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Hebei Yichen Industrial Group Corporation Limited*
河北翼辰實業集團股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock Code: 1596)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB965.9 million, representing a decrease of approximately 6.7% compared with that of 2016.
- Gross profit amounted to approximately RMB340.2 million, representing a decrease of approximately 27.3% compared with that of 2016.
- Profit before taxation amounted to approximately RMB204.7 million, representing a decrease of approximately 42.3% compared with that of 2016.
- The profit and total comprehensive income attributable to equity holders of the Company amounted to approximately RMB 176.1 million and RMB 178.1 million respectively, representing a decrease of approximately 42.4% and 43.2% respectively compared with that of 2016.
- For the year ended 31 December 2017, the basic and diluted earnings per share amounted to approximately RMB0.20.

FINAL DIVIDEND

- The board of directors has proposed a final dividend of RMB0.0197 per share (including tax) for the year ended 31 December 2017, with an aggregate amount of RMB17,687,448.

FINANCIAL RESULTS

The board of directors (the "**Board**") of Hebei Yichen Industrial Group Corporation Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**" or "**We**") for the year ended 31 December 2017 (the "**Year under Review**"), together with comparative figures for the year ended 31 December 2016 as follows:

1. CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	**For the year ended 31 December 2017** *RMB'000*	2016 *RMB'000*
Revenue	*3*	**965,898**	1,035,427
Cost of sales	*3,4*	**(625,656)**	(567,278)
Gross profit		**340,242**	468,149
Selling and distribution expenses	*4*	**(44,619)**	(48,654)
General and administrative expenses	*4*	**(65,401)**	(64,728)
Other (losses)/gains, net	*5*	**(17,159)**	3,288
Other income		**3,250**	–
Operating profit		**216,313**	358,055
Finance income		**828**	1,899
Finance costs		**(21,243)**	(16,294)
Finance costs, net		**(20,415)**	(14,395)
Share of profits of an associate		**8,783**	11,072
Profit before income tax		**204,681**	354,732
Income tax expense	*6*	**(28,240)**	(48,875)
Profit for the year		**176,441**	305,857
Equity holders of the Company		**176,080**	305,857
Non-controlling interests		**361**	–
		176,441	305,857
Basic and diluted earnings per share for profit attributable to equity holders of the Company during the year (RMB)	*7*	**0.20**	0.45

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

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

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	As at 31 December **2017** *RMB'000*	2016 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**231,457**	110,087
Lease prepayment for land use rights		**134,680**	136,329
Intangible assets		**80**	111
Investments in an associate		**59,968**	51,185
Deferred income tax assets	*9*	**17,902**	17,218
Other receivables and prepayments (non-current portion)		**18,084**	7,464
		462,171	322,394
Current assets			
Available-for-sale financial assets		**141,155**	136,869
Inventories		**228,431**	170,935
Accounts receivable	*10*	**1,293,666**	989,010
Advances to suppliers		**20,256**	47,387
Other receivables and prepayments (current portion)		**22,602**	17,903
Restricted cash		**99,773**	44,824
Cash and cash equivalents		**289,832**	649,436
		2,095,715	2,056,364
Total assets		**2,557,886**	2,378,758

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
EQUITY			
Share capital and reserves attributable to equity holders			
Share capital		**448,920**	448,920
Other reserves		**898,304**	880,573
Retained earnings		**317,423**	308,063
		1,664,647	1,637,556
Non-controlling interests		**71,449**	–
Total equity		**1,736,096**	1,637,556
LIABILITIES			
Non-current liabilities			
Bank borrowings		**10,000**	20,000
Deferred income from government grants		**6,374**	6,106
		16,374	26,106
Current liabilities			
Accounts payable	*11*	**334,971**	258,693
Advances from customers		**11,168**	10,343
Other payables and accruals		**94,788**	92,465
Current income tax liabilities		**7,589**	2,185
Bank borrowings		**356,900**	351,410
		805,416	715,096
Total liabilities		**821,790**	741,202
Total equity and liabilities		**2,557,886**	2,378,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the "**PRC**") on 9 April 2001. The address of the Company's registered office is No.1, Yichen North Street, Gao Cheng City, Hebei Province, the PRC.

The Group principally engaged in manufacturing and sale of rail fastening system products and welding materials.

In preparation for listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"), the Company was transformed into a joint stock company on 26 November 2015. The equity interest of the Company was transformed into share capital of RMB336,690,000 by issuance of 336,690,000 shares of RMB1 each to the existing shareholders of the Company pro rata based on their previous capital contribution to the Company.

Pursuant to a shareholders' resolution on 30 November 2015, these 336,690,000 shares shall be further sub-divided into 673,380,000 shares of RMB0.5 per share. The sub-division was completed upon the Listing.

On 21 December 2016, the Company completed the Listing by issuing 224,460,000 new shares with nominal value of RMB0.50 per share. The Company's shares were then listed on the Main Board of the Stock Exchange of Hong Kong.

2 BASIS OF PREPARATION

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

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2017:

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

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

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

The following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group.

- IFRS 15 "Revenue from Contracts with Customers", establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) identify the contract(s) with customer; (2) identify separate performance obligations in a contract; (3) determine the transaction price; (4) allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 is effective for an entity's first annual financial statements under IFRS for a period beginning on or after 1 January 2018, with earlier application permitted. The Group does not plan to early adopt IFRS 15. The Group does not plan to early adopt IFRS 15. The management has assessed the impact on the financial performance and position of the Group resulted from the effectiveness of IFRS 15 for periods beginning on or after 1 January 2018, and expect it will not have a significant impact.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on financial statements position for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the reporting entity adopting IFRS 15 'Revenue from contracts with customers' at the same time.

  The Group is a lessee of various premise, these leases are currently classified as operating leases. IFRS 16 provides new provisions for the accounting treatment of leases for operating lessees and generally no longer allow them to recognise leases outside of their statements of financial position. Instead almost all leases must be recognised in the form of an asset (for the right-of-use) and a lease liability (for the payment obligation). The new standard will therefore result in an increase in assets and liabilities in the statement of financial position. In the statement of comprehensive income, depreciation on the right-of-use asset and interest expense on the lease liability will be recognised instead of an operating lease expense. The Group does not plan to early adopt IFRS 16. Based on the Group's undiscounted operating lease commitment of RMB618,000 as at 31 December 2017, the management expects IFRS 16 will not have significant impact on the financial position and financial performance of the Group.

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The management has reviewed its financial assets and liabilities and its expecting the following impact from the adoption of the new standard on 1 January, 2018:

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

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

Measurement of impairment loss on accounts receivable based on an expected credit losses model requires the use of historical data as well as forward looking information and may have an impact to the Group's consolidated financial statements. It is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review. Adoption of IFRS 9 does currently not have a material impact on the consolidated financial statements of the Group. The Group does not plan to early adopt IFRS 9.

- Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendment were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

  The adoption of the amendment to IFRS 10 and IAS 28 is not expected to have a material impact on the consolidated financial statements of the Group and the Group does not plan to early adopt this amendment.

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

3 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker, in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's chief operating decision maker reviews internal management reports on monthly basis, at a minimum.

Management has determined the reporting segments based on these reports.

The Group considers the business from a product perspective:

- Rail fastening system products: manufacturing and sales of railway related products

- Welding material products: manufacturing and sales of welding materials

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

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

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

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

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Segment gross profit	**340,242**	468,149
Selling and distribution expenses, general and administrative expenses and finance costs, net	**(130,435)**	(127,777)
Other (losses)/gains, net	**(17,159)**	3,288
Share of profits of associate, net	**8,783**	11,072
Investment income	**3,250**	–
Profit before income tax	**204,681**	354,732
Income tax expense	**(28,240)**	(48,875)
Profit for the year	**176,441**	305,857

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

4 EXPENSE BY NATURE

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

5 OTHER (LOSSES)/GAINS, NET

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

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

6 INCOME TAX EXPENSE

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

Provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 15% for the year 2015, 2016 and 2017 on the assessable income of respective Group entities in accordance with relevant PRC enterprise income tax rules and regulations.

As at 29 September 2015, the Company was certified as "High Tech. Enterprise" of Hebei province (河北省高新技術企業), valid for three years (from year 2015 to year 2017), and as at 29 February 2016, the Company had completed the preferential income tax filling and enjoyed the preferential income tax rate of 15%.

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory income tax rate in the PRC is as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**204,681**	354,732
Tax calculated at the statutory tax rate(15%)	**30,702**	53,210
Income not subject to tax	**(1,317)**	(1,661)
Expenses not deductible for tax purposes	**183**	217
Additional deduction of research and development expenses	**(140)**	(3,184)
Others	**(1,188)**	293
Tax charge	**28,240**	48,875

7 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the relevant period.

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

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

8 DIVIDENDS

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

(i) On 26 May 2017,the annual general meeting resolved to declare a final dividend of RMB149,939,280 (the dividend declared for the year ended 31 December 2016 was RMB73,061,730) to its existing shareholders.

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

9 DEFERRED INCOME TAX ASSETS

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

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

Deferred income tax assets	**Provisions for impairment losses**	**Accrued expenses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	10,206	2,481	1,983	14,670
Charged/(Credited) to statement of comprehensive income	3,372	649	(1,473)	2,548
At 31 December 2016	13,578	3,130	510	17,218
Charged/(Credited) to statement of comprehensive income	2,806	(271)	(103)	2,432
At 31 December 2017	16,384	2,859	407	19,650

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

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

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

10 ACCOUNTS RECEIVABLE

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

Notes:

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current to 1 year	**845,061**	801,076
1 to 2 years	**228,926**	175,682
2 to 3 years	**91,170**	32,083
Over 3 years	**35,175**	42,520
	1,200,332	1,051,361

The individually impaired receivables mainly relate to some welding products customers, which are under litigation with the Company. It was assessed that all of the receivables may not to be recovered and the Company had made full provision for these receivables. No credit terms are specified in sales contracts signed with these customers. The ageing of these impaired receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current to 1 year	**1,190**	–
1 to 2 years	**–**	7,439
2 to 3 years	**7,439**	–
Over 3 years	**133**	7,212
	8,762	14,651

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

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

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

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

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

(c) Substantially all accounts receivable are denominated in RMB and their carrying amounts approximate to fair values.

(d) As at 31 December 2017, the Company factored receivables of RMB120,000,000 (31 December 2016: RMB147,347,000) (the "**Factored Receivables**") to banks for cash under receivables purchase agreements. As the Company still retained the risks associated with the default and delay in payment by the customers, the financial asset derecognition conditions as stipulated in IAS 39 have not been fulfilled. Accordingly, the proceeds from the factoring of trade receivables have been accounted for as the Group's liabilities and included in "bank advances for factored receivables".

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

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

11 ACCOUNTS PAYABLE

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industrial Review and Analysis

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

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

As a series of strategies in the state's "13th Five Year Plan" and "Mid-to-Long Term Plan of Railway Network" had been implemented, and the "Eight Horizontal and Eight Vertical High-speed Railway Network" continued to advance, the total operational mileage of national railways will be around 150,000 km in 2020, that would generally cover cities with population of more than 200,000. In particular, the mileage of high-speed railway was approximately 30,000 km, covering more than 80% of major cities, while the mileage of railway in the middle and western regions (including the three provinces in Northeast China) was approximately 112,000 km, which would be a massive business opportunity for the Group. Meanwhile, there will be further development for the rail transit network in different cities. In the first-tier cities, the urban rail transit network will continue to be expanded while the construction of urban transit transportation network in the second- and third-tier cities will be gradually facilitated in order to satisfy the increasing mobility demand. Moreover, there will be a constant market demand for the Group in terms of repair and maintenance for all railways, as well as upgrade and replacement for old railways, of which the high-speed railways, heavy-haul railways and urban transit railways will be the main focus for the future railway construction. Driven by "One Belt and One Road", there would be more opportunities for the Group to participate in overseas railway construction projects.

Business Review

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

Rail Fastening System Products

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

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

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

During the Year under Review, the initial value of entering into agreements of supplying rail fastening system amounted to approximately RMB1,313 million, representing an increase of approximately 6.06% when compared to 2016, among which the initial value of entering into agreements of high speed rail fastening system amounted to approximately RMB714 million, representing a decrease of approximately 14.90% when compared to 2016; the initial value of entering into agreements of heavy haul rail fastening system amounted to approximately RMB146 million, representing an increase of approximately 33.94% when compared to 2016; the initial value of entering into agreements of metro series fastening system amounted to approximately RMB318 million, representing an increase of 95.1% when compared to 2016; the initial value of entering into agreements of traditional rail fastening system amounted to RMB136 million, representing an increase of 7.1% when compared to 2016. As of 31 December 2017, the backlog of the Group amounted to approximately RMB1,582.5 million (Value-added Tax included).

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

Flux Cored Wire Products

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

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

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

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

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

Revenue generated from rail fastening system products decreased by approximately 17.06% to approximately RMB795.2 million in 2017 from approximately RMB958.8 million in 2016, mainly attributable to delay in the progress of railway construction projects of the major customers, leading to decrease in sales of rail fastening system products.

Revenue generated from welding materials increased by approximately 140% to approximately RMB165.5 million in 2017 from approximately RMB68.9 million in 2016. Changes to revenue of welding materials was primarily resulted from fluctuations in the sales volume and the selling price of such materials. In turn, the sales volume and selling price of our welding materials reflected the demand from our main welding material customers, which were primarily shipbuilding companies and trading companies operating in the shipbuilding industry. The better performance in the welding material industry in 2017 had led to increase in demand, while there was a general increase in unit price of welding material product industry, leading to increase in revenue in relation to welding materials.

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

Cost of sales

The Group's cost of sales increased by approximately 10.29% to approximately RMB625.7 million in 2017 from approximately RMB567.3 million in 2016, mainly attributable to the increase in the sales volume of welding products and relevant costs.

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

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

Gross profit

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

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

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

Selling and distribution expenses

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

General and administrative expenses

General and administrative expenses of the Group increased by approximately 1.04% to approximately RMB65.4 million in 2017 from approximately RMB64.7 million in 2016. For the years ended 31 December 2016 and 2017, general and administrative expenses as a percentage of total revenue were approximately 6.3% and 6.8%, respectively. During the Year under Review, the increase in general and administrative expenses as a percentage of total revenue was mainly attributable to increase in employee remuneration, which was partially offset by decrease in provision of impairment of receivables.

Operating profit

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

Finance charges

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

In 2017, the Group realized foreign exchange losses of approximately RMB19.0 million; which was mainly due to appreciation of RMB against Hong Kong dollar, resulting an increase in foreign exchange losses incurred as the Group converted the proceeds from the global offering of shares into Hong Kong dollars.

Share of profit of an associate

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

Income tax

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

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

Net profit

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

Profit attributable to equity holders of the Company

The Group recorded profit attributable to equity holders of the Company of approximately RMB176.1 million in 2017, representing a decrease of approximately 42.4% from approximately RMB305.9 million in 2016. Basic earnings per share amounted to approximately RMB0.20 in 2017, representing a decrease of approximately 55.56% from the basic earnings per share of approximately RMB0.45 in 2016. The decrease in profit attributable to equity holders of the Company was attributable to the decrease in net profit of the Group in 2017.

Financial resources and capital structure

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

As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB649.4 million, accounts receivable of approximately RMB989.0 million, accounts payable of approximately RMB258.7 million, and outstanding borrowings of approximately RMB371.4 million.

The Group usually satisfies its daily working capital requirements through self-owned cash and short-term borrowings. In December 2016, the Company completed the listing on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and issued a total of 224,460,000 H shares. As at 31 December 2017, the outstanding borrowings of the Group included short-term borrowings and long-term borrowings of approximately RMB356.9 million and approximately RMB10.0 million, respectively. The Group will promptly repay the aforesaid borrowings at maturity.

Total assets

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

Total liabilities

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

Total equity

As at 31 December 2017, the total equity of the Group was approximately RMB1,736.1 million, representing an increase of approximately RMB98.5 million as compared with that as at 31 December 2016, mainly attributable to increase in minority interests of the Group during the year. In 2017, the amount of transferring to statutory reserves was approximately RMB16.8 million, while the other comprehensive income incurred from the change in fair value of funds was approximately RMB2.0 million.

Gearing ratio

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

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

Employee and remuneration policies

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

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

Future Prospects

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

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

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

EVENTS AFTER PERIOD

After the Result Period and up to the date of announcement, no significant event has occurred.

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

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

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

PUBLIC FLOAT

Based on the publicly available information to the Company, so far as to the knowledge of the directors of the Company (the "**Directors**"), no less than 25% of the shares of the Company in issue are held by the public for the year ended 31 December 2017, according to the requirement of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

ANNUAL GENERAL MEETING

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

FINAL DIVIDEND

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

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

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

In accordance with the tax law and relevant requirements under taxation regulatory institutions of the PRC, the Company is required to withhold 10% enterprise income tax when it distributes the 2017 Final Dividend to all non-resident enterprise shareholders (including HKSCC Nominees Limited, other nominees, trustees or other entities and organisations, who will be deemed as non-resident enterprise shareholders) whose names appear on the H share register of members of the Company on Saturday, 2 June 2018.

Pursuant to the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong stock exchanges connectivity mechanism" (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Sui [2014] No. 81) (the "**Shanghai-Hong Kong Stock Connect Tax Policy**") jointly issued by the Ministry of Finance of the PRC, the State Administration of Taxation and China Securities Regulatory Commission, the dividends derived from the investment by a domestic corporate investor in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect will be included in its total income and subject to enterprise income tax according to the law. In particular, dividends received by resident enterprises in the Mainland which hold H shares for at least 12 consecutive months shall be exempted from enterprise income tax according to the law. In respect of the dividends received by domestic corporate investors, H share companies listed on the Stock Exchange will not withhold relevant tax for such corporate investors. The tax payable shall be reported and paid by the enterprises themselves.

As such, when distributing the 2017 Final Dividend to the domestic corporate investors as the holders of H shares of the Company whose names appear on the register of shareholders of the Company on Saturday, 2 June 2018 provided by China Securities Depository and Clearing Corporation Limited ("**China Clearing**"), the Company shall not withhold tax on dividend for the domestic corporate investors. The tax payable shall be reported and paid by the enterprises themselves.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Tentative Measures on Withholding and Payment of Individual Income Tax (《個人所得稅代扣代繳暫行辦法》), the Shanghai-Hong Kong Stock Connect Tax Policy and other relevant laws and regulations and based on the Company's consultation with the relevant PRC tax authorities, the Company is required to withhold and pay 20% individual income tax for the Company's individual H shareholders whose names appear on the register of members of H shares of the Company (the "**Individual H Shareholders**").

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

As such, when distributing the 2017 Final Dividend to the domestic individual investors (including domestic securities investment funds) as the holders of H shares of the Company whose names appear on the register of shareholders of the Company on Saturday, 2 June 2018 provided by China Clearing, the Company shall withhold and pay individual income tax in accordance with the requirements mentioned above on behalf of the investors.

Pursuant to the Notice on Matters concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the State Administration of Tax and the letter titled "Tax arrangements on dividends paid to Hong Kong residents by Mainland companies" issued by the Stock Exchange, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax arrangements between the countries where they reside and China and the tax arrangements between mainland China and Hong Kong (Macau). The Company will identify the country of domicile of Individual H Shareholders according to their registered address on the H share register of members of the Company on Saturday, 2 June 2018 (the "**Registered Address**"). The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the Individual H Shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the Individual H Shareholders or any disputes over the withholding mechanism or arrangements. Details of arrangements are as follows:

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

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

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

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

If the domicile of an Individual H Shareholder is not the same as the Registered Address or if the Individual H Shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the Individual H Shareholder shall notify and provide relevant supporting documents to the Company on or before Saturday, 2 June 2018. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding provisions and arrangements. Individual H Shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under "Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties" (Guo Shui Fa [2015] No. 60) (《非居民納稅人享受稅收協定待遇管理辦法》國稅發[2015]60號) if they do not provide the relevant supporting documents to the Company within the time period stated above.

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of shareholders who are entitled to attend and vote at the AGM of the Company to be held on Monday, 21 May 2018, the register of members of the Company will be closed from Saturday, 21 April 2018 to Monday, 21 May 2018, both days inclusive, during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on Monday, 21 May 2018 are entitled to attend and vote at the AGM. In order for holders of H shares of the Company to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Friday, 20 April 2018 (Hong Kong time) for registration.

In order to determine the list of shareholders who are entitled to receive the Final Dividend, the register of members of the Company will be closed from Monday, 28 May 2018 to Saturday, 2 June 2018, both days inclusive, during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on Saturday, 2 June 2018 are entitled to receive the 2017 Final Dividend. In order for holders of H shares of the Company to qualify for the 2017 Final Dividend payment, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Friday, 25 May 2018 (Hong Kong time) for registration.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

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 for the year ended 31 December 2017.

COMPLIANCE WITH MODEL 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 for the year ended 31 December 2017, each of the Directors and supervisors of the Company had fully complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers.

AUDITOR

The financial figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, Certified Public Accountants ("**PricewaterhouseCoopers**"), to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by PricewaterhouseCoopers in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's 2017 annual results and the financial statements for the year ended 31 December 2017 prepared in accordance with the IFRSs.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKExnews website of the Stock Exchange at http://www.hkexnews.hk and on the website of the Company at http://www.hbyc.com.cn. The 2017 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company in due course and will be published on the websites of the Company and the Stock Exchange.

By order of the Board
Hebei Yichen Industrial Group Corporation Limited*
ZHANG Haijun
Chairman

Shijiazhuang, PRC, 22 March 2018

As at the date of this announcement, the Board comprises Mr. Zhang Haijun, Mr. Zhang Ligang, Mr. Wu Jinyu, Mr. Zhang Lihuan, Mr. Zhang Chao and Ms. Fan Xiulan as the executive Directors; and Mr. Jip Ki Chi, Mr. Wang Qi and Mr. Zhang Liguo as the independent non-executive Directors.

* *For identification purposes only*