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Hebei Yichen Industrial Group Corporation Limited*

河北翼辰實業集團股份有限公司

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

(Stock Code: 1596)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Operating revenue amounted to approximately RMB1,142.1 million, representing an increase of approximately 0.5% compared with that of 2019.
- Gross profit amounted to approximately RMB433.9 million, representing an increase of approximately 11.2% compared with that of 2019.
- Total profit amounted to approximately RMB296.6 million, representing an increase of approximately 30.3% compared with that of 2019.
- Net profit attributable to owners of the parent amounted to approximately RMB252.5 million, representing an increase of approximately 30.3% compared with that of 2019; total comprehensive income for the year amounted to approximately RMB257.3 million, representing an increase of approximately 30.8% compared with that of 2019.
- For the year ended 31 December 2020, the basic and diluted earnings per share amounted to approximately RMB0.28.

FINAL DIVIDEND

- The board of directors did not recommend the distribution of a final dividend for the year ended 31 December 2020.

* For identification purposes only

FINANCIAL RESULTS

The board of directors (the “**Board**”) of Hebei Yichen Industrial Group Corporation Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”, “**we**” or “**us**”) for the year ended 31 December 2020 (the “**Year under Review**”), together with comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

		For the 12 months ended		
		31 December		
		2020	2019	
		RMB'000	RMB'000	
			(Restated)	
	Notes			
I.	Total operating revenue	5	1,142,058	1,136,913
II.	Total operating cost	5	890,601	919,350
	Including: Cost of sales		708,187	746,673
	Taxes and surcharges		8,117	5,863
	Selling expenses		47,271	47,569
	Management expenses		69,994	65,197
	Research and development expense		42,346	44,344
	Finance costs		14,686	9,705
	Including: Interest costs		14,620	8,388
	Interest income		3,092	705
	Add: Other income		1,437	739
	Investment profits		30,204	27,124
	Including: Gains on investments in associates and joint ventures		30,521	27,124
	Gain from change in fair value		29,242	2,669
	Loss on credit impairment		(8,968)	(4,106)
	Impairment loss of assets		(4,254)	(16,440)
	Gains on disposal of assets		110	159
III.	Operating profits		299,228	227,708
	Add: Non-operating incomes		399	196
	Less: Non-operating expenses		2,993	248
IV.	Total profit		296,634	227,656
	Less: Income tax expenses		39,369	30,933

CONSOLIDATED INCOME STATEMENT (Continued)*For the year ended 31 December 2020*

		For the 12 months ended	
		31 December	
		2020	2019
		RMB'000	RMB'000
	<i>Notes</i>		(Restated)
V. Net profit		257,265	196,723
(I) Classified according to continuity:			
1. Net profit from continuing operations		257,265	196,723
2. Net profit from discontinued operations			
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent		252,460	193,822
2. Profit and loss of minority interests		4,805	2,902
VI. Total other comprehensive income		257,265	196,723
Total comprehensive income attributable to owners of the parent		252,460	193,822
Total comprehensive income attributable to minority interests		4,805	2,902
VII. Earnings per share:			
Basic earnings per share (<i>RMB</i>)	7	0.28	0.22
Diluted earnings per share (<i>RMB</i>)		0.28	0.22

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		31 December 2020	31 December 2019
	Notes	RMB'000	RMB'000
Current assets:			
Monetary capital		238,132	404,072
Financial assets held for trading		91,311	1,939
Notes receivable	8	123,831	84,632
Accounts receivable	9	780,180	921,552
Financing of receivables		18,984	12,931
Prepayments		34,008	18,760
Other receivables		14,904	20,277
Inventories		396,225	355,230
Contract assets		80,458	34,534
Other current assets		16,442	2,054
Total current assets		1,794,475	1,855,981
Non-current assets:			
Long-term equity investments		182,343	158,998
Fixed assets		193,165	125,378
Construction in progress		412,307	338,146
Right-of-use assets		1,798	599
Intangible assets		90,632	91,285
Goodwill		102,739	102,739
Deferred income tax assets		25,217	27,107
Other non-current assets		95,419	147,628
Total non-current assets		1,103,620	991,880
Total assets		2,898,095	2,847,861

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2020

		31 December 2020	31 December
	<i>Notes</i>	<i>RMB'000</i>	2019
			<i>RMB'000</i>
Current liabilities			
Short-term borrowings		233,000	170,000
Notes payable	<i>10</i>	53,000	69,318
Accounts payable	<i>11</i>	316,867	405,068
Contract liabilities		12,098	8,581
Payroll payable		7,300	7,119
Tax payable		11,142	16,290
Other payables		24,721	17,545
Non-current liabilities due within one year		93,880	32,645
Other current liabilities		1,323	259
Total current liabilities		753,331	726,826
Non-current liabilities			
Long-term borrowings		–	70,000
Lease liabilities		1,226	–
Long-term payables		24,672	47,980
Deferred income		5,176	5,409
Deferred income tax liabilities		1,056	662
Total non-current liabilities		32,130	124,051
Total liabilities		785,461	850,877
Owner's equity			
Share capital		448,920	448,920
Capital reserve		813,227	830,651
Surplus reserve		115,183	90,991
Undistributed profits		726,533	551,237
Total equity attributable to owners of the parent		2,103,863	1,921,800
Minority interests		8,771	75,185
Total owner's equity		2,112,634	1,996,985
Total liabilities and owner's equity		2,898,095	2,847,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the “**PRC**”) on 9 April 2001. The 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 manufacturing and sales of rail fastening system products, flux cored 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 year ended 31 December 2020 is presented in Renminbi (“**RMB**”) thousands.

The consolidated results for the year ended 31 December 2020 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

This 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 ACCOUNTING POLICIES

(a) Changes in significant accounting policies

Changes in accounting policies arising from alteration in accounting standards for business enterprises

Since 1 January 2020, the Company has implemented the Interpretation of Accounting Standards for Business Enterprises No.13 issued by the Ministry of Finance in 2019, and changes in the accounting policy shall be treated on a prospective basis.

(b) Adjustment in the financial statements for the prior period

Retrospective restatement method

Contents of amendments to accounting errors	Handling procedures	Statement items subject to impact for each comparative period	Accumulative amount affected (RMB'000)
1. Outstanding retention receivable that is due should be adjusted from contract assets to accounts receivable; retention receivable that is undue for over 1 year should be adjusted from contract assets to other non-current assets.	This error had been considered and passed at the 24th extraordinary meeting of the second session of the Board of the Company, and corrections were made against this error by the adoption of retrospective restatement method for the current period.	Accounts receivable	25,907
		Contract assets	(150,216)
		Other non-current assets	124,309
		Operating revenue	(1,763)
		Cost of sales	(1,763)
		Loss on credit impairment	3,929
		Impairment loss of assets	(3,929)
2. Revenue of cored wires entrusted for processing should be recognised on net amount basis and cost of sales should be adjusted accordingly.			
3. Loss on bad debts for contract assets and other non-current assets should be adjusted from loss on credit impairment to impairment loss of assets.			

4 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 reporting segments based on these reports.

The Group determines its business from a product perspective:

- Rail fastening system products: manufacturing and sales of rail fastening system products
- Flux cored wire products: manufacturing and sales of flux cored wire products
- Railway sleeper products: manufacturing and sales of railway sleeper products

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 reconciliations of the reportable segments results are as follows:

Segment information in 2020 and 2019 is set out as follows:

Items	Rail fastening		Flux cored wires	
	2020 RMB'000	2019 RMB'000 (Restated)	2020 RMB'000	2019 RMB'000 (Restated)
Total revenue	830,648	879,003	221,931	199,064
Inter-segment revenue	—	—	—	—
Revenue from external customers	830,648	879,003	221,931	199,064
Total cost of sales	(467,049)	(538,995)	(190,939)	(173,769)
Segment gross profit	363,599	340,008	30,992	25,295
Other profit and loss disclosure:				
Depreciation and amortisation	16,888	15,940	4,512	3,645
Provisions for/(reversal of) impairment of receivables	(8,967)	(8,085)	(180)	(181)
Impairment of inventories	(2,720)	(876)	(902)	(94)
Finance costs	—	—	—	—
	Railway sleepers		Others	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000 (Restated)
Total revenue	68,087	46,425	21,392	12,421
Inter-segment revenue	—	—	—	—
Revenue from external customers	68,087	46,425	21,392	12,421
Total cost of sales	(35,496)	(24,566)	(14,703)	(9,333)
Segment gross profit	32,591	21,859	6,689	3,078
Other profit and loss disclosure:				
Depreciation and amortisation	2,760	1,303	435	1,176
Provisions for/(reversal of) impairment of receivables	(707)	(175)	254	406
Impairment of inventories	—	—	—	—
Finance costs	—	—	14,686	9,705

	Total	
	2020	2019
	RMB'000	RMB'000
		(Restated)
Total revenue	1,142,058	1,136,913
Inter-segment revenue	—	—
Revenue from external customers	1,142,058	1,136,913
Total cost of sales	(708,187)	(746,673)
Segment gross profit	433,871	39,240
Other profit and loss disclosure:		
Depreciation and amortisation	24,595	22,064
Provisions for/(reversal of) impairment of receivables	(9,600)	(8,035)
Impairment of inventories	(3,622)	(970)
Finance Costs	14,686	9,705

5 OPERATING REVENUE/COST OF SALES

Items	2020		2019	
	RMB'000		RMB'000	
			(Restated)	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	1,120,666	693,484	1,124,492	737,330
Other operating revenue	21,392	14,703	12,421	9,333
Total	1,142,058	708,187	1,136,913	746,673

6 INCOME TAX EXPENSES

Items	2020	2019
	RMB'000	RMB'000
Income tax expenses for the period	37,084	31,673
Deferred income tax expenses	2,285	(740)
Total	39,369	30,933

Income tax expenses are derived from reconciliation of income tax calculated by applicable tax rates based on total profit in the consolidated income statement.

Items	2020 RMB'000	2019 RMB'000
Total profit	296,634	227,656
Income tax expenses calculated by the applicable tax rates of the parent	44,495	34,149
Effect of different tax rates applicable to subsidiaries	683	1,780
Effect of adjusting income tax from prior periods	–	–
Effect of profits and losses attributable to joint ventures and associates	(4,578)	(4,069)
Effect of non-taxable income	(35)	(35)
Effect of non-deductible costs, expenses and losses	583	1,928
Effect of utilising provisions for impairment of unrecognised deferred income tax assets in prior periods	–	(21)
Effect of deductible temporary differences or deductible losses of unrecognised deferred income tax assets during the period	46	–
Additional deduction on research and development expense	(1,491)	(838)
Additional deduction on salaries of disabled employees	(77)	(72)
Tax deduction on environmental-friendly equipment	(16)	(242)
Changes in opening balances of deferred income tax assets due to tax rate adjustments	47	12
Changes in opening balances of deferred income tax liabilities due to tax rate adjustments	(265)	–
Effect of utilising deductible losses of unrecognised deferred income tax assets in prior periods	(23)	(1,659)
Income tax expenses	39,369	30,933

7 EARNINGS PER SHARE

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

Items	2020 RMB'000	2019 RMB'000
Net profit attributable to owners of the parent of the Company	252,460	193,822
Weighted average number of ordinary shares in issue	897,840	897,840
Basic earnings per share (<i>RMB per share</i>)	0.28	0.22

There were no potential dilutive ordinary shares for the years ended 31 December 2019 and 2020. Diluted earnings per share were equal to basic earnings per share.

8 NOTES RECEIVABLE

Items	31 December 2020 RMB'000	31 December 2019 RMB'000
Book balance of notes receivable	136,291	92,091
Less: Provision for bad debts	(12,460)	(7,457)
Book value of notes receivable	<u>123,831</u>	<u>84,632</u>

Notes receivable consisted of bank acceptance notes, trade acceptance notes, and other similar notes with average maturity periods within six months.

9 ACCOUNTS RECEIVABLE

(a) Breakdown

Items	31 December 2020 RMB'000	31 December 2019 RMB'000
Book balance of accounts receivable	903,496	1,038,910
Less: Provision for bad debts	(123,316)	(117,358)
Book value of accounts receivable	<u>780,180</u>	<u>921,552</u>

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

Items	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	563,945	636,963
1 to 2 years	160,785	240,142
2 to 3 years	100,931	94,848
Over 3 years	77,835	66,957
Total	<u>903,496</u>	<u>1,038,910</u>

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

10 **BILLS PAYABLE**

Items	31 December 2020 RMB'000	31 December 2019 RMB'000
Bills payable	<u>53,000</u>	<u>69,318</u>
Total	<u>53,000</u>	<u>69,318</u>

11 **ACCOUNTS PAYABLE**

(a) **Breakdown**

Items	31 December 2020 RMB'000	31 December 2019 RMB'000
Accounts payable	<u>316,867</u>	<u>405,068</u>
Total	<u>316,867</u>	<u>405,068</u>

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

Items	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	251,332	348,659
Over 1 year	<u>65,535</u>	<u>56,409</u>
Total	<u>316,867</u>	<u>405,068</u>

12 **DIVIDENDS**

	2020 RMB'000	2019 RMB'000
Dividends paid/declared	<u>15,263</u>	<u>37,709</u>

- (i) The final dividend for the year ended 31 December 2019 amounting to RMB37,709,280 (approximately RMB0.042 per share (tax inclusive)) was approved by shareholders at the annual general meeting on 28 May 2020 and paid in July 2020.
- (ii) The interim dividend for the year ended 31 December 2020 amounting to RMB15,263,280 (approximately RMB0.017 per share (tax inclusive)) was approved at the extraordinary general meeting on 30 October 2020 and paid in November 2020. No final dividend was proposed for the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRIAL REVIEW AND ANALYSIS

Facing the impact of the novel coronavirus (COVID-19) epidemic (the “**Epidemic**”), China has risen to the challenge and made remarkable achievements in economic recovery. Looking back to the past year, the railway construction target of the “13th Five-Year Plan” has been successfully achieved, while smart high-speed railway technology achieved full independence and the railway network structure has been enhanced towards perfection day by day. According to the working meeting of China State Railway Group Co., Ltd., in 2020, there were 20 newly launched railway projects, and the fixed asset investments in national railways amounted to RMB781.9 billion with 4,933 km of mileage under construction, which exceeded the target of 4,000 km set at the beginning of the year. In August 2020, the “Outline for Planning on Nation with Strong Railway-oriented Transport System in the New Era” (《新時代交通強國鐵路先行規劃綱要》) (the “**Outline**”) was issued by China State Railway Group Co., Ltd., which clarified the development blueprint of China’s railway in the next 30 years with a systematic top-down design. It stated for the first time that China will be the first to achieve a high-standard modern railway system with safe and high-quality service, strong support and world-leading strength by 2035. As planned by the Outline, by 2035, it will take the lead in building a modern railway network that can achieve interconnection for domestic and international markets, multiple inter-regional roads, efficient connection of provincial capitals, quick access to prefectures and cities, basic coverage of counties and smooth connection of hubs; the national railway network will cover an area of about 200,000 km with approximately 70,000 km of high-speed railways, while cities with a population of more than 200,000 people will be covered by railways and cities with a population of more than 500,000 population will be accessible by high-speed railways.

During the year, China’s railway construction continued to serve the national development strategy and the construction of major projects has been proceeding in an orderly manner against the impact of the Epidemic, including Ya’an-Linzhi section of the Sichuan-Tibet Railway; 29 new lines such as Beijing-Xiong’an Intercity Railway, Yinchuan-Xi’an High-speed Railway, Zhengzhou-Taiyuan High-speed Railway, Lianyungang-Zhenjiang High-speed Railway, Shangqiu-Hefei Segment of Beijing-Hong Kong High-speed Railway, Shanghai-Nantong Railway and Golmud-Korla Railway came into operation successfully. The further optimisation of the railway network structure has served as a new momentum for accelerating the urbanisation construction and promoting regional integration development.

At the same time, China’s urban rail transit construction has also made positive progress. According to the statistics of the Ministry of Transport, a total of 233 urban rail transit lines were put into operation in 44 cities in China (excluding Hong Kong, Macao and Taiwan) as of 31 December 2020, with operational mileage of 7,545.5 km. During the whole year of 2020, there were a total of 39 new urban rail transit lines with operational mileage of 1,240.3 km newly set up, representing an increase of 20.1% from the same period of last year. Three cities, namely Tianshui, Sanya and Taiyuan, opened urban rail transit service for the first time. During the year, the Company firmly captured these opportunities and actively participated in the construction of high-speed rail, heavy-haul rail and urban rail transit in various regions, ensuring the safe, stable and efficient operation of railways with high-quality products and services.

BUSINESS REVIEW

The Group is a leading rail fastening system product provider in the PRC, with its major business focused on three business segments, including (1) rail fastening system products; (2) flux cored wire products; and (3) railway sleeper products. In 2020, the total revenue of the Group amounted to approximately RMB1,142.1 million, representing an increase of approximately 0.5%.

Rail Fastening System Products

For the year ended 31 December 2020, the revenue from rail fastening system products amounted to approximately RMB830.6 million, accounting for 72.7% of the Group's total revenue and representing a decrease of 5.5% from the revenue of approximately RMB879 million from this segment last year. This was due to the impact of the Epidemic at the beginning of the year, during which the Group suspended work and production, while sales of rail fastening system products declined as new customers did not request for large shipments in 2020 owing to uncertainties over their construction progress during the period.

During the year under review, the cost of sales relating to rail fastening system products decreased by approximately 13.4% from approximately RMB539.0 million in 2019 to approximately RMB467 million in 2020, which was mainly attributable to the decline in revenue from rail fastening system products during the year, resulting in lower costs.

Benefiting from the decline in steel price and higher sales price of rail fastening system products, the gross profit of rail fastening system products increased from approximately RMB340.0 million in 2019 to approximately RMB363.6 million in 2020. The gross profit margin increased from approximately 38.7% in 2019 to approximately 43.8% in 2020.

During the year under review, the Group's initial value of the agreements entered into on supplying rail fastening systems was approximately RMB1,033.0 million, representing a decrease of approximately 11.81% as compared to 2019. Specifically, the initial value of the agreements entered into on supplying high-speed rail fastening systems amounted to approximately RMB557.2 million, representing a decrease of approximately 14.1% as compared to 2019; the initial value of the agreements entered into on supplying urban transit fastening systems amounted to approximately RMB273.2 million; the initial value of the agreements entered into on supplying heavy-haul rail fastening systems amounted to approximately RMB59.8 million, representing a significant increase as compared to 2019; and the initial value of the agreements entered into on normal-speed rail fastening systems amounted to RMB142.9 million. As of 31 December 2020, the backlog of the Group amounted to approximately RMB1,217.9 million (value-added tax included).

Under the support of national railway network development plans such as the Outline, it is expected that there will be growth in the Group's revenue from sales of rail fastening systems.

Flux Cored Wire Products

For the year ended 31 December 2020, the revenue from flux cored wire products amounted to approximately RMB221.9 million, accounting for approximately 19.4% of the total revenue of the Group and representing an increase of approximately RMB22.8 million from approximately RMB199.1 million (restated) for the year of 2019. The change in revenue was mainly attributable to the increase in demand due to better performance in the welding materials industry during the year under review.

During the year under review, the cost of sales from flux cored wire products increased by approximately 9.8% to approximately RMB190.9 million in 2020 from approximately RMB173.8 million (restated) in 2019, which was mainly attributable to the increase in the sales volume of flux cored wire products for the year.

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

Railway Sleeper Products

For the year ended 31 December 2020, revenue from railway sleeper products was approximately RMB68.1 million, accounting for approximately 6% of the Group's total revenue and representing an increase of approximately RMB21.7 million from approximately RMB46.4 million for the year of 2019. The change in revenue was mainly attributable to the increase in demand due to better market expansion of railway sleeper products during the year under review.

During the year under review, the cost of sales of railway sleeper products increased by approximately 44.3% from approximately RMB24.6 million in 2019 to approximately RMB35.5 million in 2020, mainly attributable to the increase in sales volume of railway sleeper products.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's main business operations comprise the research and development (R&D), manufacturing and sales of rail fastening system products, flux cored wire products and railway sleeper products. The above business has brought sustained and stable revenue to the Group. In 2020, the revenue of the Group increased to approximately RMB1,142.1 million from approximately RMB1,136.9 million (restated) in 2019, mainly as a result of the increase in revenue from railway sleeper products and flux cored wire products.

Revenue generated from rail fastening system products declined by approximately 5.5% to approximately RMB830.6 million in 2020 from approximately RMB879.0 million in 2019, mainly due to the uncertainties in the construction progress of new major customers, who did not request for large shipments in 2020, which resulted in a decline in sales of rail fastening system products. The sales of the year were generally positive.

Revenue generated from flux cored wire products increased by approximately 11.5% from approximately RMB199.1 million (restated) in 2019 to approximately RMB221.9 million in 2020. Changes in revenue of flux cored wire products primarily resulted from the increase in demand due to better performance in the welding materials industry in 2020, leading to higher revenue in relation to flux cored wire products.

Revenue related to railway sleeper products increased by approximately 46.8% from approximately RMB46.4 million in 2019 to approximately RMB68.1 million in 2020. Changes in revenue of railway sleeper products were primarily attributable to the increase in demand due to better market expansion in 2020.

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

Cost of Sales

The Group's cost of sales decreased by approximately 5.2% from approximately RMB746.7 million (restated) in 2019 to approximately RMB708.2 million in 2020, which was mainly attributable to the decline in costs as a result of lower revenue from rail fastening system products during the period.

Cost of sales incurred by rail fastening system products decreased by approximately 13.4% to approximately RMB467 million in 2020 from approximately RMB539 million in 2019, which was mainly attributable to the decline in costs as a result of lower revenue from rail fastening system products during the period.

Cost of sales incurred by flux cored wire products increased by approximately 9.8% to approximately RMB190.9 million in 2020 from approximately RMB173.8 million (restated) in 2019, which was mainly attributable to the increase in the sales volume of flux cored wire products for the year.

Cost of sales incurred by railway sleeper products increased by approximately 44.3% to approximately RMB35.5 million in 2020 from approximately RMB24.6 million in 2019, which was mainly attributable to the increase in the sales volume of railway sleeper products for the year.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB433.9 million in 2020, representing a year-on-year increase of approximately 11.2% from the gross profit of approximately RMB390.3 million in 2019, which was mainly due to the increase in gross profit of railway sleeper products for the year.

Gross profit of rail fastening system products increased from approximately RMB340.0 million in 2019 to approximately RMB363.6 million in the corresponding period of 2020, and the gross profit margin increased from approximately 38.7% in 2019 to approximately 43.8% in the corresponding period of 2020, which was mainly attributable to the decline in steel price and higher sales price of rail fastening system products during the year.

Gross profit of flux cored wire products increased by approximately 22.5% to approximately RMB31.0 million in 2020 from approximately RMB25.3 million in the corresponding period of 2019. Gross profit margin increased from approximately 12.7% in 2019 to approximately 14.0% in the corresponding period of 2020, which was mainly attributable to the increase in sales volume of special flux cored wire and the decrease in the steel purchase price.

Gross profit of railway sleeper products climbed by approximately 49.5% to approximately RMB32.6 million in 2020 from approximately RMB21.8 million in 2019. Gross profit margin increased to approximately 47.9% from approximately 47.0% in 2019. The increase in gross profit for the period was mainly attributable to the increase in sales volume of railway sleeper products.

Selling Expenses

Selling expenses of the Group decreased to approximately RMB47.3 million in 2020 from approximately RMB47.6 million in 2019. For the years ended 31 December 2019 and 2020, selling expenses as a percentage of total revenue accounted for approximately 4.2% and 4.1%, respectively. The decrease in selling expenses was mainly attributable to the decrease in sample service fee.

Management Expenses

Management expenses of the Group increased to approximately RMB70.0 million in 2020 from approximately RMB65.2 million in 2019. For the years ended 31 December 2019 and 2020, management expenses as a percentage of total revenue accounted for approximately 5.7% and 6.1%, respectively. The increase in management expenses was mainly due to the increase in agency fees and technology transfer fees.

Research and Development Expense

Research and development expense of the Group decreased to approximately RMB42.3 million in 2020 from approximately RMB44.3 million (restated) in 2019. For the years ended 31 December 2019 and 2020, research and development expense as a percentage of total revenue accounted for approximately 3.9% and 3.7%, respectively.

Loss on Credit Impairment

Loss on credit impairment of the Group increased to approximately RMB9 million in 2020 from approximately RMB4.1 million (restated) in 2019. For the years ended 31 December 2019 and 2020, loss on credit impairment as a percentage of total revenue accounted for approximately 0.4% (restated) and 0.8%, respectively. The increased loss on credit impairment was mainly due to the increase in the provision for accounts receivable and bills receivable.

Impairment Loss of Assets

Impairment loss of assets of the Group decreased to approximately RMB4.3 million in 2020 from approximately RMB16.4 million (restated) in 2019. For the years ended 31 December 2019 and 2020, impairment loss of assets as a percentage of total revenue accounted for approximately 1.4% (restated) and 0.4%, respectively. The decrease in impairment loss of assets was primarily due to no provision made for impairment of goodwill during the period.

Operating Profits

Based on the aforesaid reasons, the Group recorded operating profits of approximately RMB299 million in 2020, representing a year-on-year increase of approximately 31.3% from operating profits of approximately RMB227.7 million recorded in the corresponding period of 2019, which was mainly attributable to the increase in both gross profit and gain from changes in fair value.

Finance Costs

In 2020, the Group incurred total finance costs of approximately RMB14.7 million, representing a year-on-year increase of approximately 51.5% from total finance costs of approximately RMB9.7 million (restated) in 2019. Of the amount, interest income surged by approximately 342.9% to approximately RMB3.1 million from approximately RMB0.7 million (restated) in 2019. Interest expenses increased by approximately 73.8% to approximately RMB14.6 million from approximately RMB8.4 million in 2019. The increase in finance costs was mainly attributable to the increase in the scale of debt in 2020, where most of the borrowings were occurred in the middle of the year.

Investment Profits

In 2020, the Group's investment profits totalled approximately RMB30.2 million, representing a year-on-year increase of approximately 11.4% from the total investment profits of approximately RMB27.1 million in 2019. In particular, the Group recorded an aggregate of approximately RMB30.5 million in share of investment profits from an associate in 2020, representing a year-on-year increase of approximately 12.5% from such share of investment gains of approximately RMB27.1 million recorded in the corresponding period in 2019, which was mainly attributable to the increase in net profit of the associate.

Income Tax

Income tax expenses of the Group increased by approximately 27.5% to approximately RMB39.4 million in 2020 from approximately RMB30.9 million in 2019, which was mainly attributable to the increase in total profit for the period.

The applicable corporate income tax rate for the Company and its subsidiary Xingtai Juneng Railway Electrical Equipment Co. LTD (邢臺炬能鐵路電氣器材有限公司) was 15% for 2020. The applicable tax rate for other subsidiaries in Mainland China was 25% for 2020.

Net Profit

Based on the aforesaid reasons, net profit increased by approximately RMB60.6 million or approximately 30.8% to approximately RMB257.3 million for the year ended 31 December 2020 from approximately RMB196.7 million for the year ended 31 December 2019, which was mainly attributable to (i) the increase of gross profit; and (ii) the increase of gain from changes in fair value. Net profit margin increased to approximately 22.5% for the year ended 31 December 2020 from approximately 17.3% for the year ended 31 December 2019, which was mainly attributable to the increase in net profit during the period.

Net Profit Attributable to Owners of the Parent

The Group's net profit attributable to owners of the parent amounted to approximately RMB252.5 million in 2020, representing an increase of approximately 30.3% from approximately RMB193.8 million in 2019. In 2020, basic earnings per share amounted to approximately RMB0.28, representing an increase of RMB0.06 from the basic earnings of approximately RMB0.22 per share in 2019. The increase in net profit attributable to owners of the parent was mainly due to the increase in gross profit and gain from changes in fair value of the Group in 2020.

Financial Resources and Capital Structure

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB105.8 million, accounts receivable of approximately RMB780.2 million, accounts payable of approximately RMB316.9 million, and outstanding borrowings of approximately RMB351.6 million. As at 31 December 2020, the above cash and cash equivalents included approximately RMB2.9 million equivalents of Hong Kong dollars.

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB280.3 million, accounts receivable of approximately RMB921.6 million, accounts payable of approximately RMB405.1 million, and outstanding borrowings of approximately RMB320.6 million.

The Group usually satisfies its daily working capital requirements through self-owned cash and borrowings. In December 2016, the Company completed its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and issued a total of 224,460,000 H Shares. As at 31 December 2020, the outstanding borrowings of the Group included total short-term borrowings of approximately RMB233.0 million, total non-current liabilities of approximately RMB93.9 million due within one year and total long-term payables of approximately RMB24.7 million. The Group will promptly repay the aforesaid borrowings at maturity.

Total Assets

As at 31 December 2020, the total assets of the Group were approximately RMB2,898.1 million, representing an increase of approximately RMB50.2 million or approximately 1.8% from those as at 31 December 2019, which was mainly attributable to the increase in fixed assets and construction in progress during the period.

Total Liabilities

As at 31 December 2020, the total liabilities of the Group were approximately RMB785.5 million, representing a decrease of approximately RMB65.4 million or approximately 7.7% from those as at 31 December 2019, mainly because of the decrease in accounts payable.

Total Equity

As at 31 December 2020, the total equity of the Group was approximately RMB2,112.6 million, representing an increase of approximately RMB115.6 million from that as at 31 December 2019, which was mainly attributable to the increase in net profit of the Group during the year.

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 borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as total shareholders’ equity as shown in the consolidated balance sheet plus the aforementioned net debt.

As at 31 December 2020, the Group’s gearing ratio was 10.4%, representing an increase of 8.4 percentage points from 2% as at 31 December 2019, mainly because of the decrease in cash and cash equivalents.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group incurred total staff costs of approximately RMB99.1 million for 1,315 employees, representing a decrease of approximately RMB2.2 million or approximately 2.2% as compared to the corresponding period of 2019, which was mainly attributable to (i) the concession policy on social insurance during the Epidemic for the year; (ii) the decrease in the number of employees of the Group.

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.

FUTURE PROSPECTS

The year of 2021 marks the beginning of the "14th Five-Year Plan". According to the proposal of the "14th Five-Year Plan", a series of major projects, such as Sichuan-Tibet Railway and New Western Land-Sea Corridor, will be carried out during the period of the "14th Five-Year Plan". The working meeting of China State Railway Group Co., Ltd. also set a goal of approximately 3,700 km for new rail lines in 2021.

The year of 2021 will be an important year for accelerating the full implementation of the pilot projects of a strong transport system. At present, China's high-speed railway network has become more and more mature, and the one-hour commute in metropolitan area remains an important way to optimise the layout of urban functions, promote the co-development between large, medium and small cities and small towns, and expand effective investment. On 17 December 2020, the General Office of the State Council transmitted the Opinions on Accelerating the Development of Metropolitan and Urban (Suburban) Railways (《關於推動都市圈市域(郊)鐵路加快發展的意見》) issued by the National Development and Reform Commission and other units, which proposed to strengthen the integration and connection of urban (suburban) railways with trunk railways, intercity railways and urban rail transit. The Beijing-Tianjin-Hebei region, the Yangtze River Delta region and the Guangdong-Hong Kong-Macao Greater Bay Area, China's three major city clusters with leading economic strength, had their major projects of intercity and urban (suburban) railways proposed to be included in the "14th Five-Year Plan", with a total of about 10,000 km of planned new intercity and urban (suburban) railways. By 2025, China will basically establish one to two-hour travel circle for city clusters and one-hour commute circle for metropolitan areas.

With China's overall railway technology entering the world's advanced ranks, there are new requirements for the scientific and technological innovation, quality and efficiency of the industry. Accelerating the railway construction in a scientific, orderly and safe way with high quality will be a major work for railway construction in 2021. As a leading rail fastening system and railway sleeper provider in the railway industry of China, the Group will keep abreast of the market development opportunities brought by the gradual optimisation of railway network under the goal of building a strong transport system, carry out research actively and stimulate innovation, and strive to improve product quality and service standards, all in a bid to provide rail fastening system products and railway sleeper products with high standard and good quality. This will facilitate key projects such as Sichuan-Tibet Railway, the New Western Land-Sea Corridor, the high-speed railways along the Yangtze River and the Beijing-Tianjin-Hebei intercity railway network, as well as contributing to the high-level construction and safe operation of railways in China. Meanwhile, the Group will also actively explore opportunities for vertical expansion in the industry and enhance the core competitiveness and profitability of the Group with a diversified product offering, so as to give back to shareholders and investors.

RESPONSE TO THE EPIDEMIC

The Epidemic broke out in Shijiazhuang, Hebei Province at the beginning of 2021. Gaocheng District, where the Company is located, was the core area of the Epidemic. Since the outbreak of the Epidemic, the Company has been prioritising the protection of its staff's lives and health, closely monitoring the Epidemic situation, strictly executing various Epidemic prevention and control work, and taking measures such as suspension of work and production and multiple rounds of nucleic acid test. After Gaocheng District was moved down to a low-risk area, the Company actively arranged the resumption of work and production, implemented complete disinfection at production and office premises and conducted daily health check and other prevention and control measures, orderly resuming work and production on the basis of ensuring the health of employees. Meanwhile, the Company actively communicated with customers and suppliers, timely adjusted manufacture and operation plans, which minimised the adverse influence arising from the Epidemic.

EVENTS AFTER THE PERIOD

No significant event occurred after the results period of the Company and up to the date of this announcement.

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

The net proceeds from the initial public offering of the H Shares of the Company amounted to approximately RMB558.2 million. As at 31 December 2020, the net proceeds had been fully utilised according to the designated uses set out in the prospectus of the Company dated 9 December 2016 as follows:

Designated uses of net proceeds	% of net proceeds allocated	Allocated amount <i>RMB'000</i>	Utilised as at 31 December 2020 <i>RMB'000</i>	Unutilised as at 31 December 2020 <i>RMB'000</i>	Expected to be utilised before the following dates
Expansion of production capacity and fixed asset investments	31.00%	173,038	173,038	0	N/A
Domestic and overseas acquisitions	15.00%	83,728	83,728	0	N/A
Purchase of raw materials	15.00%	83,728	83,728	0	N/A
R&D and testing of new products	15.00%	83,728	83,728	0	N/A
Deposits for project bids	10.00%	55,819	55,819	0	N/A
Working capital	10.00%	55,819	55,819	0	N/A
Upgrade of information systems and automated production facilities	4.00%	22,328	22,328	0	N/A
Total	100.00%	558,188	558,188	0	

PUBLIC FLOAT

Based on the publicly available information to the Company and to the knowledge of the directors of the Company (the “**Directors**”), not less than 25% of the Shares of the Company in issue are held by the public for the year ended 31 December 2020, in accordance with the requirement of the Listing Rules.

ANNUAL GENERAL MEETING

The annual general meeting (the “**AGM**”) will be held on Thursday, 27 May 2021. Shareholders may refer to the notice and form of proxy of the AGM to be despatched by the Company for details regarding the meeting.

FINAL 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 recommenced the distribution of a final dividend for the year ended 31 December 2020.

Going forward, the Company will remain attentive to rewarding its investors in the form of cash dividend, strictly comply with the requirements of relevant laws and regulations as well as the Articles of Association, and take into account various factors relating to profit distribution, so as to share the achievements of the Company's development and better protect the long-term interests of all its Shareholders.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of shareholders who are entitled to attend and vote at the AGM of the Company to be held on Thursday, 27 May 2021, the register of members of the Company will be closed from Tuesday, 27 April 2021 to Thursday, 27 May 2021 (both days inclusive), during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on Thursday, 27 May 2021 are entitled to attend and vote at this AGM. Holders of H shares of the Company intended to attend and vote at this AGM shall lodge all share transfer documents together with the relevant H share certificates with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Monday, 26 April 2021 (Hong Kong time) for share transfer registration.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company for the year ended 31 December 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules for the year ended 31 December 2020.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the Directors and Supervisors of the Company. Upon making specific enquiries to all of the Directors and Supervisors of the Company, all Directors and Supervisors of the Company confirmed that for the year ended 31 December 2020, each of them had fully complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers.

AUDITOR

The financial figures in respect of the Group's consolidated financial statements and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Pan-China Certified Public Accountant LLP (天健會計師事務所(特殊普通合夥)) ("PCCPA"), Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by PCCPA in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PCCPA.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's 2020 annual results and the financial statements for the year ended 31 December 2020 prepared in accordance with the PRC Accounting Standards.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKEXnews website of the Stock Exchange at <http://www.hkexnews.hk> and on the website of the Company at <http://www.hbyc.com.cn>. The 2020 annual report containing all the information required by the Listing Rules will be dispatched 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, 31 March 2021

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

* For identification purposes only