporate investors as holders of H shares of the Company as at Tuesday, 27 October 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稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Tentative Measures on Withholding and Payment of Individual Income Tax (《個人所得稅代扣代繳暫行辦法》), the Shanghai-Hong Kong Stock Connect Tax Policy (《滬港通稅收政策》) 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%. 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 2020 Interim 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 Tuesday, 27 October 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.

Other Information

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 on the H share register of members of the Company on Tuesday, 27 October 2020 (the “**Registered Address**”). The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the Individual H Shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the Individual H Shareholders or any disputes over the withholding mechanism or arrangements. Details of 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 2020 Interim 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 2020 Interim 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 2020 Interim 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 2020 Interim Dividend.

Other Information

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, 20 October 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) (《非居民納稅人享受稅收協定待遇管理辦法》(國稅發[2015]60號)) if they fail to provide the relevant supporting documents to the Company before the time limit stated above.

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of shareholders who are entitled to attend and vote at the EGM of the Company to be held on Thursday, 15 October 2020, the register of members of the Company has been closed from Monday, 14 September 2020 to Thursday, 15 October 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, 15 October 2020 are entitled to attend and vote at this EGM. Holders of H shares of the Company intended to attend and vote at this EGM 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 Friday, 11 September 2020 (Hong Kong time) for registration.

In order to determine the list of shareholders who are entitled to the 2020 Interim Dividend, the register of members of the Company will be closed from Wednesday, 21 October 2020 to Tuesday, 27 October 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 Tuesday, 27 October 2020 are entitled to the 2020 Interim Dividend. Holders of H shares of the Company intended to receive the 2020 Interim 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, 20 October 2020 (Hong Kong time) for registration.

EVENTS AFTER REPORTING PERIOD

Except for the payment of the final dividend as of 31 December 2019 in July 2020, no other significant events occurred subsequent to the six months ended 30 June 2020 and up to the date of this report.

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 six months ended 30 June 2020.

Other Information

AUDIT COMMITTEE

This interim condensed consolidated financial information has not been audited by the auditor of the Company but has been reviewed by the audit committee of the Company.

The Audit Committee of the Company has reviewed the Group's unaudited interim condensed consolidated results and interim report for the six months ended 30 June 2020 prepared in accordance with the PRC Financial Reporting Standards and agreed to the accounting principles, accounting treatment and practices adopted by the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complied with all code provisions as set out in the "Corporate Governance Code" contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the directors and supervisors of the Company. Upon making specific enquiries to all of the directors and supervisors of the Company, all directors and supervisors of the Company confirmed that throughout the six months ended 30 June 2020, each of them had fully complied with the required standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers".

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2020, the Board had complied with (1) the requirement that the board of directors of a listed issuer must include at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules; (2) the requirement that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and (3) the requirement that the number of independent non-executive directors must represent at least one-third of the board of directors under Rule 3.10A of the Listing Rules.

By order of the Board

Hebei Yichen Industrial Group Corporation Limited*

ZHANG Haijun

Chairman

Shijiazhuang, PRC
23 September 2020

* For identification purpose only