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Hebei Yichen Industrial Group Corporation Limited*

河北翼辰實業集團股份有限公司

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

(Stock Code: 1596)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

UNAUDITED INTERIM RESULTS

The board of directors (the “**Board**”) of Hebei Yichen Industrial Group Corporation Limited (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Period Under Review**”) (all amounts in RMB’000 unless otherwise stated), together with comparative figures as follows:

* *For identification purposes only*

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022

		For the six months ended 30 June	
		2022	2021
		RMB('000)	RMB('000)
	Notes	(Unaudited)	(Audited)
I. Total operating revenue	8	645,970	594,421
II. Total operating cost		571,620	475,547
Including: Operating cost	8	492,144	391,783
Taxes and surcharges		5,928	5,397
Selling expenses		8,689	12,319
Management expenses		36,285	35,469
Research and development expense		20,023	23,316
Finance costs		8,551	7,263
Including: Finance expenses		9,065	7,949
Interest income		815	1,017
Add: Other income		1,144	116
Investment gains		17,093	11,439
Including: Gains on investments in associates and joint ventures		15,114	11,518
Gain/loss from changes in fair value		5,842	(21,634)
Loss on credit impairment		(11,960)	(5,445)
Impairment loss of assets		(3,638)	(851)
Gains on disposal of assets		—	—
III. Operating profits		82,831	102,499
Add: Non-operating incomes		27	87
Less: Non-operating expenses		246	219
IV. Total profit		82,612	102,367
Less: Income tax expenses	9	8,330	12,730

CONSOLIDATED INCOME STATEMENT (Continued)*For the six months ended 30 June 2022*

		For the six months ended 30 June	
		2022	2021
		RMB('000)	RMB('000)
	<i>Notes</i>	(Unaudited)	(Audited)
V. Net profit		74,282	89,637
(I) Classified according to continuity:			
1. Net profit from continuing operations		74,282	89,637
2. Net profit from discontinued operations		–	–
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent		73,454	88,911
2. Profit or loss of minority interests		828	726
VI. Other comprehensive income after tax, net			
Other comprehensive income after tax attributable to owners of the parent, net		–	–
(I) Other comprehensive income that cannot be reclassified to profit or loss		–	–
(II) Other comprehensive income that will be reclassified to profit or loss		–	–
VII. Total other comprehensive income		74,282	89,637
Total comprehensive income attributable to owners of the parent		73,454	88,911
Total comprehensive income attributable to minority interests		828	726
VIII. Earnings per share:			
Basic earnings per share (RMB)	<i>10</i>	0.08	0.10
Diluted earnings per share (RMB)		0.08	0.10

CONSOLIDATED BALANCE SHEET

As at 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	RMB('000) (Unaudited)	RMB('000) (Audited)
Current assets			
Monetary capital		184,714	157,303
Financial assets held for trading		118,347	106,879
Notes receivable	4	66,459	68,754
Accounts receivable	5	1,147,844	1,026,503
Financing of receivables		14,126	6,361
Prepayments		40,303	31,293
Other receivables		9,779	8,104
Inventories		423,805	449,963
Contract assets		43,630	59,359
Other current assets		5,481	11,067
Total current assets		2,054,488	1,925,586
Non-current assets			
Long-term equity investments		221,386	206,272
Other equity instruments investment		8,321	8,321
Fixed assets		511,281	480,676
Construction in progress		296,291	251,980
Right-of-use assets		899	1,199
Intangible assets		143,001	144,552
Goodwill		102,739	102,739
Deferred income tax assets		28,111	24,540
Other non-current assets		85,155	76,116
Total non-current assets		1,397,184	1,296,395
Total assets		3,451,672	3,221,981

CONSOLIDATED BALANCE SHEET (Continued)*As at 30 June 2022*

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB('000)</i> (Unaudited)	<i>RMB('000)</i> (Audited)
Current liabilities			
Short-term borrowings		145,200	58,714
Notes payable	6	96,459	86,938
Accounts payable	7	364,942	378,801
Contract liabilities		8,365	7,665
Payroll payable		7,092	8,810
Tax payable		18,213	18,343
Other payables		71,616	48,925
Non-current liabilities due within one year		91,124	25,271
Other current liabilities		2,494	2,167
Total current liabilities		805,505	635,634
Non-current liabilities			
Long-term borrowings		255,500	219,500
Lease liabilities		–	627
Deferred income		4,828	4,944
Deferred income tax liabilities		326	394
Total non-current liabilities		260,654	225,465
Total liabilities		1,066,159	861,099
Owner's equity			
Share capital		448,920	448,920
Capital reserve		813,227	813,227
Surplus reserve		137,535	137,535
Undistributed profits		973,844	950,041
Total equity attributable to owners of the parent		2,373,526	2,349,723
Minority interests		11,987	11,159
Total owner's equity		2,385,513	2,360,882
Total liabilities and owner's equity		3,451,672	3,221,981

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**”).

The Company was incorporated in the People’s Republic of China (the “**PRC**”) on 9 April 2001. The addresses of the Company’s registered offices are 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 Group is principally engaged in research and development, manufacturing and sales of rail fastening system products, welding wire products and railway sleeper products. On 21 December 2016, the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The existing share capital of the Company is RMB448,920,000 and the total number of shares is 897,840,000 with a nominal value of RMB0.50 per share. Unless otherwise stated, the financial information for the six months ended 30 June 2022 is presented in Renminbi (“**RMB**”) thousands. The consolidated results for the six months ended 30 June 2022 have not been audited by the auditors of the Company, but have been reviewed by the Audit Committee of the Company.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements are prepared based on a going concern basis and based on actual transactions and events according to the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and 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 (the “**Listing Rules**”) and Hong Kong Companies Ordinance, and based on the accounting policies and estimates applicable to the Group.

3. SEGMENT INFORMATION

The Group’s segment information is presented on the basis of internal reports that are regularly reviewed by the Group’s Executive Committee (the chief operating decision maker), in order to allocate resources to the segments and assess their performance. For each of the Group’s reportable segments, the Group’s Executive Committee conducts at least one monthly review on its internal management reports.

The management has determined the reportable segments based on these reports.

The Group determines its business from a product perspective:

- Rail fastening system products: research and development, manufacturing and sales of rail fastening system products
- Welding wire products: research and development, manufacturing and sales of welding wire
- Railway sleeper products: research and development, manufacturing and sales of concrete sleepers

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

The segment information for January to June 2022 and January to June 2021 is listed as follows:

Items	Rail fastening system		Welding wires	
	January to June 2022 RMB('000)	January to June 2021 RMB('000)	January to June 2022 RMB('000)	January to June 2021 RMB('000)
Total revenue	450,515	449,810	152,930	101,035
Inter-segment revenue				
Revenue from external customers	450,515	449,810	152,930	101,035
Total operating cost	318,586	272,020	143,806	89,807
Segment gross profit	131,929	177,790	9,124	11,228
Other profit or loss disclosure				
Depreciation and amortisation	12,889	8,986	4,375	2,018
Provision for loss on credit impairment	(11,659)	(3,637)	(206)	(480)
Provision for impairment loss of assets	(1,815)	(194)	(1,550)	(527)
Finance costs	-	-	-	-

Items	Railway sleepers		Others		Total	
	January to June 2022 RMB('000)	January to June 2021 RMB('000)	January to June 2022 RMB('000)	January to June 2021 RMB('000)	January to June 2022 RMB('000)	January to June 2021 RMB('000)
Total revenue	34,606	28,919	7,919	14,657	645,970	594,421
Inter-segment revenue						
Revenue from external customers	34,606	28,919	7,919	14,657	645,970	594,421
Total operating cost	23,085	17,717	6,667	12,239	492,144	391,783
Segment gross profit	11,521	11,202	1,252	2,418	153,826	202,638
Other profit or loss disclosure						
Depreciation and amortisation	1,666	1,490	227	134	19,156	12,628
Provision for loss on credit impairment	(94)	(1,207)	(1)	(121)	(11,960)	(5,445)
Provision for impairment loss of assets	(273)	(130)	-	-	(3,638)	(851)
Finance costs	-	-	8,551	7,263	8,551	7,263

4. NOTES RECEIVABLE

Breakdown

Items	30 June 2022 RMB('000)	31 December 2021 RMB('000)
Book balance of notes receivable	71,808	74,889
Less: Provision for bad debts	(5,349)	(6,135)
	<hr/>	<hr/>
Book value of notes receivable	66,459	68,754

5. ACCOUNTS RECEIVABLE

(a) Breakdown

Items	30 June 2022 RMB('000)	31 December 2021 RMB('000)
Book balance of accounts receivable	1,301,380	1,165,660
Less: Provision for bad debts	(153,536)	(139,157)
	<hr/>	<hr/>
Book value of accounts receivable	1,147,844	1,026,503

(b) An ageing analysis of accounts receivable based on the accounting date is set out as follows

Items	30 June 2022 RMB('000)	31 December 2021 RMB('000)
Within 1 year	924,067	830,100
1 to 2 years	193,832	156,260
2 to 3 years	74,497	83,688
Over 3 years	108,984	95,612
	<hr/>	<hr/>
Total	1,301,380	1,165,660

(c) Most of the accounts receivable are denominated in RMB, and their carrying amounts approximate their fair values.

6. BILLS PAYABLE

Items	30 June 2022 <i>RMB('000)</i>	31 December 2021 <i>RMB('000)</i>
Bills payable	96,459	86,938
Total	<u>96,459</u>	<u>86,938</u>

7. ACCOUNTS PAYABLE

(a) Breakdown

Items	30 June 2022 <i>RMB('000)</i>	31 December 2021 <i>RMB('000)</i>
Accounts payable	364,942	378,801
Total	<u>364,942</u>	<u>378,801</u>

(b) An ageing analysis of accounts payable based on the accounting date is set out as follows

Items	30 June 2022 <i>RMB('000)</i>	31 December 2021 <i>RMB('000)</i>
Within 1 year	300,287	318,044
Over 1 year	64,655	60,757
Total	<u>364,942</u>	<u>378,801</u>

8. OPERATING REVENUE/OPERATING COST

Items	January to June 2022 <i>RMB('000)</i>		January to June 2021 <i>RMB('000)</i>	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	638,051	485,477	579,764	379,544
Other operating revenue	7,919	6,667	14,657	12,239
Total	<u>645,970</u>	<u>492,144</u>	<u>594,421</u>	<u>391,783</u>

9. INCOME TAX EXPENSES

Items	30 June	30 June
	2022	2021
	<i>RMB('000)</i>	<i>RMB('000)</i>
Current income tax expenses	11,969	16,502
Deferred income tax expenses	(3,639)	(3,772)
Total	8,330	12,730

10. EARNINGS PER SHARE

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

Items	30 June	30 June
	2022	2021
	<i>RMB</i>	<i>RMB</i>
Profit attributable to equity owners of the Company	73,454	88,911
Weighted average number of ordinary shares in issue	897,840	897,840
Basic earnings per share (RMB per share)	0.08	0.10

There were no potential dilutive ordinary shares for the six months ended 30 June 2021 and 30 June 2022. Diluted earnings per share were equal to basic earnings per share.

11. DIVIDENDS

The Board of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

A final dividend of RMB49,650,552 (approximately RMB0.0553 per share (inclusive of tax)) for the year ended 31 December 2021 was approved by the shareholders at the annual general meeting held on 31 May 2022 and paid in July 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Since 2022, the international environment has become more complex and severe, and with the frequent and sporadic outbreak of domestic epidemics, the adverse effects have increased significantly. The extremely unusual economic development, and the unexpected and abrupt factors have brought serious impact. According to the data released by the National Bureau of Statistics, the GDP for the first half of the year increased by 2.5% year-on-year at constant prices.

In the first half of 2022, 2,043.5 km of new national railway lines were put into operation, including 995.9 km of high-speed railways. The total fixed asset investments in national railways amounted to RMB285.3 billion, representing a year-on-year decrease of 4.6%. During the period, Zhengzhou-Chongqing High-speed Railway (Xiangyang to Wanzhou Section), Jinan-Zhengzhou High-speed Railway (Puyang to Zhengzhou Section), Huanggang-Huangmei High-speed Railway, Hetian-Ruoqiang Railway, Beijing Fengtai Station and other projects were put into operation safely with high quality according to law, and the Sichuan-Tibet Railway, Yunnan-Tibet Railway (Lijiang to Shangri La Section), Chongqing-Kunming High-speed Railway and other projects under construction were orderly proceeded.

RESPONSE TO THE EPIDEMIC

In the first half of 2022, the epidemic showed three new characteristics: (i) there were multiple outbreaks of the epidemic, with numerous and sporadic cases and sudden clustered epidemics reported at multiple locations; (ii) the virus became more infectious, and most of the people were infected by Omicron strain which is highly infectious, fast spreading and hidden; and (iii) asymptomatic infections accounted for a large proportion, and many infected people had no symptom or feel no symptoms.

Facing the grim challenges, the Company persisted in both epidemic prevention and control and ensuring production safety by closely monitoring the development of the epidemic, taking strict and effective measures against the epidemic, and regarding the safety and health of its staff as the top priority. The Company strengthened the prevention and control of the whole chain, adopted rigorous anti-epidemic measures, arranged comprehensive disinfection in production and office areas, actively promoted the importance of epidemic prevention and enhanced the staff's motivation and alertness in preventing the epidemic, so as to fully safeguard the health of the staff and consolidate the internal defensive line of business, in order to contain the possible occurrence and spread of the epidemic to the greatest extent. The Company actively communicated with customers and suppliers to assess the impact of the epidemic on its suppliers, customer demands and the market, and timely adjusted its production and operation plans to effectively control the impact of the epidemic on business operation.

BUSINESS REVIEW

In the first half of 2022, due to the impact of the Russia-Ukraine crisis and sanctions, as well as a new round of resurgence of the epidemic and the implementation of prevention and control policies and other unexpected factors, China's economic development faced the growing "Triple Pressures", with both supply and demand declining, market expectations deteriorating and economic growth slowing down significantly. There are certain impacts of the epidemic on the business of the Company as the principal business of the Group operates in the domestic market. During the period, in the face of various uncontrollable factors caused by the epidemic, the Company actively communicated with customers and suppliers to assess the impact of the epidemic on its suppliers, customer demands and the market, and timely adjusted its production and operation plans to effectively control the impact of the epidemic on business operation.

The Group is a leading rail fastening system products provider in the PRC, with its major business focusing on three business segments, including (1) rail fastening system products; (2) welding wire products; and (3) railway sleeper products. For the six months ended 30 June 2022, the total revenue of the Group amounted to approximately RMB646.0 million, representing a year-on-year increase of approximately 8.7%.

Rail Fastening System Products

For the six months ended 30 June 2022, the revenue from rail fastening system products amounted to approximately RMB450.5 million, accounting for approximately 69.7% of the Group's total revenue and representing an increase of approximately 0.2% over the revenue of approximately RMB449.8 million from this segment for the same period of last year. During the Period Under Review, rail fastening system products achieved steady growth.

For the Period Under Review, the cost of sales relating to rail fastening system products increased by approximately 17.1% from approximately RMB272.0 million for the first half of 2021 to approximately RMB318.6 million for the same period of 2022. The change in cost was mainly attributable to the increase in the cost of raw materials.

During the period, the gross profit of rail fastening system products amounted to approximately RMB131.9 million, representing a decrease of approximately 25.8% compared with the gross profit of approximately RMB177.8 million for the same period of last year. The gross profit margin of rail fastening system products decreased from approximately 39.5% for the first half of 2021 to approximately 29.3% for the first half of 2022.

As of 30 June 2022, the Group's initial contract value of agreements on supplying rail fastening systems amounted to approximately RMB541.9 million, representing an increase of approximately 5.3% from the same period of last year. The initial contract value of agreements on high-speed rail fastening systems amounted to approximately RMB328.0 million, representing an increase of approximately 24.0% compared with the same period of last year; the initial contract value of agreements on heavy-haul rail fastening systems amounted to approximately RMB1.66 million; the initial contract value of agreements on urban transit fastening systems amounted to approximately RMB106.7 million; and the initial contract value of agreements on normal speed rail fastening systems was approximately RMB105.6 million. As of 30 June 2022, the backlog of the Group amounted to approximately RMB1,130.0 million (value-added tax included).

Welding Wire Products

For the six months ended 30 June 2022, the revenue from welding wire products amounted to approximately RMB152.9 million, accounting for approximately 23.7% of total revenue of the Group. Compared to the revenue of approximately RMB101.0 million for the first half of 2021, the increase in revenue was mainly attributable to the tapping into solid welding wire business by the Company and the growing market demand for welding wire during the first half of 2022.

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

Railway Sleeper Products

For the six months ended 30 June 2022, the revenue from railway sleeper products was approximately RMB34.6 million, accounting for approximately 5.4% of the Group's total revenue, while the revenue from railway sleeper increased by approximately 19.7% compared with the same period of last year, which was mainly attributable to the increase in revenue from its subsidiary Xingtai Juneng Railway Electrical Equipment Co., Ltd.* (邢臺炬能鐵路電氣器材有限公司) ("**Xingtai Juneng**").

* For identification purpose only

FUTURE PROSPECTS

Looking forward to the second half of 2022, China's stable growth policies have been gradually implemented, and incremental and stable growth policies are expected to be continuously introduced and implemented in the future. China's economy is expected to recover progressively in the second half of the year under the continuous promotion of stable growth policies.

In terms of railway construction, China State Railway Group Co., Ltd. ("**State Railway Group**") held a party group (enlarged) meeting on 16 May 2022 (the "**Meeting**"), which emphasised that the key projects conducive to lead industry development and maintain national security shall be deployed in advance, while the extent of implementation shall be controlled appropriately to effectively improve the comprehensive benefits of the life-cycle of key railway projects. According to the State Railway Group, the railway sector takes full advantage of the number of railway construction investments, the large scale of labour, the long association chain and the significant effect of stimulating economic growth, focusing on serving the implementation of major national strategies and promoting the construction of the Sichuan-Tibet Railway with high quality, centering on the implementation of the projects involving railway section in the 102 projects identified by the outline of the national "Fourteen Five-Year Plan".

The Meeting requested for the conscientious implementation of the key tasks of the overall strengthening of infrastructure construction, with the connection and complementation of industry network and the strengthening of industry chain as the focus of construction, promoting the strategic backbone channels along the rivers and coastal borders, leaving Xinjiang, entering Tibet, and land and sea of West China, particularly the Sichuan-Tibet Railway project construction, optimising the comprehensive hub function of railway freight, strengthening the construction of transport channels for bulk cargo, promoting the development with the convergence of four railway networks (namely the network of trunk railway, intercity railway, urban (suburban) railway and urban rail transit), reinforcing the railway planning and construction of old revolutionary areas, ethnic areas and key rural revitalization areas, and continuously deepening the reform of railway investment and financing system to provide support for the strengthening of the construction of railway infrastructure.

Looking ahead, with China's overall railway technology entering the world's advanced level, accelerating the railway construction in a scientific, orderly and secured way with high quality will be a major task for railway construction. As a leading provider of rail fastening system in the railway industry of China, the Group will capture the market development opportunities under the goal of building up a strong nation of transit, by adhering to the core concept of producing high-quality products of rail fastening system and railway sleeper, focusing on the improvement of product quality and service standard, so as to contribute to the high level construction and safe operation of railways in China and bring benefits to social life. Moreover, the Group will also continue to explore the opportunities for vertical expansion in the industry, actively create diversified product portfolio, and enhance the core competitiveness and profitability of the Group, so as to consolidate the Group's business and gain market recognition with the best railway products and services.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's business operations mainly comprise research and development, manufacturing and sales of rail fastening system products, welding wire products and railway sleeper products. The above business segments have brought sustained and stable revenue to the Group. The revenue of the Group increased to approximately RMB646.0 million for the first half of 2022 from approximately RMB594.4 million for the first half of 2021, mainly attributable to the increase in revenue of welding wire.

Revenue related to rail fastening system products increased by approximately 0.2% to approximately RMB450.5 million for the first half of 2022 from approximately RMB449.8 million for the first half of 2021. During the Period Under Review, rail fastening system products achieved steady growth.

Revenue related to welding wire products increased by approximately 51.4% from approximately RMB101.0 million for the first half of 2021 to approximately RMB152.9 million for the same period of 2022, mainly attributable to the tapping into solid welding wire business by the Company and the growing market demand for welding wire during the first half of 2022.

Revenue related to railway sleeper products increased by approximately 19.7% from approximately RMB28.9 million for the first half of 2021 to approximately RMB34.6 million for the same period of 2022, mainly attributable to the growth of revenue of the Company's subsidiary Xingtai Juneng.

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

Operating Cost

The Group's cost of sales increased by approximately 25.6% to approximately RMB492.1 million for the first half of 2022 from approximately RMB391.8 million for the first half of 2021, which was mainly attributable to the increase in the cost of raw materials and product revenue which led to higher operating cost accordingly.

Cost of sales related to rail fastening system products increased by approximately 17.1% to approximately RMB318.6 million for the first half of 2022 from approximately RMB272.0 million for the same period of 2021, which was mainly attributable to the increase in the cost of raw materials.

Cost of sales related to welding wire products increased by approximately 60.1% to approximately RMB143.8 million for the first half of 2022 from approximately RMB89.8 million for the same period of 2021, which was mainly attributable to the increase in the sales revenue of welding wire products which led to higher operating cost accordingly.

Cost of sales related to railway sleeper products increased by approximately 30.5% to approximately RMB23.1 million for the first half of 2022 from approximately RMB17.7 million for the same period of 2021, which was mainly attributable to the increase in the sales revenue of railway sleeper products which led to higher operating cost accordingly.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB153.9 million from January to June 2022, representing a decrease of approximately 24.0% as compared to the gross profit of approximately RMB202.6 million recorded for the same period of 2021, which was mainly attributable to the increase in operating cost as a result of the increase in the price of raw materials.

Gross profit of rail fastening system products decreased by approximately 25.8% to approximately RMB131.9 million for the first half of 2022 from approximately RMB177.8 million for the same period of 2021. Gross profit margin of rail fastening system products decreased to approximately 29.3% for the first half of 2022 from approximately 39.5% for the first half of 2021, which was mainly attributable to the increase in the cost of raw materials.

Gross profit of welding wire products decreased by approximately 18.8% to approximately RMB9.1 million for the first half of 2022 from approximately RMB11.2 million for the same period of 2021. Gross profit margin decreased from approximately 11.1% for the first half of 2021 to approximately 6.0% for the first half of 2022, which was mainly attributable to the increase in the cost of raw materials.

Gross profit of railway sleeper products of approximately RMB11.2 million for the first half of 2021 remained at a similar level of approximately RMB11.5 million for the first half of 2022. Gross profit margin dropped to approximately 33.2% for the first half of 2022 from approximately 38.8% for the first half of 2021, which was mainly attributable to the decrease in gross profit margin as a result of the sales of different types of railway sleeper products.

Selling Expenses

Selling expenses of the Group amounted to approximately RMB8.7 million for January to June 2022, compared to approximately RMB12.3 million for January to June 2021. For the six months ended 30 June 2021 and 30 June 2022, selling expenses as a percentage of total revenue accounted for approximately 2.1% and 1.3%, respectively. The decrease in selling expenses was mainly attributable to the increase in product testing and certification fees for January to June 2021.

Management Expenses

Management expenses of the Group amounted to approximately RMB35.5 million and RMB36.3 million for January to June 2021 and January to June 2022, respectively. The increase in management expenses was mainly attributable to the increase in the depreciation expense of office building.

Investment Gains

Investment gains of the Group amounted to approximately RMB11.4 million and RMB17.1 million for January to June 2021 and January to June 2022, respectively, among which, the share of investment gains from associates was approximately RMB15.1 million for the first half of 2022, representing an increase of approximately RMB3.6 million compared to the same period of 2021, which was mainly attributable to the increase in the net profit of the associates.

Net Finance Costs

For the first half of 2022, the Group incurred net finance costs totaling RMB8.6 million, as compared to net finance costs totaling approximately RMB7.3 million incurred for the first half of 2021. The increase in net finance costs was mainly attributable to the increase in interest expenses.

Operating Profit

Based on the aforesaid reasons, the Group recorded operating profit of approximately RMB82.8 million from January to June 2022, representing a decrease of approximately 19.2% as compared to operating profit of approximately RMB102.5 million recorded in the same period of 2021, which was mainly attributable to the increase in operating cost.

Income Tax

Income tax expense of the Group decreased to approximately RMB8.3 million from January to June 2022 from approximately RMB12.7 million from January to June 2021, which was mainly attributable to the decrease in total profit.

Net Profit

Based on the aforesaid reasons, the net profit decreased by approximately 17.1% to approximately RMB74.3 million for the period ended 30 June 2022 from approximately RMB89.6 million for the period ended 30 June 2021, which was mainly attributable to the increase in operating cost.

From January to June 2022, the Group's net profit attributable to owners of the parent company amounted to approximately RMB73.5 million, representing a decrease of approximately 17.3% from approximately RMB88.9 million for the same period of 2021. For the first half of 2022, basic earnings per share amounted to RMB0.08, representing a decrease from the basic earnings of RMB0.10 per share for the same period of 2021, which was mainly due to the decrease in net profit of the Group attributable to owners of the parent company for the first half of 2022.

Total Assets

As at 30 June 2022, the total assets of the Group were approximately RMB3,451.7 million, representing an increase of approximately 7.1% from approximately RMB3,222.0 million as at 31 December 2021, which was mainly due to the increase in receivables and long-term assets.

Total Liabilities

As at 30 June 2022, the total liabilities of the Group were approximately RMB1,066.2 million, representing an increase of approximately 23.8% from approximately RMB861.1 million as at 31 December 2021, which was mainly attributable to the increase in bank borrowings.

Total Equity

As at 30 June 2022, the total equity of the Group was approximately RMB2,385.5 million, representing an increase of 1.0% from approximately RMB2,360.9 million as at 31 December 2021, which was mainly attributable to the increase in undistributed profits.

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 the 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 2022, the Group’s gearing ratio was 14.2%, representing an increase of 5.1 percentage point as compared to 9.1% as at 31 December 2021, which was mainly attributable to the increase in borrowings.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, the Group incurred total staff costs of approximately RMB55.1 million for 1,370 employees (as at 30 June 2021: 1,350 employees), representing an increase of approximately RMB7.6 million or approximately 16.0% as compared to the same period of 2021, which was mainly due to (i) the increase in the number of employees of the Group; (ii) the decrease in employee remuneration for the same period last year as a result of the impact of the COVID-19 pandemic in Shijiazhuang.

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

EVENTS AFTER BALANCE SHEET DATE

There are no events causing significant impact on the Group from the balance sheet date to the date of this announcement.

INTERIM DIVIDEND

Having considered the impact of the epidemic and the potential operating risks therefrom, to meet the liquidity needs of daily operations and the smooth execution of mid to long-term development strategies of the Company, the Board did not recommend the distribution of an interim dividend for the six months ended 30 June 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2022.

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 2022, each of them had fully complied with the required standards set out in the “Model Code for Securities Transactions by Directors of Listed Issuers”.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and has 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 2022.

AUDIT COMMITTEE

The interim condensed consolidated financial information has not been audited by the auditor of the Company.

The audit committee of the Company has reviewed the Group’s unaudited interim condensed consolidated results and interim report for the six months ended 30 June 2022 prepared in accordance with the PRC Accounting Standards and agreed to the accounting principles, accounting treatment and practices adopted by the Company.

OTHER MATTERS

As disclosed in the announcement of the Company dated 22 March 2022, in the light of the Company's adjustment in strategic planning due to changes in the capital markets and impact of the epidemic on the economy, after due consideration and careful deliberation with the professional parties involved, the Company has decided to terminate the listing application (the "**A Share Listing Application**") for the proposed initial public offering of its A shares to be listed on ChiNext of the Shenzhen Stock Exchange. The termination of the A Share Listing Application is not expected to give rise to any material adverse impact on the business operations or financial position of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the HKEXnews website of the Stock Exchange at <http://www.hkexnews.hk> and on the website of the Company at <http://www.hbyc.com.cn>. The 2022 interim report containing all the information required by the Listing Rules will be despatched to the Shareholders in due course and will be published on the websites of the Company and the Stock Exchange.

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

Shijiazhuang, The PRC, 25 August 2022

As at the date of this announcement, the Board comprises Mr. Zhang Haijun, Mr. Wu Jinyu, Mr. Zhang Lihuan, Mr. Zhang Chao and Ms. Ma Xuehui as executive Directors; Ms. Gu Xiaohui as a non-executive Director; and Mr. Jip Ki Chi, Mr. Wang Fujun and Mr. Zhang Ligu as independent non-executive Directors.

* *For identification purposes only*