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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNAUDITED INTERIM RESULTS

The board of directors (the "**Board**") of Hebei Yichen Industrial Group Corporation Limited (the "**Company**") is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018, together with comparative figures as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2018

	Note	**For the six months ended 30 June 2018** *RMB'000* **(Unaudited)**	2017 *RMB'000* (Restated)
Revenue	*3*	**578,339**	525,591
Cost of sales	*3*	**(393,793)**	(310,430)
Gross profit		**184,546**	215,161
Selling and distribution expenses		**(26,894)**	(24,970)
General and administrative expenses		**(26,731)**	(21,492)
Net impairment losses on financial assets		**(7,116)**	(5,920)
Other gains/(losses), net		**6,332**	(10,422)
Operating profit		**130,137**	152,357
Finance income		**628**	312
Finance costs		**(9,336)**	(10,105)
Finance costs, net		**(8,708)**	(9,793)
Share of profits of an associate		**4,875**	1,432
Profit before income tax		**126,304**	143,996
Income tax expense	*7*	**(18,153)**	(17,690)
Profit for the period		**108,151**	126,306
Attributable to:			
Equity holders of the Company		**106,929**	126,306
Non-controlling interests		**1,222**	–
		108,151	126,306
Basic and diluted earnings per share for profit attributable to equity holders of the Company for the period (RMB)	*8*	**0.12**	0.14

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Restated)
Profit for the period	**108,151**	126,306
Other comprehensive income:		
Items that may be reclassified to income statement:		
Change in fair value of available-for-sale financial assets	**–**	2,151
Total comprehensive income for the period	**108,151**	128,457
Attributable to:		
Equity holders of the Company	**106,929**	128,457
Non-controlling interests	**1,222**	–
Total comprehensive income for the period	**108,151**	128,457

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	**As at 30 June 2018** *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**297,483**	231,457
Lease prepayment for land use rights		**88,383**	134,680
Intangible assets		**90**	80
Investments in an associate		**111,883**	59,968
Deferred income tax assets		**18,097**	17,902
Other receivables and prepayments Non-current portion		**17,531**	18,084
		533,467	462,171
Current assets			
Financial assets measured at fair value through profit or loss		**145,817**	–
Available-for-sale financial assets		**–**	141,155
Inventories		**237,215**	228,431
Accounts receivable	*4*	**1,463,698**	1,293,666
Advances to suppliers		**23,831**	20,256
Other receivables and prepayments Current portion		**23,680**	22,602
Restricted cash		**80,645**	99,773
Cash and cash equivalents		**173,366**	289,832
		2,148,252	2,095,715
Total assets		**2,681,719**	2,557,886

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 30 June 2018

	Note	**As at 30 June 2018** *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Restated)
EQUITY			
Capital and reserves attributable to equity holders			
Share capital		**448,920**	448,920
Other reserves		**888,397**	898,304
Retained earnings		**416,572**	317,423
		1,753,889	1,664,647
Non-controlling interests		**72,671**	71,449
Total equity		**1,826,560**	1,736,096
LIABILITIES			
Non-current liabilities			
Bank borrowings		**10,000**	10,000
Deferred income from government grants		**6,258**	6,374
		16,258	16,374
Current liabilities			
Accounts payable	*5*	**419,887**	334,971
Contract liabilities		**6,111**	11,168
Other payables and accruals		**92,310**	94,788
Current income tax liabilities		**9,471**	7,589
Bank borrowings		**293,435**	356,900
Dividends payable	*9*	**17,687**	–
		838,901	805,416
Total liabilities		**855,159**	821,790
Total equity and liabilities		**2,681,719**	2,557,886

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Hebei Yichen Industrial Group Corporation Limited (the "**Company**"), together with its subsidiaries (collectively referred to as the "**Group**") principally engaged in the manufacturing and sale of rail fastening system products and welding materials in the People's Republic of China (the "**PRC**").

The address of the Company's registered office is No.1, Yichen North Street, Gao Cheng City, Hebei Province, the PRC.

The Company was incorporated in the PRC on 9 April 2001 and was transformed into a joint stock company on 26 November 2015 in preparation for the listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"). The equity interest of the Company was transformed into share capital of RMB336,690,000 by the 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 the shareholders' resolution dated 30 November 2015, the 336,690,000 shares shall be further sub-divided into 673,380,000 shares of RMB0.5 per share. On 21 December 2016, the Company completed its Listing by issuing 224,460,000 new shares with a nominal value of RMB0.50 per share. The Company's shares were then listed on the Main Board of the Stock Exchange.

The interim condensed consolidated financial information for the six months ended 30 June 2018 (the "**Condensed Financial Information**") is presented in thousands of Renminbi Yuan ("**RMB**") unless otherwise stated, and is approved for issue by the Board of Directors on 24 August 2018.

The Condensed Financial Information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The Condensed Financial Information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting". The Condensed Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

2.2 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017 as described in those annual financial statements except for the adoption of new and amended standards are set out below.

(a) New and amended standards adopted by the group

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

(a) IFRS 9 Financial instruments

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

The adjustments on the consolidated balance sheet as at 1 January 2018 are summarised below:

Consolidated balance sheet (extract)	**31 December 2017 as originally presented** *RMB'000*	**Effect of adoption of IFRS 9** *RMB'000*	**1 January 2018 Restated** *RMB'000*
Financial assets at fair value through profit or loss ("**FVPL**")	–	141,155	141,155
Available-for-sale financial assets	141,155	(141,155)	–
Reserves	898,304	(9,907)	888,397
Retained earnings	317,423	9,907	327,330

The Group has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate IFRS 9 categories. There were no changes to the carrying amount of the financial assets and liabilities through transition. As a result, the investment was reclassified from available for sale financial assets to financial assets at fair value through profit or loss.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group found there is no impact of the change in impairment methodology on the Group's retained earnings and equity as at 1 January 2018 after assessing the adoption of new impairment methodology.

(b) *IFRS 15 Revenue from Contracts with Customers*

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

Management has reassessed its business model and contract terms to assess the effects of applying the new standard and there is no impact on the financial statement of the Group.

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

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

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

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

(b) Impact of standards issued but not yet applied by the entity

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

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of RMB113,000. As the operating lease is ending and the management is considering to renew the lease contracts. The management expects IFRS 16 will not have significant impact on the financial position and financial performance of the Group.

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

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

(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's Executive Committee (the 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 Executive Committee conduct at least one monthly review on its internal management reports.

The management determines the reporting segments based on such report.

The Group considers its 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

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

For the six months ended 30 June 2018 (unaudited)	**Rail fastening system products** *RMB'000*	**Welding materials** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Total revenue	**494,538**	**75,101**	**8,700**	**578,339**
Inter-segment revenue	**–**	**–**	**–**	**–**
Revenue from external customers	**494,538**	**75,101**	**8,700**	**578,339**
Total cost of sales	**317,325**	**69,105**	**7,363**	**393,793**
Segment gross profit	**177,213**	**5,996**	**1,337**	**184,546**
Other profit & loss disclosure:				
Depreciation and amortization:	**5,698**	**1,322**	**3,482**	**10,502**
Provisions for/(reversal of) impairment of receivables	**7,705**	**(243)**	**(346)**	**7,116**
Finance costs, net	**–**	**–**	**8,708**	**8,708**

3 SEGMENT INFORMATION

For the six months ended 30 June 2017 (Restated)	Rail fastening system products *RMB'000*	Welding materials *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total revenue	470,842	53,024	1,725	525,591
Inter-segment revenue	–	–	–	–
Revenue from external customers	470,842	53,024	1,725	525,591
Total operating cost	259,600	49,630	1,200	310,430
Segment gross profit	211,242	3,394	525	215,161
Other profit & loss disclosure:				
Depreciation and amortization	5,708	1,310	3,549	10,567
Provisions for/(reversal of) impairment of receivables	13,587	(7,847)	180	5,920
Finance costs, net	–	–	9,793	9,793

The revenue from external parties reported to the Group's chief operating decision maker is measured in a manner consistent with that adopted for the interim condensed consolidated income statement.

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Restated)
Segment gross profit	**184,546**	215,161
Selling and distribution expenses, general and administrative expenses and finance costs, net	**(62,333)**	(56,255)
Net impairment losses on financial assets	**(7,116)**	(5,920)
Other gains/(losses), net	**6,332**	(10,422)
Share of profits of associate, net	**4,875**	1,432
Profit before income tax	**126,304**	143,996
Income tax expense	**(18,153)**	(17,690)
Profit for the period	**108,151**	126,306

For the six months ended 30 June 2018 and 2017, over 95% of the Group's revenue was generated in China.

4 ACCOUNTS RECEIVABLE

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Trade receivables, gross *(note (a))*	**1,533,303**	1,353,175
Less: provision for impairment	**(109,918)**	(102,802)
	1,423,385	1,250,373
Notes receivable *(note (b))*	**40,313**	43,293
	1,463,698	1,293,666

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

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Current to 1 year	**1,098,375**	989,142
1 year to 2 years	**318,875**	228,926
2 years to 3 years	**69,728**	92,829
Over 3 years	**46,325**	42,278
	1,533,303	1,353,175

(b) Notes receivable consisted of bank acceptance notes and trade acceptance notes with average maturity periods of within six months.

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

(d) As at 30 June 2018, the Company factored receivables of RMB31,500,000 (31 December 2017: RMB120,000,000) (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 IFRS 9 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 separately presented in "Net impairment losses on financial assets" in the interim condensed consolidated income statement.

5 ACCOUNTS PAYABLE

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Trade payables to associate and other related parties	**90,694**	50,163
Trade payables to third-parties	**267,478**	239,260
	358,172	289,423
Notes payable	**61,715**	45,548
	419,887	334,971

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

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Current to 1 year	**332,543**	252,875
1 year to 2 years	**14,169**	19,568
2 years to 3 years	**8,070**	14,264
Over 3 years	**3,390**	2,716
	358,172	289,423

6 OPERATING PROFIT

An analysis of the amounts presented as operating items in the financial information is as follows:

	For the six months ended 30 June	
	2018 *RMB'000* (Unaudited)	2017 *RMB'000* (Unaudited)
Depreciation and amortization	**10,502**	10,567
Provisions for impairments on receivables	**7,116**	5,920
Employee benefit costs	**37,729**	32,813
Government grants	**136**	4,116
Gain on disposal of property, plant and equipment	**1,666**	157

7 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**18,348**	17,884
Deferred income tax	**(195)**	(194)
	18,153	17,690

Income tax expense is recognized based on management's estimate of the annual income tax rate expected for the full financial year. 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) at 29 September 2015, and enjoyed the preferential income tax rate of 15%. As the end of June 2018, the renew application for the 2018 high-tech certificate is in progress and it is expected to be certified. Hence, the management used 15% as the tax rate for the six months ended 30 June 2018.

8 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 period.

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company	**106,929**	126,306
Weighted average number of ordinary shares in issue (thousands)	**897,840**	897,840
Basic earnings per share (RMB per share)	**0.12**	0.14

There were no potential dilutive ordinary shares for the six months ended 30 June 2017 and 2018. Diluted earnings per share were equal to basic earnings per share.

9 DIVIDENDS

The Board of Directors did not recommend any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil). The dividend of RMB17,687,448 (approximately RMB0.0197 (tax inclusive) per share) relating to the year ended 31 December 2017 was approved by the shareholders at the annual general meeting on 21 May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The Group is a leading rail fastening system provider in the PRC, with its major business focused on two segments, including 1) rail fastening systems; and 2) welding products. For the six months ended 30 June 2018, the total revenue of the Group amounted to approximately RMB578.3 million, representing a year-on-year increase of approximately 10.0%.

Rail Fastening System Products

For the six months ended 30 June 2018, the revenue from rail fastening system products amounted to approximately RMB494.5 million, representing approximately 85.5% of the Group's total revenue and approximately 5.0% increase over the revenue of approximately RMB470.8 million from this segment for the corresponding period of last year. This was mainly attributable to higher sales of rail fastening products during the period under review.

For the period under review, the cost of sales incurred by rail fastening system products grew by approximately 22.2% from approximately RMB259.6 million for the first half of 2017 to approximately RMB317.3 million for the corresponding period of 2018. The change in cost was mainly attributable to the higher price of steel as a raw material during the period under review.

There was an increase in cost for the first half year of 2018 due to the rising raw material costs of steel and most of the sales contracts generating revenue during the period were signed during or before the first half year of 2017, which could not reflect the increased raw material price. For the period, the gross profit of rail fastening system products amounted to approximately RMB177.2 million, representing approximately 16.1% decline compared with the gross profit of approximately RMB211.2 million for the corresponding period of last year. The gross profit margin of rail fastening system products fell from approximately 44.9% for the first half of 2017 to approximately 35.8% for the first half of 2018.

Subject to the decrease in the number of bids in the first half of 2018, the initial value of entering into agreements of supplying rail fastening systems was approximately RMB356 million, representing a decline of approximately 42.2% from the corresponding period of last year, with expectation to rebound in the second half of the year. Of the amount, the initial value of entering into agreements of supplying high-speed rail fastening systems amounted to approximately RMB90 million, representing a decline of approximately 78.8% compared with the corresponding period of last year; the initial value of entering into agreements of supplying heavy-haul rail fastening systems amounted to approximately RMB35 million; the initial value of entering into agreements of supplying urban transit fastening systems amounted to approximately RMB180 million; and the initial value of entering into agreements of supplying traditional rail fastening systems was approximately RMB51 million. As of 30 June, the backlog of the Group amounted to approximately RMB1,361 million (value-added tax included).

Welding Products

For the six months ended 30 June 2018, the revenue from welding products was approximately RMB75.1 million, accounting for approximately 13.0% of the Group's total revenue. Compared to the revenue of approximately RMB53.0 million for the first half of 2017, the significant increase in revenue was mainly attributable to the growing market demand for welding materials over the first half of 2018.

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

Prospects

With the rapid development of the Chinese economy and the further implementation of the "13th Five Year Plan", pursuant to the "13th Five-Year Plan for Developing the Modern Integrated Transportation System" (《"十三五"現代綜合交通運輸體系發展規劃》) issued by the State Council, the high-speed railway will cover more than 80% cities with a permanent urban population of over one million each by 2020; and the operational mileage of urban transit railways will almost double that in 2015. Also by 2020, national railways will meet 150,000 kilometers of operational mileage, 30,000 kilometers of which will be delivered by high-speed railway.

The "13th Five-Year Plan for Developing the Modern Integrated Transportation System" pointed out that

The facilitation of high-speed railway construction. Under the initiative of fast-tracking the construction of high-speed railway networks, high-speed railway corridors will linked up such as Beijing-Harbin Line, Beijing-Hong Kong-Macau Line, the Continental Bridge, Shanghai-Kunming Line and Guangzhou-Kunming Line; and work will start to construct Beijing-Hong Kong (Taipei) Line, Hohhot-Nanning Line, Beijing-Kunming Line, Baotou (Yinchuan)-Hainan Line, Qingdao-Yinchuan Line, Lanzhou (Xining)-Guangzhou Line, Beijing-Lanzhou Line and Xiamen-Chongqing Line. Such efforts will expand regional connection lines and high-speed railway coverage.

Improve the normal-speed railway network. Efforts will be made to accelerate the construction of railway lines in Central and Western China, improve the railway network of Eastern China, and conduct transformation to raise the railway speed in Northeastern China, increase the transportation capacity of regional railways, and expand railway network coverage. Efforts will also be made to construct double-track railway lines and conduct electrification works, in a bid to improve the quality of railway networks. In addition, efforts will be made to expand outbound railway lines, promote railway construction along the border and enhance the railway connection with ports, so as to realize effective connection with overseas lines at a faster pace.

Actively promote the construction of branch railway lines. Work will be done to promote the construction of local railways for development purposes, branch lines and border railway lines. More efforts will be made to effectively connect with mining areas, industrial parks, logistics parks and ports so as to bolster the support for the railway trunk network.

During the development of intercity railway networks for three major city clusters including Beijing-Tianjin-Hebei integration, the Yangze River Delta and the Pearl River Delta, the emphasis shall be placed on reinforcing intercity railway construction and enhancing the efficient connection between railway trunks and intercity railways and urban rail transit routes.

For the second half of 2018, the Group will continue to accelerate the construction of its new plant area. Leveraging on its extensive industry experience and during the great strides of Chinese railway development, the Group will seize the massive business opportunities and continue to increase its market share in other areas while focusing on high-speed rail fastening systems. The Group will also closely follow the dynamics of Chinese railway development and continue to solidify its customer base and its leading position in the industry of rail fastening systems.

Looking ahead, the Group will capture the growing opportunities in the railway construction industry, strive to enhance its core competitiveness and profitability, provide professional railway products and services, and seek for merger and acquisition opportunities in the railway industry, so as to contribute to the safe and efficient operation of Chinese railway systems.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's main business operations comprise the manufacturing and sales of rail fastening systems and welding materials. The above business has brought sustained and stable revenue to the Group. Revenue of the Group increased to approximately RMB578.3 million in the first half of 2018 from approximately RMB525.6 million in the first half of 2017, mainly attributable to the increase in revenue from rail fastening systems products and welding material products.

Revenue generated from rail fastening system products grew approximately by 5.0% to approximately RMB494.5 million in the first half of 2018 from approximately RMB470.8 million in the first half of 2017, which was mainly attributable to higher sales of rail fastening system products.

Revenue generated from welding materials increased by approximately 41.6% to approximately RMB75.1 million in the first half of 2018 from approximately RMB53.0 million in the corresponding period of 2017, which was mainly attributable to the increase in market demand for welding materials during the first half of 2018. Apart from the revenue generated from selling rail fastening system products and welding materials, the Group also generated other operating revenue mainly from the sales of raw materials and product processing services.

Cost of Sales

The Group's cost of sales increased by approximately 26.9% to approximately RMB393.8 million in the first half of 2018 from approximately RMB310.4 million in the first half of 2017, which was mainly attributable to the rising raw material costs of steel.

Cost of sales incurred by rail fastening system products increased by approximately 22.2% to approximately RMB317.3 million in the first half of 2018 from approximately RMB259.6 million in the first half in 2017, which was mainly attributable to the higher cost of raw materials.

Cost of sales incurred by welding products increased by approximately 39.2% to approximately RMB69.1 million in the first half of 2018 from approximately RMB49.6 million in the same period of 2017, mainly attributable to an increase in the sales revenue of welding material products which led to higher cost of sales.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB184.5 million from January to June 2018, representing a decrease of approximately 14.2% from the gross profit of approximately RMB215.2 million recorded for the corresponding period in 2017, which was mainly attributable to (i) an increase in cost of sales caused by the increased price of raw materials; and (ii) the sales contracts for the period were mostly signed during or before the first half of 2017 and at relatively low unit pricing.

Gross profit of rail fastening system products decreased by approximately 16.1% to approximately RMB177.2 million in the first half of 2018 from approximately RMB211.2 million in the corresponding period of 2017. Gross profit margin of rail fastening system products decreased to approximately 35.8% in the first half of 2018 from approximately 44.9% in the first half of 2017, which mainly resulted from the higher price of steel as a principal raw material.

Gross profit of welding products climbed by approximately 76.7% to approximately RMB6.0 million in the first half of 2018 from approximately RMB3.4 million in the corresponding period of 2017. Gross profit margin grew to approximately 8.0% in the first half of 2018 from approximately 6.4% in the first half of 2017, which mainly resulted from a price increase in welding material products.

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased to approximately RMB26.9 million for the first half year of 2018 from approximately RMB25.0 million recorded for the corresponding period in 2017. For the six months ended 30 June 2018 and 2017, selling and distribution expenses as a percentage of total revenue were approximately 4.7% and approximately 4.8%, respectively. Higher selling and distribution expenses were mainly led by the increase in transportation expenses, royalty fee, and staff remuneration and benefit costs.

General and Administrative Expenses

General and administrative expenses of the Group increased to approximately RMB26.7 million for the first half year of 2018 from approximately RMB21.5 million which has been restated for the corresponding period in 2017, is mainly due to the increase in service fees and employee remuneration. Due to the consequential disclosure requirements following the adoption of the new IFRS9 from 1 January 2018, the Group has separately presented the impairment losses of receivables of RMB7.1 million incurred in the first half year of 2018, which has been included in "General and administrative expenses" before, as "Net impairment losses on financial assets" in the interim condensed consolidated income statement and restated the comparative figure (The first half year of 2017: RMB5.9 million).

Operating Profit

Based on the aforesaid reasons, the Group recorded an operating profit of approximately RMB130.1 million for the first half year of 2018, representing a decline of approximately 14.6% from approximately RMB152.4 million in the corresponding period of January to June in 2017, which was mainly attributable to higher cost of sales of rail fastening systems products.

Share of profits of an associate

For the first half year of 2018, the Group's share of profits of an associate was approximately RMB4.9 million, representing an increase of approximately RMB3.5 million from the corresponding period in 2017. This was mainly attributable to the capital increase in the associate Tieke Yichen during the period, which equipped the Company with an expanded scale, greater competitiveness in tendering activities and higher efficiency.

Finance Costs, Net

For the first half year of 2018, the Group incurred total finance cost of approximately RMB8.7 million, as compared to approximately RMB9.8 million incurred for first half year of 2017. The decrease in finance costs is mainly due to (i) decrease of interest expense and bank charges resulted from the reduction of borrowings scale and (ii) the slightly increase of interest income.

Foreign Exchange Losses

For the first half year of 2018, the Group realized foreign exchange losses of approximately RMB0.1 million, which decreased approximately RMB11.7 million compared with that recorded for the corresponding period in 2017. The foreign exchange losses were mainly derived from the process of converting Hong Kong dollar to RMB for the proceeds obtained from the listing of the Company. Due to the decline of amount of Hong Kong dollars held by the Group and the slight rise in the HKD exchange rate against RMB as of 30 June 2018, the exchange loss for the period has a decrease.

Income Tax Expense

Income tax expense of the Group increased to approximately RMB18.2 million for the first half year of 2018 from approximately RMB17.7 million in the corresponding period of 2017, which was mainly attributable to a decrease in the additional deduction of research and development expenses, which resulted in an increase of taxable income for the period.

Net Profit

Based on the aforesaid reasons, net profit decreased by approximately 14.4% to approximately RMB108.2 million for the period ended 30 June 2018, from approximately RMB126.3 million for the period ended 30 June 2017. Net profit margin declined from 24.0% for the period ended 30 June 2017 to 18.7% for the period ended 30 June 2018.

Profit Attributable to Equity Holders of the Company

For the first half year of 2018, the Group recorded a profit attributable to equity holders of the Company of approximately RMB106.9 million, representing a decrease of 15.3% from approximately RMB126.3 million for the same period of 2017. For the first half of 2018, basic earnings per share amounted to approximately RMB0.12, representing a decline of approximately 14.3% from the basic earnings of approximately RMB0.14 per share for the same period of 2017. The decrease in profit attributable to equity holders of the Company was mainly due to the decrease in net profit of the Group in the first half year of 2018.

Total Assets

As at 30 June 2018, the total assets of the Group were approximately RMB2,681.7 million, representing an increase of approximately 4.8% from approximately RMB2,557.9 million as at 31 December 2017. This was mainly because of (i) the increase in accounts receivable due to higher income, and (ii) the increase in construction in progress for the construction of the new factory.

Total Liabilities

As at 30 June 2018, the total liabilities of the Group were approximately RMB855.2 million, representing an increase of approximately RMB33.4 million or approximately 4.1% from that as at 31 December 2017. This was mainly due to (i) the increase in current income tax liabilities, and (ii) the increase in accounts payable for the purchase of raw materials.

Total Equity

As at 30 June 2018, the total equity of the Group was approximately RMB1,826.6 million, representing an increase of approximately RMB90.5 million from that as at 31 December 2017, 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 2018, the Group's gearing ratio was 6.7%, representing an increase of 2.4 percentage points from 4.3% as at 31 December 2017, mainly because of the decrease in cash and cash equivalents.

EVENTS AFTER BALANCE SHEET DATE

The Group has no significant subsequent events occurred after the balance sheet date.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2018, the Group had a total of 1,090 employees (30 June 2017: 1,083). The Group incurred total staff costs of approximately RMB37.7 million for the first half year of 2018, representing an increase of approximately RMB4.9 million as compared with RMB32.8 million recorded for the corresponding period in 2017, which was mainly attributable to (i) the increase in employees of the Group; (ii) a larger provision base for social insurance and housing fund; and (iii) the Group's increase of the basic salary for some key employees of the Group (excluding the directors and supervisors) in May 2018.

PURCHASE, REDEMPTION OR SALE 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 2018.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 2018, each of them had fully complied with the required standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers".

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange of Hong Kong Limited (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 2018.

AUDIT COMMITTEE

The interim condensed consolidated financial information is unaudited but has been reviewed by the external auditor of the Company.

The audit committee of the Company has reviewed the Group's unaudited interim condensed consolidated results and interim report during the six months ended 30 June 2018 prepared in accordance with the IFRS and agreed to the accounting principles and practices adopted by the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 2018 interim 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, 24 August 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 purpose only*