HEBEI YICHEN INDUSTRIAL GROUP CORPORATION LIMITED*

河北翼辰實業集團股份有限公司

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

Stock Code : 1596

INTERIM REPORT 2019

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

SUPERVISORY BOARD

Mr. Zhang Xiaosuo *(Chairman)**
Ms. Liu Jiao*
Mr. Hu Hebin
Mr. Guan En+
Mr. Liu Jianbin+

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

* Resigned on 29 July 2019
\+ Appointed on 29 July 2019

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

STRATEGY COMMITTEE

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

JOINT COMPANY SECRETARIES

Ms. Lo Yee Har Susan (FCS (PE), FCIS)
Mr. Zhang Chao

AUTHORIZED REPRESENTATIVES

Mr. Zhang Haijun
Ms. Lo Yee Har Susan

ALTERNATES TO THE AUTHORIZED REPRESENTATIVES

Ms. Fan Xiulan
Mr. Zhang Chao

AUDITOR

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

HONG KONG LEGAL ADVISER

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

PRC LEGAL ADVISER

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

REGISTERED OFFICE AND HEADQUARTERS

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

ADDITIONAL REGISTERED ADDRESS

No. 268 Lianzhou East Road
Gaocheng District
Shijiazhuang City
Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

1596

COMPANY WEBSITE

http://www.hbyc.com.cn

INVESTOR AND MEDIA RELATIONS CONSULTANT

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

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited) (Restated)
I. Total operating income	1	**447,330**	578,339
II. Total operating cost		**375,028**	455,494
Including: cost of sales	1	**304,102**	360,246
Taxes and surcharges		**2,308**	6,419
Selling expenses		**23,645**	26,873
General and administrative expenses		**24,622**	25,673
Research and development expense		**16,091**	27,507
Finance costs	2	**4,260**	8,776
Including: Finance costs		**3,159**	9,153
Interest income		**230**	630
Add: other income		**317**	136
Investment profits		**19,758**	4,875
Including: Gains on investments in associates and joint ventures		**19,758**	4,875
Gain from change in fair value		**730**	4,662
Loss on credit impairment	3	**3,531**	(7,815)
Impairment loss of assets	4	**(1,527)**	
Gains on disposal of assets			1,654
III. Operating profits		**95,111**	126,357
Add: Non-operating incomes		**40**	47
Less: Non-operating expenses			100
IV. Total profit		**95,151**	126,304
Less: Income tax expenses	5	**10,927**	18,153

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited) (Restated)
V. Net profit		**84,224**	108,151
(I) Classified according to continuity:			
1. Net profit from continuing operations		**84,224**	108,151
2. Net profit from discontinued operations			
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent		**83,049**	106,929
2. Profit and loss of minority interests		**1,175**	1,222
VI. Other comprehensive income after tax, net		**–**	–
Other comprehensive income after tax attributable to owners of the parent, net		**–**	–
(I) Other comprehensive income which cannot be subsequently reclassified to profit or loss			
(II) Other comprehensive income which will be subsequently reclassified to profit or loss			
1. Profits and losses from change in fair value of AFS financial assets			
2. Differences on translation of foreign currency financial statements			
3. Others			
VII. Total other comprehensive income		**84,224**	108,151
Total comprehensive income attributable to owners of the parent		**83,049**	106,929
Total comprehensive income attributable to minority interests		**1,175**	1,222
VIII. Earnings per share:			
Basic earnings per share (RMB)		**0.09**	0.12
Diluted earnings per share (RMB)		**0.09**	0.12

CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited) (Restated)
Current assets			
Monetary capital		**212,164**	182,042
Financial assets at fair value through profit or loss for the current period			128,770
Notes receivables	6	**23,528**	14,692
Accounts receivables	7	**1,095,491**	1,261,114
Prepayments		**87,053**	36,879
Other receivables		**21,077**	18,009
Inventories		**352,581**	280,439
Other current assets		**15,109**	8,226
Total current assets		**1,807,003**	1,930,171
Non-current assets			
Long term equity investments	8	**145,131**	125,373
Fixed assets	9	**112,354**	92,092
Construction in progress	10	**304,516**	257,044
Right-of-use assets		**1,387**	
Intangible assets	11	**91,980**	87,503
Goodwill		**113,677**	
Deferred income tax assets		**18,210**	18,346
Other non-current assets		**17,174**	6,918
Total non-current assets		**804,429**	587,276
Total assets		**2,611,432**	2,517,447

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited) (Restated)
Current liabilities			
Short-term borrowings	12	**70,009**	94,810
Bills payable		**30,000**	63,276
Accounts payable	13	**375,615**	344,021
Contract liabilities		**6,208**	3,605
Payroll payable		**5,362**	5,530
Tax payable		**4,017**	12,885
Other payables		**47,164**	60,033
Non-current liabilities due within one year	14	**11,002**	
Total current liabilities		**549,377**	584,160
Non-current liabilities			
Long-term borrowings	15	**70,000**	30,000
Lease liabilities		**899**	
Other non-current liabilities		**5,525**	5,641
Total non-current liabilities		**76,424**	35,641
Total liabilities		**625,801**	619,801
Owner's equity			
Share capital	16	**448,920**	448,920
Capital reserve		**830,651**	830,651
Surplus reserve		**75,365**	75,365
Undistributed profits		**555,242**	472,193
Total equity attributable to owners of the parent		**1,910,178**	1,827,129
Minority interests		**75,453**	70,517
Total owner's equity		**1,985,631**	1,897,646
Total liabilities and owner's equity		**2,611,432**	2,517,447

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
			(Restated)
I.	**Cash flows from operating activities**		
	Cash received from sales of goods or rendering of labor service	**553,649**	366,638
	Refund of taxes	**77**	33
	Other cash received from other operating-related activities	**471**	22,457
	Subtotal of cash inflows from operating activities	**554,197**	389,128
	Cash paid to goods purchased and labor service received	**367,830**	234,579
	Cash paid to and for employees	**42,710**	39,228
	Payments of taxes and surcharges	**23,728**	46,646
	Other cash payment relating to operating activities	**43,532**	16,840
	Subtotal of cash outflows for operating activities	**477,800**	337,293
	Net cash flows from operating activities	**76,397**	51,835
II.	**Cash flows from investing activities**		
	Cash from disinvestments		
	Cash received from return of investments		
	Disposal of fixed assets, intangible assets and other long-term assets		40
	Cash received relating to other investing activities		
	Subtotal of cash inflows from investing activities		40
	Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	**66,072**	76,410
	Cash paid for investment		40
	Net cash paid for acquisition of subsidiaries and other business units	**10,423**	
	Other cash payment relating to investing activities		
	Subtotal of cash outflows for investing activities	**76,495**	76,450
	Net cash flows from investing activities	**(76,495)**	(76,410)

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
III. Cash flows from financing activities		
Cash received from borrowings	**90,000**	88,435
Cash received relating to other financing activities	**9**	
Subtotal of cash inflows from financing activities	**90,009**	88,435
Cash paid for repayments of debts	**64,810**	151,900
Cash paid for distributions of dividends, profits or interest	**26,060**	28,359
Other cash payment relating to financing activities		
Subtotal of cash outflows for financing activities	**90,870**	180,259
Net cash flows from financing activities	**(861)**	(91,824)
IV. Effect of changes in foreign exchange rates on cash and cash equivalents	**(404)**	(67)
V. Net increase in cash and cash equivalents	**(1,363)**	(116,466)
Add: Opening balance of cash and cash equivalents	**150,110**	289,832
VI. Closing balance of cash and cash equivalents	**148,747**	173,366

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Items	For the six months ended 30 June 2019 Equity attributable to owners of the parent Share capital RMB'000 (Unaudited)	Share reserve RMB'000 (Unaudited)	Other comprehensive income RMB'000 (Unaudited)	Surplus reserve RMB'000 (Unaudited)	Undistributed profits RMB'000 (Unaudited)	Minority interests RMB'000 (Unaudited)	Total owners' equity RMB'000 (Unaudited)
Closing balance of the previous year	448,920	830,651	–	75,365	472,193	70,517	1,897,646
Opening balance of the current year	448,920	830,651	–	75,365	472,193	70,517	1,897,646
Change in increase or decrease of the current period					83,049	4,936	87,985
(I) Total comprehensive income					83,049	1,175	84,224
(II) Capital invested and decreased by owners						3,761	3,761
(III) Profit distribution							
Appropriation to surplus reserve							
Distribution to owners (or shareholders)							
(IV) Closing balance of the period	448,920	830,651	–	75,365	555,242	75,453	1,985,631

Items	For the six months ended 30 June 2018 Equity attributable to owners of the parent Share capital RMB'000 (Unaudited)	Share reserve RMB'000 (Unaudited)	Other comprehensive income RMB'000 (Unaudited)	Surplus reserve RMB'000 (Unaudited)	Undistributed profits RMB'000 (Unaudited)	Minority interests RMB'000 (Unaudited)	Total owners' equity RMB'000 (Unaudited)
Closing balance of the previous year	448,920	830,651	9,907	57,746	317,423	71,449	1,736,096
Add: Changes in accounting policies			(9,907)		9,907		
Opening balance of current year	448,920	830,651		57,746	327,330	71,449	1,736,096
Change in increase or decrease of the current period					89,242	1,222	90,464
(I) Total comprehensive income					106,929	1,222	108,151
(II) Capital invested and decreased by owners							
(III) Profit distribution					(17,687)		(17,687)
Appropriation to surplus reserve							
Distribution to owners (or shareholders)					(17,687)		(17,687)
(IV) Closing balance of the period	448,920	830,651	–	57,746	416,572	72,671	1,826,560

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**") is principally engaged in manufacturing and sales of rail fastening system products and flux cored wire products in the People's Republic of China (the "**PRC**").

The address of the Company's registered office is No.1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, the PRC and No. 268 Lianzhou East Road, Gaocheng District, Shijiazhuang City, Hebei Province, the PRC.

The Company was incorporated in the PRC on 9 April 2001, and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 21 December 2016. The existing share capital of the Company is RMB448,920,000 and total number of shares is 897,840,000 with nominal value of RMB0.50 per share.

This interim condensed consolidated financial information for the six months ended 30 June 2019 (the "**Condensed Financial Information**") is presented in thousands of Renminbi ("**RMB**"), unless otherwise stated, and is approved for issue by the Board of Directors on 29 August 2019.

This Condensed Financial Information has not been audited.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The unaudited interim financial statements of the Group are prepared based on the going concern and actual transaction and events according to the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and other relevant regulations (hereinafter collectively referred to as "**PRC Accounting Standards**"), as well as disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Hong Kong Companies Ordinance, and based on the accounting policies and estimates applicable to the Group.

This interim result has not been audited by the auditor of the Company, but has been reviewed by the audit committee of the Company.

The Group used to apply the applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and requirements of the Hong Kong Companies Ordinance for preparation. Besides, according to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010, with effect from this financial year, the Group decided to prepare financial statements in accordance with the PRC Accounting Standards issued by the Ministry of Finance of the PRC. The adoption of the PRC Accounting Standards has been applied retrospectively and the comparative financial information of the balance sheet as at 31 December 2018 and the income statement, cash flow statement, statement of changes in equity from January to June 2018 are converted to present and disclose in accordance with the format of financial statements for enterprises of the PRC Accounting Standards. As the PRC Accounting Standards for Business Enterprises and the International Accounting Standards converge, there is no significant difference between the PRC Accounting Standards commenced in 2019 and the International Accounting Policy adopted in the annual financial statements disclosed as at 31 December 2018.

(2) Evaluation on ability of continuing operation

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

The financial statements prepared by the Company comply with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, which truly and completely reflect the information on the financial conditions, operating results and cash flow of the Company. In addition, the financial statements of the Group comply with the disclosure requirements of the Hong Kong Companies Ordinance and the Hong Kong Listing Rules in all material aspects.

(2) Accounting period

The fiscal year is from 1 January to 31 December of the Gregorian calendar. The reporting period is from January to June 2019.

(3) Operating cycle

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

(4) Functional currency

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

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

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

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

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

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

(6) Preparation of consolidated financial statements

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

(7) Standards for determination of cash and cash equivalents

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

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

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

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

2. Translation of financial statements in foreign currency

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

(9) Financial instruments

1. Classification of financial assets and financial liabilities

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(9) Financial instruments *(Continued)*

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

(2) *Subsequent measurement of financial assets*

1) Financial assets measured at amortized cost

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

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

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

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

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

4) Financial assets at fair value through profit or loss

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

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

(9) Financial instruments *(Continued)*

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

(3) Subsequent measurement of financial liabilities

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

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

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

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

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

4) Financial liabilities measured at amortised cost

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(9) Financial instruments *(Continued)*

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

(4) Derecognition of financial assets and financial liabilities

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

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

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

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

3. Recognition and measurement of transfer of financial assets

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

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

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

(9) Financial instruments *(Continued)*

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

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

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

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

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

5. Impairment of financial instruments

(1) Impairment measurement and accounting treatment of financial instruments

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(9) Financial instruments *(Continued)*

5. *Impairment of financial instruments* (Continued)

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

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

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

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

In assessing whether there has been a significant increase in the credit risk, the following are taken into consideration by the Company:

1) Whether contractual payments are past due more than 30 days (inclusive). If they are more than 30 days past due, the credit risk on the financial instrument is determined to have increased significantly, unless reasonable and supportable information is obtained without involving undue cost or effort, to demonstrate that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

2) Whether there has been any change in the measures of the Company for credit management of financial instruments.

3) Whether there has been any significant change in expected performance and repayment behavior of debtors.

4) Whether there has been any actual or expected significant change in results of operations of debtors.

5) Whether there has been any significant adverse change in regulatory, economic or technical environment in which debtors operate.

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

(9) Financial instruments *(Continued)*

5. *Impairment of financial instruments* *(Continued)*

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

6) Whether there has been any adverse change in business, financial, or economic conditions which is expected to result in a significant change in the ability of debtors to repay debts.

7) Whether there has been any significant change in internal price indicators arising out of credit risk change.

8) Whether there will be a significant change in the interest rate or other terms of an existing financial instrument, if the financial instrument is originated or issued as a new financial instrument on the date of this report.

9) Whether there has been any significant change in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Such indicators include credit spread, credit default swap prices for borrowers, the length of time and extent to which the fair value has been less than amortised cost, and other market information related to the borrowers (such as change in prices of debt or equity instruments of borrowers).

10) Whether there has been any actual or expected significant change in the external credit rating of a financial instrument.

11) Whether there has been a downgrade in the actual or expected internal credit rating of a debtor.

12) Whether there has been a significant increase in the credit risk on other financial instruments issued by a particular debtor.

13) Whether there has been a significant change in the value of a collateral for a debt, or a guarantee provided by a third party, or credit enhancement quality.

14) Whether there has been a significant change which is expected to reduce the economic incentive of a borrower to repay a debt as scheduled in a contract.

15) Whether expected changes in a loan contract, including expected breach of the contract, may result in a release or amendment of contractual obligations, an offer of an interest-free period, interest rate increase, a call for additional collateral or guarantee, or other changes in a contract framework of financial instruments.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(9) Financial instruments *(Continued)*

5. Impairment of financial instruments (Continued)

(2) Financial instruments with expected credit risk assessment and expected credit loss measurement on a group basis

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

(3) Receivables and contract assets for which expected credit losses are measured on a group basis

1) Specific group and expected credit loss measurement approach

Items	Grouping basis	Expected credit loss measurement approach
Notes receivable – bank acceptance notes	Characteristics of the bank acceptance agreement	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate
Notes receivable – trade acceptance notes	Characteristics of trade acceptance notes and grouping by age	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the ageing of accounts receivable and lifetime expected credit loss rate
Accounts receivable – by credit risk characteristics	Grouping by age	A reconciliation table of the age of accounts receivable and the lifetime expected credit losses is prepared to calculate the expected credit loss, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions
Accounts receivable – group of related parties within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate

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

(9) Financial instruments *(Continued)*

5. *Impairment of financial instruments (Continued)*

(3) Receivables and contract assets for which expected credit losses are measured on a group basis (Continued)

2) Reconciliation table of the age of the group of notes receivable – trade acceptance notes and accounts receivable – by credit risk characteristics and the lifetime expected credit loss

Ageing	Expected credit loss rate of accounts receivable (%)
Within 1 year (inclusive, same below)	2.00
1 to 2 years	10.00
2 to 3 years	30.00
3 to 4 years	50.00
4 to 5 years	80.00
Over 5 years	100.00

6. *Offset of financial assets and financial liabilities*

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(10) Inventories

1. *Categories of inventories*

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

2. *Accounting method for dispatching inventories*

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

3. *Basis for determining net realisable value*

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

4. *Inventory system*

   Perpetual inventory method is adopted.

5. *Amortisation method of low-value consumables and packages*

   (1) *Low-value consumables*

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

   (2) *Packages*

   Packages are amortised in full when received for use.

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

(11) Contract costs

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

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

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

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

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

3. Such costs are expected to be recovered.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(12) Long-term equity investments

1. Judgement on joint control and significant effects

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

2. Determination of investment cost

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

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

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

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

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

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

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

(12) Long-term equity investments *(Continued)*

2. *Determination of investment cost* *(Continued)*

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

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

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

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

(1) Separate financial statements

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

(2) Consolidated financial statements

1) For the disposal of investment in a subsidiary to loss of control in stages through various transactions that are not categorized as "package deal", prior to the loss of control, the capital reserve (capital premium) is adjusted with the difference between the consideration of the disposal and the entitled share of the net assets of the subsidiary that would have been entitled to by the disposed long-term equity investment and continuously accounted for from the acquisition date or combination date. If the balance of the capital premium is insufficient for the set-off, then the retained earnings will be set off accordingly.

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

2) For the disposal of investment in a subsidiary until loss of control in stages through various transactions that are categorized as "package deal", the transactions are treated as one single transaction of disposal of a subsidiary and loss of control. However, prior to the loss of control, the difference between each of the consideration of disposal and the share of net assets of that subsidiary that would have been entitled to by the disposed investment is recognised as other comprehensive income in the consolidated financial statements and transferred to profit or loss for the period covering when the control is lost.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(13) Fixed assets

1. *Recognition criteria of fixed assets*

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year, and are measured at the actual cost incurred until they are ready for intended use.

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

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

(14) Construction in progress

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

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

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

(15) Borrowing costs

1. *Recognition principles on capitalisation of borrowing costs*

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

2. *Capitalisation period of borrowing costs*

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

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

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

3. *Capitalisation rate and amount of borrowing costs*

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(16) Intangible assets

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

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

Item	Estimated useful life (year)
Land use rights	50
Software	5

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

(17) Partial long-term asset impairment

For long-term assets such as long-term equity investment, investment properties measured under the cost model, fixed assets, construction in progress and intangible assets with definite useful lives, when there is evidence at the balance sheet date that the assets are impaired, the recoverable amounts are estimated. For goodwill arising from business combination and with uncertain useful life, whether there is evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group combination.

If the recoverable amounts of the abovementioned long-term assets are lower than their carrying amounts, the differences are recognised as provision for asset impairment and recorded in current profit or loss.

(18) Long-term deferred expenses

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

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

(19) Employee benefits

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

2. *Accounting treatment of short-term remuneration*

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

3. *Accounting treatment of post-employment benefits*

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

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

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

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

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

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

4. *Accounting treatment of termination benefits*

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(19) Employee benefits *(Continued)*

5. Accounting treatment of other long-term employee benefits

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

(20) Provision for liabilities

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

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

(21) Revenue

1. Principles on recognition of revenue

The Company shall determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

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

For each performance obligation satisfied over time, the Company shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The Company may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. Under those circumstances, the entity shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation. The Company shall recognise revenue when the Company satisfies a performance obligation at a point in time by transferring a promised good or service to a customer and customer obtains control of a promised asset. The Company shall consider indicators of the transfer of control, which include the following: (1) the Company has a present right to receive the payment, i.e. a customer has a present right to payment for the asset; (2) the Company has transferred the legal title of the goods to the customer, i.e. the customer already owns the legal title of the goods. (3) the Company has transferred physical possession of the asset, i.e. the customer has possessed the goods; (4) the Company has transferred significant risks and rewards of ownership of an asset to the customer, i.e. the customer has the significant risks and rewards of ownership of the asset; (5) the customer has accepted the goods; (6) other indications that the customer has obtained control of goods.

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

(21) Revenue *(Continued)*

2. Principles on the measurement of revenue

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

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

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

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

3. Specific methods for revenue recognition

Revenue recognition at a point in time

The Company sells products like railway fasteners and welding materials and etc., and fulfill its performance obligations. The recognition of the revenue from the domestic sales of products should meet the following conditions: the Company has transported the products to the project sites based on contract and the project construction unit has signed for receipt and the amount of product sales revenue has been determined, the payment has been recovered or the receipt of goods has been obtained; the relevant economic benefits are likely to flow in, the relevant cost of the goods can be reliably measured. The recognition of the revenue of the exported products should meet the following conditions: the Company has declared and discharged the goods according to the contract, obtained the bill of lading and the amount of product sales revenue has been determined, has recovered the payment or obtained the receipt certificate and the relevant economic benefits are likely to flow in, and the relevant cost of the goods can be reliably measured.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(22) Government Grants

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

(1) Judgment basis and accounting treatment on the government grants relating to assets

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

(2) Judgment basis and accounting treatment on the government grants relating to revenue

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

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

(4) Accounting treatment of interest subsidies for policy-related preferential loans

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

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

(23) Deferred income tax assets and deferred income tax liabilities

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

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

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

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

(24) Lease

Accounting treatment for operating leases

When the company acts as a lessee, on the commencement date of the lease term, the Company recognises the right-of-use assets and lease liabilities for leases, except for short-term leases and low value asset leases.

When the company acts as a lessor, during each period of the lease term, the Company recognises the lease receivables of operating leases as rental income using the straight-line method or other scientific and reasonable methods.

(25) Segment Reporting

The Company determines the operating segments on the basis of the internal organisational structure, management requirements and internal reporting system. The operating segments of the Company refer to the component that meets all of the following conditions:

1. The component is able to generate income and incur expenses in daily activities;

2. The management is able to regularly evaluate the operating results of the segment to determine the allocation of resources and assess its performance;

3. The financial position, operating results, cash flow and other relevant accounting information of the segment can be obtained through analysis.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(26) Significant accounting judgements and estimates

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

Key sources of estimation uncertainty are as follows:

1. *Recognition of deferred tax assets*

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

2. *Impairment of financial instruments and contract assets*

As per financial instruments prescribed in note III to these financial statements, based on expected credit losses, the Company accounts for the impairment of, and recognizes provisions for losses on, financial assets (notes receivable and accounts receivable, other receivables, debt investments, long-term receivables) amortized at costs.

3. *Provision for impairment of inventories*

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

4. *Impairment of long-term assets*

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

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

(27) Changes in significant accounting policies and accounting estimates

1. Changes in significant accounting policies

Changes in accounting policies caused by changes in Accounting Standards for Business Enterprises

The Company has implemented the Accounting Standards for Business Enterprises 21 – Lease (hereinafter referred to as the New Lease Standards) as amended by the Ministry of Finance since 1 January 2019. Pursuant to the transitional requirements of the New Lease Standards, a company can choose to adjust the retained earnings and the amounts of other related items in the financial statement at the beginning of the year of the initial implementation of the New Lease Standards based on the cumulative impact figure of the initial implementation of the New Lease Standards, without adjusting the information of the comparable period. In respect of the operating lease of the Company before the date of initial implementation, the leasee should measure the lease liability at the present value of the remaining lease payments, discounted using the leasee's incremental borrowing rate at the date of initial implementation, as well as measure right-of-use assets under each lease as required. The weighted average incremental borrowing rate applied to the operating lease of the Company on 1 January 2019 was 5.7%.

The reconciliation of operating lease commitments to lease liabilities is set out below: (RMB'000)

Operating lease commitments as at 31 December 2018	1,995
Short-term lease	15
Discounting effect	131
Lease liabilities as at 1 January 2019	1,849

Set out below is the main impact of the implementation of the New Lease Standards on the financial statements of the Company as at 1 January 2019:

Items	31 December 2018 RMB'000	Balance Sheet Impact of adjustment of New Lease Standards RMB'000	**1 January 2019 RMB'000**
Assets:			
Right-of-use assets	–	1,849	**1,849**
Liabilities:			
Non-current liabilities due within one year	–	950	**950**
Lease liabilities	–	899	**899**

Other than the adoption of the Accounting Standards for Business Enterprises 21 – Lease, other new and amended Accounting Standards for Business Enterprises have no material impact on the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Revenue/cost of sales

Breakdown

Items	January to June 2019		January to June 2018 (Restated)	
	Revenue RMB'000	**Cost RMB'000**	Revenue RMB'000	Cost RMB'000
Revenue from principal business	**441,347**	**299,283**	569,638	352,883
Other operating revenue	**5,983**	**4,819**	8,700	7,363
Total	**447,330**	**304,102**	578,339	360,246

2. Finance costs

Breakdown

Items	**January to June 2019 RMB'000**	January to June 2018 RMB'000
Interest expense	**3,159**	9,153
Including: Interest cost of lease liabilities	**52**	
Less: Interest income	**(230)**	(630)
Combined loss	**404**	67
Handling charges and other expenses	**927**	186
Total	**4,260**	8,776

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

3. Loss on credit impairment

Breakdown

Items	January to June 2019 RMB'000	January to June 2018 RMB'000
Loss on bad debts	**3,531**	(7,815)
Total	**3,531**	(7,815)

4. Impairment loss of assets

Breakdown

Items	January to June 2019 RMB'000	January to June 2018 RMB'000
Impairment loss on inventories	**(1,527)**	
Total	**(1,527)**	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

5. Income tax expenses

Breakdown

Items	January to June 2019 RMB'000	January to June 2018 RMB'000
Income tax expenses for the period	**10,738**	18,348
Deferred income tax expenses	**189**	(195)
Total	**10,927**	18,153

6. Notes receivable

Breakdown

Category	30 June 2019				
	Book balance		Provision for bad debts		Book value
	Amount RMB'000	Proportion (%)	Amount RMB'000	Percentage of provision (%)	RMB'000
Provision for bad debts made individually					
Including: Bank acceptance notes					
Trade acceptance notes					
Provision for bad debts made as per portfolio					
Including: Bank acceptance notes	20,873	88.08			20,873
Trade acceptance notes	2,824	11.92	169	5.99	2,655
Total	23,697	100.00	169	0.71	23,528

(Continued)

Items	31 December 2018		
	Book balance RMB'000	Provision for bad debts RMB'000	Book value RMB'000
Bank acceptance notes	5,833		5,833
Trade acceptance notes	8,859		8,859
Sub-total	14,692		14,692

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

7. Accounts receivable

(1) Breakdown

Category	30 June 2019				
	Book balance		Provision for bad debts		Book value
	Amount RMB'000	Proportion (%)	Amount RMB'000	Percentage of provision (%)	RMB'000
Provision for bad debts made individually	8,315	0.70	8,315	100.00	
Provision for bad debts made as per portfolio	1,186,841	99.30	91,350	7.70	1,095,491
Total	1,195,156	100.00	99,665	8.34	1,095,491

Category	31 December 2018				
	Book balance		Provision for bad debts		Book value
	Amount RMB'000	Proportion (%)	Amount RMB'000	Percentage of provision (%)	RMB'000
Provision for bad debts by credit risk characteristics group	1,356,639	99.36	95,525	7.04	1,261,114
Insignificant single amount but provision for bad debts made individually	8,687	0.64	8,687	100.00	
Total	1,365,326	100.00	104,212	7.63	1,261,114

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

7. Accounts receivable *(Continued)*

(2) Ageing analysis

Ageing	30 June 2019 Book balance RMB'000	Provision for bad debts RMB'000	Book value RMB'000
Within 1 year (inclusive, same below)	950,804	19,016	2.00
1 to 2 years	118,974	11,897	10.00
2 to 3 years	50,301	15,090	30.00
3 to 4 years	38,921	19,737	50.71
4 to 5 years	12,911	10,680	82.72
Over 5 years	23,245	23,245	100.00
Total	1,195,156	99,665	8.34

Trade receivables are analyzed on the basis of the year when amounts are actually recorded, and the settlement to such amount will be prioritized in terms of capital turnover.

8. Long-term equity investments

(1) Breakdown by category

Items	30 June 2019			31 December 2018		
	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000
Investments in associates	145,131		145,131	125,373		125,373
Total	145,131		145,131	125,373		125,373

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

8. Long-term equity investments *(Continued)*

(2) Breakdown

Investee	31 December 2018	Increase or decrease during the period			
		Additional investments	Decrease in investments	Investment profit or loss recognized using equity method	Adjustment to other comprehensive income
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Hebei Tieke Yichen New Material Technology Co., Ltd. (河北鐵科翼辰新材料科技有限公司)	125,373			19,758	
Total	125,373			19,758	

(Continued)

Investee	Increase or decrease during the period				30 June 2019	Closing balance of provision for impairment
	Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Hebei Tieke Yichen New Material Technology Co., Ltd.					145,131	
Total					145,131	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

9. Fixed assets

Breakdown

Items	Buildings and structures RMB'000	Machinery and equipment RMB'000	Transportation vehicles RMB'000	Electronic and communication equipment RMB'000	Other equipment RMB'000	Total RMB'000
Original carrying amount						
Opening balance	64,098	149,613	15,919	6,823	3,083	239,536
Increase in the current period	9,658	22,119	857	471	57	33,162
1) Purchase	508	1,652	857	369	7	3,393
2) Transferred from construction in progress	773	3,678		31	50	4,532
3) Increase in business combination	8,377	16,789		71		25,237
Decrease in the current period						
1) Disposal or scrap						
Closing balance	73,756	171,732	16,776	7,294	3,140	272,698
Accumulated depreciation						
Opening balance	26,694	104,333	8,958	6,002	1,457	147,444
Increase in the current period	2,285	8,645	1,027	731	212	12,900
1) Provision	1,344	5,855	1,027	695	212	9,133
2) Increase in combination	941	2,790		36		3,767
Decrease in the current period						
Disposal or scrap						
Closing balance	28,979	112,978	9,985	6,733	1,669	160,344
Book value						
Closing carrying amount	44,777	58,754	6,791	561	1,471	112,354
Opening carrying amount	37,404	45,280	6,961	821	1,626	92,092

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

10. Construction in progress

Breakdown

Items	30 June 2019			31 December 2018		
	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000	Book balance RMB'000	Provision for impairment RMB'000	Book value RMB'000
New plant area	298,061		298,061	247,319		247,319
Sand processing				2,376		2,376
Harmonic management				1,265		1,265
Blasting machine	1,103		1,103	1,103		1,103
Flux cored wire automatic packaging line	1,255		1,255	1,045		1,045
Andafa AX lean manufacturing management system	1,027		1,027	782		782
Air compressor room, warehouse				774		774
Sporadic projects	3,070		3,070	2,380		2,380
Total	304,516		304,516	257,044		257,044

11. Intangible assets

Breakdown

Items	Land use rights RMB'000	Software RMB'000	Total RMB'000
Original carrying amount			
Opening balance	94,659	750	95,409
Increase in the current period	5,260	295	5,555
1) Purchase		295	295
2) Increase in business combination	5,260		5,260
Decrease in the current period			
Closing balance	99,919	1,045	100,964
Accumulated depreciation			
Opening balance	7,227	679	7,906
Increase in the current period	1,040	38	1,078
1) Provision	960	38	998
2) Increase in business combination	80		80
Decrease in the current period			
Closing balance	8,267	717	8,984
Carrying amount			
Closing carrying amount	91,652	328	91,980
Opening carrying amount	87,432	71	87,503

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

12. Short-term borrowings

Breakdown

Items	30 June 2019 RMB'000	31 December 2018 RMB'000
Pledged borrowings	20,000	44,810
Credit borrowings	50,000	50,000
Factoring borrowings	9	
Total	70,009	94,810

13. Accounts payable

(1) *Breakdown*

Items	30 June 2019 RMB'000	31 December 2018 RMB'000
Amounts payable for materials and others	361,476	326,831
Amounts payable for equipment and construction	14,139	17,190
Total	375,615	344,021

(2) *Ageing analysis*

Ageing	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 1 year	346,939	324,458
1 to 2 years	14,075	6,260
2 to 3 years	4,088	3,100
Over 3 years	10,513	10,203
Sub-total	375,615	344,021

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

14. Non-current liabilities due within one year

Breakdown

Items	30 June 2019 RMB'000	31 December 2018 RMB'000
Long-term borrowings due within one year	10,000	
Long-term receivables due within one year	1,002	
Total	11,002	

15. Long-term borrowings

Breakdown

Items	30 June 2019 RMB'000	31 December 2018 RMB'000
Entrusted loan		10,000
Credit borrowings		20,000
Pledged borrowings	70,000	
Total	70,000	30,000

16. Share capital

Breakdown

Items	31 December 2018	Increase/decrease in the period ("–" for decrease)					30 June 2019
		Issuance of new shares	Bonus shares	Transferred from reserves	Others	Sub-total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-tradable shares	336,690						336,690
Shares held by domestic legal person	7,000						7,000
Shares held by domestic natural person	329,690						329,690
Shares without selling restrictions	112,230						112,230
H Shares	112,230						112,230
Total	448,920						448,920

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. CHANGE IN CONSOLIDATION SCOPE

(1) Business combination not under the common control

1. Business combination not under the common control in the reporting period

(1) General

Acquiree	Acquisition date	Acquisition cost ('000)	Shareholding (%)	Acquisition method
1) 2019 Xingtai Juneng Railway Electrical Equipment Co. LTD (邢臺炬能鐵路電氣器材有限公司)	2019.5.31	140,000	87.5	Acquisition

(Continued)

Acquiree	Purchase date	Recognition basis of purchase date	Income of the acquiree from the purchase date to the current period end ('000)	Net profits of acquiree for the current period from the purchase date to the period end ('000)
1) 2019 Xingtai Juneng Railway Electrical Equipment Co. LTD (邢臺炬能鐵路電氣器材有限公司)	2019.5.31	Acquiring control	2,533	544

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

With the objective of achieving a balance between risks and revenue through risk management, the Company minimizes the negative impact of risks to its operating results in order to maximize the interest of its Shareholders and other equity investors. According to the objective set for risk management, the basic strategies of the Company's risk management includes the identification and analysis of the Company's exposures to risks, establishment of an appropriate tolerance thresholds and risk management. In addition, the Company supervises various risks in a timely and reliable manner in order to ensure the exposures are confined in a controlled scope.

During the daily operation, the Company is exposed to various risks associated with the financial instruments, which mainly include credit risk, liquidity risk and market risk. The management has reviewed and approved the policies for managing each of these risks which are summarized below.

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

(1) Credit risk

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

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

1. Bank deposits

The Company places bank deposits in financial institutions with high credit ratings, therefore its credit risks are low.

2. Receivable

The Company regularly conducts credit assessment on customers who trade on credit terms. Based on the assessment results, the Company chooses to trade with recognized and creditworthy customers, and carries out control on the balances of receivables to ensure that the Company's exposure to bad debts is not significant.

As the Company trades only with recognized and creditworthy third parties, no collateral is required. Concentration of credit risk is managed by customers. As of 30 June 2019, the Company had certain concentration of credit risk as 42.75% (31 December 2018: 39.22%) of the Company's accounts receivable were due from the five largest customers in terms of balances. The Company does not hold any collateral or other credit enhancements over the balance of accounts receivable.

The maximum credit risk exposure of the Company was the carrying amount of each financial asset in the balance sheet.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(1) Credit risk *(Continued)*

3. Balance of provision for losses on financial instruments at the beginning and the end of the period

Items	1 January 2019 RMB'000	Increase during the period			Decrease during the period			30 June 2019 RMB'000
		Provision RMB'000	Recovery RMB'000	Others RMB'000	Reversal RMB'000	Write-off RMB'000	Others RMB'000	
Expected credit loss in following 12 months (phase I, financial instruments with no significant increase in credit risk since initial recognition)								
Other receivables	7,993	1,150		48	140			9,051
Sub-total	7,993	1,150		48	140			9,051
Lifetime expected credit loss (items provided for based on the lifetime expected credit loss)								
Notes receivable		169						169
Accounts receivable	104,212	(4,338)		163	372			99,665
Sub-total	104,212	(4,169)		163	372			99,834
Total	112,205	(3,019)		211	512			108,885

For details of the inputs, assumptions and valuation techniques used for the impairment of financial instruments, please refer to the description of notes receivable, accounts receivable and other receivables in the notes to the items of consolidated financial statements therein.

(2) Liquidity risk

Liquidity risk is the risk that the Company will encounter shortage of funds in meeting obligations that are settled by delivering cash or other financial assets. It may arise when the Company is not able to sell financial assets at fair value in a timely manner; or the counterparties is not able to repay contractual liabilities; or the Company could be required to pay its liabilities earlier than expected; or the Company could not obtain sufficient cash flow as expected.

For the purpose of controlling the risk, the Company maintains a balance between continuity and flexibility of funding through the combination of several financing methods, such as bank borrowings, as well as optimizes financing structure through the combination of long and short-term financing. The Company has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

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

(2) Liquidity risk *(Continued)*

Classification of financial liabilities based on the remaining maturity

Items	30 June 2019				
	Bookvalue RMB'000	Undiscounted contractual amount RMB'000	Within 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000
Short-term borrowings	70,009	71,642	71,642		
Bills payable	30,000	30,000	30,000		
Accounts payable	375,615	375,615	375,615		
Other payables	47,164	47,164	47,164		
Non-current liabilities due within one year	11,002	11,458	11,458		
Long-term borrowings	70,000	77,512	4,097	73,415	
Sub-total	603,790	613,391	539,976	73,415	

(Continued)

Items	31 December 2018				
	Book value RMB'000	Undiscounted contractual amount RMB'000	Within 1 year RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000
Short-term borrowings	94,810	97,975	97,975		
Bills payable	63,276	63,276	63,276		
Accounts payable	344,021	344,021	344,021		
Other payables	60,033	60,033	60,033		
Non-current liabilities due within one year					
Long-term borrowings	30,000	32,165	1,764	30,401	
Sub-total	592,140	597,470	567,069	30,401	

(3) Market risk

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

As of 30 June 2019, the Company's borrowings with interest accrued at floating interest rate totaled RMB70,000,000.00 (31 December 2018: RMB0.00). If interest rates had been 50 basis points higher/lower and all other variables were held constant, it will not have a significant impact on the Company's total profit and shareholders' interests.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(3) Market risk *(Continued)*

1. *Foreign currency risk*

Foreign currency risk is the risk arising from changes in exchange rates. The Company's foreign currency risk relates mainly to foreign currency monetary assets and liabilities. When short-term imbalance occurred to foreign currency assets and liabilities, the Company may trade foreign currency at market exchange rate when necessary, in order to maintain the net risk exposure within an acceptable level.

7. FAIR VALUE DISCLOSURE

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

Items	Fair value on 30 June 2019			
	Fair value measured at level 1 RMB'000	Fair value measured at level 2 RMB'000	Fair value measured at level 3 RMB'000	Total RMB'000
Recurring fair value measurement				
Financial assets held for trading and other non-current financial assets				
Financial assets at fair value through profit or loss for the period				

(Continued)

Items	Fair value on 31 December 2018			
	Fair value measured at level 1 RMB'000	Fair value measured at level 2 RMB'000	Fair value measured at level 3 RMB'000	Total RMB'000
Recurring fair value measurement				
Financial assets held for trading and other non-current financial assets				
Financial assets at fair value through profit or loss for the period			128,770	128,770

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related Parties

Information on other related parties of the Company

Name of other related parties	Relationship between other related parties and the Company
Zhang Haijun	Shareholder
Hebei Tieke Yichen New Material Technology Co., Ltd.	Associate
Longji Enterprises Management Co., Ltd	Enterprise controlled by actual controllers and their close family members
TieLong DaoCha Company Limited	Enterprises controlled by actual controllers and their close family members

(2) Information on related party transactions

1. *Related party transactions regarding purchase and sale of goods and provision and receipt of services*

Breakdown

(1) Related party transactions regarding purchase of goods and receipt of services

Related parties	**Information on related party transactions**	**January to June 2019 RMB'000**	**January to June 2018** RMB'000
Hebei Tieke Yichen New Material Technology Co., Ltd.	Purchase of nylon and rubber	**27,798**	57,206
Longji Enterprises Management Co., Ltd	Purchase of baffle section steel processing services		3,600
Longji Enterprises Management Co., Ltd	Comprehensive services	**1,008**	1,008
Total		**28,806**	61,814

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(2) Information on related party transactions *(Continued)*

1. *Related party transactions regarding purchase and sale of goods and provision and receipt of services* (Continued)

Breakdown (Continued)

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

Related parties	Information on related transactions	January to June 2019 RMB'000	January to June 2018 RMB'000
Hebei Tieke Yichen New Material Technology Co., Ltd.	Electricity and processing services	4,061	1,704
Total		4,061	1,704

2. *Information on related party leases*

The Company as a lessee

Name of lessors	Type of leased assets	Depreciation charge recognized in January to June 2019 RMB'000	Lease payment recognized in January to June 2018 RMB'000
Longji Enterprises Management Co., Ltd	Building	294	316
Zhang Haijun	Building	168	180

The Company depreciates the right-of-use assets from the implementation of the Accounting Standards for Business Enterprises No. 21 – Leases on 1 January 2019.

On 28 August 2018, the Company signed a building lease contract with Longji Enterprises Management Co., Ltd, pursuant to which, Longji Enterprises Management Co., Ltd leased the building located at No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City to the Company as its office building with an area of 3151.62m^2. The lease period commences from 1 August 2018 to 31 December 2020 (both days inclusive). The rental is RMB700,000 per year.

On 28 August 2018, the Company signed a building lease contract with Zhang Haijun, pursuant to which, Zhang Haijun leased the building and parking space, located at Zone 3, Yuanda Yuan, Haidian District, Beijing, to the Company as its Beijing staff dormitory and parking lot. The lease period commenced from 1 August 2018 to 31 December 2020 (both days inclusive). The rental is RMB360,000 per year.

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(2) Information on related party transactions *(Continued)*

3. Compensation to key management personnel

Items	January to June 2019 RMB'000	January to June 2018 RMB'000
Compensation to key management personnel	1,562	1,147

(3) Amount due to/from related party

1. Amount due from related party

Name of items	Related party	30 June 2019		31 December 2018	
		Book balance RMB'000	Bad-debt provision RMB'000	Book balance RMB'000	Bad-debt provision RMB'000
Accounts receivable	Hebei Tieke Yichen New Material Technology Co., Ltd.	9,032	194	4,528	91
	TieLong DaoCha Company Limited	264	231	264	187
Sub-total		9,296	425	4,792	278

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(3) Amount due to/from related party *(Continued)*

2. Amount due to related party

Name of items	Related party	30 June 2019 RMB'000	31 December 2018 RMB'000
Accounts payable	Hebei Tieke Yichen New Material Technology Co., Ltd.	85,087	88,193
	TieLong DaoCha Company Limited	113	113
Subtotal		85,200	88,306
Bills payable	Hebei Tieke Yichen New Material Technology Co., Ltd.	15,000	15,000
Subtotal		15,000	15,000
Other payables	Longji Enterprises Management Co., Ltd	1,405	
	Zhang Haijun	180	
Subtotal		1,585	

9. COMMITMENTS AND CONTINGENCIES

Significant commitments

1. *External investment contracts signed but not implemented or not completely implemented and relevant financial expenditures*

Capital commitment

Items	January to June 2019 RMB'000	January to June 2018 RMB'000
Contracted but not yet incurred	41,369	69,129

10. OTHER SIGNIFICANT EVENTS

Segment information

1. *Factors considered for reportable segments identification*

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 conducts at least one monthly review on its internal management reports.

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; Flux cored wire products: manufacturing and sales of flux cored wire.

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.

10. OTHER SIGNIFICANT EVENTS *(Continued)*

Segment information *(Continued)*

2. *Financial information of reportable segments*

Product segments

Items	Rail fastening		Welding material	
	January to June 2019 RMB'000	January to June 2018 RMB'000 (Restated)	**January to June 2019 RMB'000**	January to June 2018 RMB'000 (Restated)
Total revenue	**350,969**	494,538	**87,846**	75,101
Inter-segment revenue				
Revenue from external customers	**350,969**	494,538	**87,846**	75,101
Total cost of sales	**219,463**	284,612	**78,400**	68,271
Segment gross profit	**131,506**	209,926	**9,446**	6,830
Other profit and loss disclosure				
Depreciation and amortization	**5,913**	5,698	**1,435**	1,322
Provision for impairment of receivables	**(3,369)**	7,705	**(95)**	(243)

(Continued)

Items	Others		Total	
	January to June 2019 RMB'000	January to June 2018 RMB'000 (Restated)	**January to June 2019 RMB'000**	January to June 2018 RMB'000
Total revenue	**8,515**	8,700	**447,330**	578,339
Inter-segment revenue				
Revenue from external customers	**8,515**	8,700	**447,330**	578,339
Total cost of sales	**6,239**	7,363	**304,102**	360,246
Segment gross profit	**2,276**	1,337	**143,228**	218,093
Other profit and loss disclosure				
Depreciation and amortization	**2,782**	3,482	**10,130**	10,502
Provision for impairment of receivables	**(67)**	(346)	**(3,531)**	7,116

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. EVENTS AFTER THE BALANCE SHEET DATE

Profit distribution after the balance sheet date

Profits or dividends proposed to distribute	RMB'000
Profits or dividends declared to distribute after review and approval	70,032

Pursuant to the resolution of the board of directors on 6 June 2019, a dividend in respect of the year 2018 of RMB0.078 (tax inclusive) per share, amounting to a total dividend of RMB70,031,520.00, was proposed and approved by the annual general meeting on 29 July 2019. The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

12. OTHER SUPPLEMENTARY INFORMATION

(I) Earnings per share

Details

Profit for the period from January to June 2019	**Earnings per share (RMB/share)**	
	Basic earnings per share	**Diluted earnings per share**
Net profit attributable to ordinary shareholders	**0.09**	**0.09**

(Continued)

Profit for the period from January to June 2018	Earnings per share (RMB/share)	
	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders	0.12	0.12

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRIAL REVIEW

According to data published by China State Railway Group Co., Ltd. (中國國家鐵路集團有限公司), the fixed asset investment on national railways in the first half of 2019 was RMB322.01 billion, a year-on-year increase of 2.97%. Currently, investment in China's railway construction remained strong.

China's railway construction continues to closely follow major national strategies, optimizing and improving planning of railway network in the Beijing-Tianjin-Hebei and Xiong'an New Districts, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Economic Belt regions, giving full play to railway investment in promoting stability in investment, stability in employment and stability in expectations.

Hebei Province has actively participated in the synergistic development of the Beijing-Tianjin-Hebei regions and the construction of Xiong'an New District, striving to build the rail transit in Beijing-Tianjin-Hebei regions. Construction work has commenced for the Beijing-Xiongan Intercity, Shijiazhuang-Xiong'an Intercity, Beijing-Hong Kong High Speed Rail (Xiong'an-Shangqiu section) and Langfang-Zhuozhou Intercity Railway, demonstrating a healthy and stable development of railway construction in Hebei Province.

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 system products; and 2) flux cored wire products. For the six months ended 30 June 2019, the total revenue of the Group amounted to approximately RMB447.3 million, representing a year-on-year decrease of approximately 22.7%.

Rail Fastening System Products

For the six months ended 30 June 2019, the revenue from rail fastening system products amounted to approximately RMB351 million, representing approximately 78.5% of the Group's total revenue and approximately 29% decrease over the revenue of approximately RMB494.5 million from this segment for the corresponding period of last year. This was mainly attributable to lower 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 decreased by approximately 22.9% from approximately RMB284.6 million (restated) for the first half of 2018 to approximately RMB219.5 million for the corresponding period of 2019. The change in cost was mainly attributable to the decline in the sales of rail fastening products during the period under review.

For the period, the gross profit of rail fastening system products amounted to approximately RMB131.5 million, representing approximately 37.4% decline compared with the gross profit of approximately RMB209.9 million for the corresponding period of last year. The gross profit margin of rail fastening system products fell from approximately 42.4% for the first half of 2018 to approximately 37.5% for the first half of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2019, the initial value of entering into agreements of supplying rail fastening systems was approximately RMB563 million, representing an increase of approximately 58.1% from the corresponding period of last year. Of the amount, the initial value of entering into agreements of supplying highspeed rail fastening systems amounted to approximately RMB310 million, representing an increase of approximately 244% 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 RMB0.1 million; the initial value of entering into agreements of supplying urban transit fastening systems amounted to approximately RMB220 million; and the initial value of entering into agreements of supplying normal-speed rail fastening systems was approximately RMB33 million. As of 30 June 2019, the backlog of the Group amounted to approximately RMB1,407.9 million (value-added tax included).

Flux Cored Wire Products

For the six months ended 30 June 2019, the revenue from flux cored wire products was approximately RMB87.8 million, accounting for approximately 19.6% of the Group's total revenue. Compared to the revenue of approximately RMB75.1 million for the first half of 2018, the increase in revenue was mainly attributable to the growing market demand for flux cored wire over the first half of 2019.

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

Prospects

According to China Railway's 2019 annual construction plan, it plans to commence operation in 6,800 km of new railway lines (including 3,200 km of high-speed railways), an increase of 45% as compared with the corresponding period of last year.

In the second half of 2019, fixed asset investment on national railways will continue to remain relatively robust, and continue to promote railway construction scientifically, reasonably, and steadily. Guided by demonstration projects such as Beijing-Zhangjiakou, Beijing-Xiong'an and Mongolia-China railways, we focused on projects covering the shortcomings in the road network such as railway channels improvement, converting road to railway for bulk freight and an integrated transportation hub, in which the construction of projects are carried out at a high level to promote standardization, ensuring the quality of projects.

In the future, China's railway construction will revolve around formulating the medium-to-long term development plan in building railways which plays an important role in China's strong transport network. The completion of the railway network in the Yangtze River Delta, the Guangdong-Hong Kong-Macau Greater Bay Area, the Chengdu-Chongqing city cluster and Hainan Province with high quality, lays a solid foundation for the initiation of the "14th Five-Year Plan".

As the leading rail fastening system supplier in the PRC railway industry, the Group will seize the growing market opportunities in the railway construction industry, and strive to improve product quality and service level with high-speed rail fastening system products as its core, committed to contributing to the high level construction and safe operation of China railways.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's main business operations comprise the manufacturing and sales of rail fastening system and flux cored wire. The above business has brought sustained and stable revenue to the Group. In the first half of 2019, the revenue of the Group decreased to approximately 447.3 million from approximately RMB578.3 million in the first half of 2018, mainly attributable to the decrease in revenue from rail fastening system products.

Revenue generated from rail fastening system products dropped approximately by 29% to approximately RMB351 million in the first half of 2019 from approximately RMB494.5 million in the first half of 2018, which was mainly attributable to lower sales of rail fastening system products.

Revenue generated from flux cored wire products increased by approximately 17% to approximately RMB87.8 million in the first half of 2019 from approximately RMB75.1 million in the corresponding period of 2018, which was mainly attributable to the increase in market demand for flux cored wire during the first half of 2019. Apart from the revenue generated from selling rail fastening system products and flux cored wire products, the Group also generated other operating revenue mainly from the sales of sleepers, raw materials and the provision of product processing services.

Cost of Sales

The Group's cost of sales decreased by approximately 15.6% to approximately RMB304.1 million in the first half of 2019 from approximately RMB360.3 million (restated) in the first half of 2018, which was mainly attributable to the declining sales of railway fastening products.

Cost of sales incurred by rail fastening system products decreased by approximately 22.9% to approximately RMB219.5 million in the first half of 2019 from approximately RMB284.6 million (restated) in the first half of 2018, which was mainly attributable to the declining sales of railway fastening system products.

Cost of sales incurred by flux cored wire products increased by approximately 14.8% to approximately RMB78.4 million in the first half of 2019 from approximately RMB68.2 million (restated) in the same period of 2018, which was mainly attributable to an increase in the sales revenue of flux cored wire products which led to higher cost of sales.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB143.2 million from January to June 2019, representing a decrease of approximately 34.3% from the gross profit of approximately RMB218.1 million recorded for the corresponding period of 2018, which was mainly attributable to (i) an increase in cost of sales caused by the increased price of raw materials; (ii) sales revenue for the period decreased by 22.7% compared with the corresponding period of last year.

Gross profit of rail fastening system products decreased by approximately 37.4% to approximately RMB131.5 million in the first half of 2019 from approximately RMB209.9 million in the corresponding period of 2018. Gross profit margin of rail fastening system products decreased to approximately 37.5% in the first half of 2019 from approximately 42.4% in the first half of 2018, which mainly resulted from the higher price of steel as a raw material.

Gross profit of flux cored wire products climbed by approximately 38.3% to approximately RMB9.5 million in the first half of 2019 from approximately RMB6.8 million in the corresponding period of 2018. Gross profit margin grew to approximately 10.8% in the first half of 2019 from approximately 9.1% in the first half of 2018, which mainly resulted from a price increase in flux cored wire products.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling Expenses

Selling expenses of the Group decreased to approximately RMB23.6 million from January to June 2019 from approximately RMB26.9 million (restated) from January to June 2018. For the six months ended 30 June 2019 and 2018, selling expenses as a percentage of total revenue were approximately 5.3% and approximately 4.7%, respectively. Lower selling expenses were mainly led by the decrease in transportation expenses and royalty fee.

General and Administrative Expenses

General and administrative expenses of the Group decreased to approximately RMB24.6 million for the first half year of 2019 from approximately RMB25.7 (restated) for the corresponding period of 2018, mainly due to the decrease in service fees.

Investment Profits of an Associate

From January to June 2019, the Group's share of Investment profits of an associate was approximately RMB19.8 million, representing an increase of approximately RMB14.9 million as compared with the corresponding period of 2018. This was mainly attributable to the good sales performance of the associate Tieke Yichen during the year, and the increased unit price of products in new contracts compared with the corresponding period of last year resulted from the rising price of raw materials like rubber.

Net Finance Costs

For the first half year of 2019, the Group incurred net finance cost of RMB4.3 million, as compared to approximately RMB8.8 million (restated) incurred for first half of 2018. The decrease in net finance costs was mainly due to the decrease in interest expense resulted from the reduction of borrowings scale.

Operating Profit

Based on the aforesaid reasons, the Group recorded an operating profit of approximately RMB95.1 million from January to June 2019, representing a decline of approximately 24.7% from approximately RMB126.3 million in the corresponding period of 2018, which was mainly attributable to lower sales revenue of rail fastening systems products.

Income Tax

Income tax expense of the Group decreased to approximately RMB10.9 million from January to June 2019 from approximately RMB18.2 million in the corresponding period of 2018, which was mainly attributable to a decrease of operation profit.

Net Profit

Based on the aforesaid reasons, net profit decreased by approximately 22.1% to approximately RMB84.2 million for the period ended 30 June 2019, from approximately RMB108.2 million for the period ended 30 June 2018. Net profit margin increased from 18.7% for the period ended 30 June 2018 to 18.8% for the period ended 30 June 2019.

Profit Attributable to Equity Holders of the Company

From January to June 2019, the Group recorded a profit attributable to equity holders of the Company of approximately RMB83 million, representing a decrease of 22.3% from approximately RMB106.9 million for the same period of 2018. For the first half of 2019, basic earnings per share amounted to RMB0.09, representing a decline of approximately 25% from the basic earnings of RMB0.12 per share for the same period of 2018. 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 of 2019.

Total Assets

As at 30 June 2019, the total assets of the Group were approximately RMB2,611.4 million, representing an increase of approximately 3.7% from approximately RMB2,517.4 million as at 31 December 2018. This was mainly because of (i) the increase in goodwill due to acquiring the subsidiary Xingtai Juneng Railway Electrical Equipment Co., Ltd. (邢臺炬能鐵路電氣器材有限公司); and (ii) the increase in inventory due to stocking.

Total Liabilities

As at 30 June 2019, the total liabilities of the Group were approximately RMB625.8 million, representing an increase of approximately RMB6 million or approximately 1.0% from that as at 31 December 2018. This was mainly due to the increase in long-term borrowings.

Total Equity

As at 30 June 2019, the total equity of the Group was approximately RMB1,985.6 million, representing an increase of approximately RMB88 million from that as at 31 December 2018, 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 2019, the Group's gearing ratio was 0.06%, representing an increase of 1.06 percentage points from -1% as at 31 December 2018, mainly because of the increase in long-term borrowings.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 1,267 employees (30 June 2018: 1,090). The Group incurred total staff costs of RMB42.5 million for the first half of 2019, representing an increase of RMB4.8 million as compared with RMB37.7 million recorded for the corresponding period of 2018, which was mainly attributable to (i) the increase in employees of the Group; and (ii) a larger provision base for social insurance and housing fund.

OTHER INFORMATION

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

As at 30 June 2019, so far as known to the Directors of the Company, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of Part XV of the SFO) (a) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code (including those they are taken or deemed to have under such provisions of the SFO) are as follows:

Long Positions in the Domestic Shares of the Company:

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

Notes:

(1) The relevant parties are members of the Controlling Shareholders Group. On 12 January 2018, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following the completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group together controlled approximately 65.44% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by other members of the Controlling Shareholders Group.

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

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

(4) Ms. Liu Jiao is the spouse of Mr. Zhang Libin. Under the SFO, Ms. Liu Jiao is deemed to be interested in the same number of Shares in which Mr. Zhang Libin is interested. Ms. Liu Jiao resigned as the supervisor of the Group on 29 July 2019.

* Resigned on 29 July 2019

Save as disclosed above, as at 30 June 2019, none of the Directors, Supervisors or chief executives of the Company had an interest and short position in the Shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, so far as is known to the Directors, the interests or short positions of the persons (other than a Director, Supervisor or chief executive of the Company) in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO are as follows:

Long positions in Shares of the Company:

Name	Class of Shares	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Ms. Zhou Qiuju (周秋菊) (Note 4)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Junxia (張軍霞) (Note 1)	Domestic Shares	Beneficial owner	85,455,648		
		Deemed interest pursuant to Section 317 of the SFO	502,097,126		
			587,552,774	87.25%	65.44%
Ms. Zhang Xiaoxia (張小霞) (Note 5)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Xiaogeng (張小更) (Note 1)	Domestic Shares	Beneficial owner	85,060,020		
		Deemed interest pursuant to Section 317 of the SFO	502,492,754		
			587,552,774	87.25%	65.44%
Ms. Sun Shujing (孫書京) (Note 6)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Xiaoxia (張曉霞) (Note 7)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhai Junping (翟軍平) (Note 8)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Weihuan (張偉環) (Note 9)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Lijie (張力杰) (Note 1)	Domestic Shares	Beneficial owner	18,726,392		
		Deemed interest pursuant to Section 317 of the SFO	568,826,382		
			587,552,774	87.25%	65.44%

OTHER INFORMATION

Name	Class of Shares	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Ms. Liu Lixia (劉麗霞) (Note 10)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Lifeng (張力峰) (Note 1)	Domestic Shares	Beneficial owner	18,726,392		
		Deemed interest pursuant to Section 317 of the SFO	568,826,382		
			587,552,774	87.25%	65.44%
Ms. Yang Yunjuan (楊雲娟) (Note 11)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Yanfeng (張艷峰) (Note 1)	Domestic Shares	Beneficial owner	18,726,392		
		Deemed interest pursuant to Section 317 of the SFO	568,826,382		
			587,552,774	87.25%	65.44%
Mr. Zhang Weiwei (張偉衛) (Note 12)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Libin (張力斌) (Note 1)	Domestic Shares	Beneficial owner	17,143,880		
		Deemed interest pursuant to Section 317 of the SFO	570,408,894		
			587,552,774	87.25%	65.44%
Ms. Yin Yanping (尹彥萍) (Note 13)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Ning (張寧) (Note 1)	Domestic Shares	Beneficial owner	17,143,880		
		Deemed interest pursuant to Section 317 of the SFO	570,408,894		
			587,552,774	87.25%	65.44%
Ms. Huang Li (黃麗) (Note 14)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Ms. Zhang Hong (張宏) (Note 1)	Domestic Shares	Beneficial owner	17,143,880		
		Deemed interest pursuant to Section 317 of the SFO	570,408,894		
			587,552,774	87.25%	65.44%
Mr. Liu Chaohui (劉朝輝) (Note 15)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Zhang Ruiqiu (張瑞秋) (Note 1)	Domestic Shares	Beneficial owner	2,307,830		
		Deemed interest pursuant to Section 317 of the SFO	585,244,944		
			587,552,774	87.25%	65.44%

Name	Class of Shares	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of our Company (%) (Note 3)
Ms. Gao Xiangrong (高香榮) (Note 16)	Domestic Shares	Interest of spouse	587,552,774	87.25%	65.44%
Mr. Guo Zhongyan (郭中彥)	H Shares	Beneficial owner	25,031,000	11.15%	2.79%
BOCOM International Securities Limited	H Shares	Beneficial owner	33,669,000	15.00%	3.75%
BOCOM International Holdings Company Limited (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Bank of Communications (Nominee) Company Limited (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
Bank of Communications Co., Ltd. (Note 17)	H Shares	Interest in controlled corporation	33,669,000	15.00%	3.75%
North Ocean (Hong Kong) Holdings Ltd.	H Shares	Beneficial owner	16,666,000	7.42%	1.86%
Hebei Publishing and Media Group Co., Ltd. (河北出版傳媒集團有限責任公司) (Note 18)	H Shares	Interest in controlled corporation	16,666,000	7.42%	1.86%
The Leading Group Office of Supervision and Management of State-owned Assets of Provincial Culture Enterprise in Hebei Province (河北省省級文化企業國有資產監督管理領導小組辦公室) (Note 18)	H Shares	Interest in controlled corporation	16,666,000	7.42%	1.86%
Beijing Infrastructure Investment (Hong Kong) Limited	H Shares	Beneficial owner	38,102,000	16.97%	4.24%
Beijing Infrastructure Investment Co., LTD (Note 19)	H Shares	Interest in controlled corporation	38,102,000	16.97%	4.24%
GUOKONG (HONGKONG) INVESTMENT CO., LIMITED	H Shares	Beneficial owner	20,300,000	9.04%	2.26%
Shijiazhuang Guo Kong Investment Group Company Limited (Note 20)	H Shares	Interest in controlled corporation	20,300,000	9.04%	2.26%

Notes:

(1) The relevant parties are members of the Controlling Shareholders Group. On 12 January 2018, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. Immediately following the completion of the Global Offering of the Company, all the members of the Controlling Shareholders Group together controlled approximately 65.44% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group is deemed to be interested in the Shares beneficially owned by the other members of the Controlling Shareholders Group.

(2) Based on the total number of 673,380,000 Domestic Shares in issue or 224,460,000 H Shares in issue.

OTHER INFORMATION

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

(4) Ms. Zhou Qiuju (周秋菊) is the spouse of Mr. Zhang Haijun (張海軍). Under the SFO, Ms. Zhou Qiuju is deemed to be interested in the same number of Shares in which Mr. Zhang Haijun is interested.

(5) Ms. Zhang Xiaoxia (張小霞) is the spouse of Mr. Zhang Xiaosuo. Under the SFO, Ms. Zhang Xiaoxia (張小霞) is deemed to be interested in the same number of Shares in which Mr. Zhang Xiaosuo is interested.

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

(7) Ms. Zhang Xiaoxia (張曉霞) is the spouse of Mr. Wu Jinyu. Under the SFO, Ms. Zhang Xiaoxia (張曉霞) is deemed to be interested in the same number of Shares in which Mr. Wu Jinyu is interested.

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

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

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

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

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

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

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

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

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

(17) Bank of Communications (Nominee) Co. Ltd. is wholly owned by Bank of Communications Co., Ltd.; BOCOM International Holdings Company Limited is wholly owned by Bank of Communications (Nominee) Co. Ltd.; and BOCOM International Securities Limited is wholly owned by BOCOM International Holdings Company Limited. Under the SFO, Bank of Communications Co., Ltd., Bank of Communications (Nominee) Co. Ltd. and BOCOM International Holdings Company Limited are deemed to be interested in the H Shares beneficially owned by BOCOM International Securities Limited.

(18) Hebei Publishing and Media Group Co., Ltd. controls 70% equity interest of North Ocean (Hong Kong) Holding Ltd.; while Hebei Publishing and Media Group Co., Ltd. is wholly owned by the Leading Group Office of Supervision and Management of State-owned Assets of Provincial Culture Enterprise in Hebei Province. Under the SFO, The Leading Group Office of Supervision and Management of State-owned Assets of Provincial Culture Enterprise in Hebei Province and Hebei Publishing and Media Group Co., Ltd. are deemed to be interested in the H Shares beneficially owned by North Ocean (Hong Kong) Holdings Ltd.

(19) Beijing Infrastructure Investment (Hong Kong) Limited is wholly owned by Beijing Infrastructure Investment Co., LTD. Under the SFO, Beijing Infrastructure Investment Co., LTD is deemed to be interested in the H Shares beneficially owned by Beijing Infrastructure Investment (Hong Kong) Limited.

(20) GUOKONG (HONG KONG) INVESTMENT CO., LIMITED is wholly owned by Shijiazhuang Guo Kong Investment Group Company Limited. Under the SFO, Shijiazhuang Guo Kong Investment Group Company Limited is deemed to be interested in the H Shares beneficially owned by GUOKONG (HONG KONG) INVESTMENT CO., LIMITED.

Save as disclosed above, as at 30 June 2019, no person (other than a Director, Supervisor and chief executive of the Company, whose interests are set out in the section headed "Interests and Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares and Debentures" above), had registered any interest or short position in the Shares and underlying shares of the Company which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

EVENTS AFTER REPORTING PERIOD

Except for the payment of the 2018 final dividend in September 2019, there was no other significant events occurred subsequent to the six months ended 30 June 2019 and up to the date of this Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2019.

AUDIT COMMITTEE

The interim result has not been audited by the auditor of the Company but has been reviewed by the audit committee of the Company.

The audit committee of the Company has reviewed the Group's unaudited interim condensed consolidated results and interim report during the six months ended 30 June 2019 prepared in accordance with the PRC Financial Reporting Standards and agreed to the accounting principles and practices adopted by the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complied with all code provisions as set out in the "Corporate Governance Code" contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the directors and supervisors of the Company. Upon making specific enquiries to all of the directors and supervisors of the Company, all directors and supervisors of the Company confirmed that throughout the six months ended 30 June 2019, each of them had fully complied with the required standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers".

OTHER INFORMATION

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2019, the Board had complied with (1) the requirement that the board of directors of a listed issuer must include at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules; (2) the requirement that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and (3) the requirement that the number of independent non-executive directors must represent at least one-third of the board of directors under Rule 3.10A of the Listing Rules.

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

Shijiazhuang, PRC
29 August 2019