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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 2021**

#### **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 2021 (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 2021*

		<b>For the six months ended 30 June</b>	
		<b>2021</b>	<b>2020</b>
		<b>RMB('000)</b>	<b>RMB('000)</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
			<b>(Restated)</b>
<b>I. Total operating revenue</b>	<i>10</i>	<b>594,421</b>	574,814
<b>II. Total operating cost</b>		<b>475,547</b>	438,237
Including: Operating cost	<i>10</i>	<b>393,541</b>	366,482
Taxes and surcharges		<b>5,397</b>	4,793
Selling expenses		<b>12,319</b>	8,186
Management expenses		<b>33,711</b>	33,644
Research and development expense		<b>23,316</b>	19,859
Finance costs		<b>7,263</b>	5,273
Including: Finance costs		<b>7,949</b>	7,465
Interest income		<b>1,017</b>	1,616
Add: Other income		<b>116</b>	1,041
Investment gains		<b>11,439</b>	17,761
Including: Gains on investments in associates and joint ventures		<b>11,518</b>	17,761
Gain from changes in fair value		<b>(21,634)</b>	–
Loss on credit impairment		<b>(5,445)</b>	(943)
Impairment loss of assets		<b>(851)</b>	(3,207)
Gains on disposal of assets		<b>–</b>	110
<b>III. Operating profits</b>		<b>102,499</b>	151,339
Add: Non-operating income		<b>87</b>	97
Less: Non-operating expenses		<b>219</b>	2,458
<b>IV. Total profit</b>		<b>102,367</b>	148,978
Less: Income tax expenses	<i>11</i>	<b>12,730</b>	20,760

**CONSOLIDATED INCOME STATEMENT (Continued)***For the six months ended 30 June 2021*

		<b>For the six months ended 30 June</b>	
		<b>2021</b>	<b>2020</b>
		<b>RMB('000)</b>	<b>RMB('000)</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>V. Net profit</b>		<b>89,637</b>	128,218
(I) Classified according to continuity:			
1. Net profit from continuing operations		<b>89,637</b>	128,218
2. Net profit from discontinued operations		—	—
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent		<b>88,911</b>	126,621
2. Profit or loss of minority interests		<b>726</b>	1,597
<b>VI. Other comprehensive income after tax, net</b>			
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		—	—
<b>VII. Total other comprehensive income</b>		<b>89,637</b>	128,218
Total comprehensive income attributable to owners of the parent		<b>88,911</b>	126,621
Total comprehensive income attributable to minority interests		<b>726</b>	1,597
<b>VIII. Earnings per share:</b>			
Basic earnings per share ( <i>RMB</i> )		<b>0.10</b>	0.14
Diluted earnings per share ( <i>RMB</i> )		<b>0.10</b>	0.14

# **CONSOLIDATED BALANCE SHEET**

*As at 30 June 2021*

		<b>30 June 2021</b>	31 December 2020
		<b>RMB('000)</b>	<b>RMB('000)</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Current assets</b>			
Monetary capital		<b>344,298</b>	238,069
Financial assets held for trading		<b>58,523</b>	91,311
Notes receivable	6	<b>71,069</b>	123,831
Accounts receivable	7	<b>940,196</b>	780,180
Financing of receivables		<b>1,921</b>	18,984
Prepayments		<b>50,085</b>	34,008
Other receivables		<b>23,023</b>	14,913
Inventories		<b>372,129</b>	396,225
Contract assets		<b>52,933</b>	80,458
Other current assets		<b>14,200</b>	16,429
<b>Total current assets</b>		<b>1,928,377</b>	1,794,408
<b>Non-current assets</b>			
Long-term equity investments		<b>185,832</b>	182,343
Other equity instruments investment		<b>8,321</b>	–
Fixed assets		<b>235,080</b>	193,165
Construction in progress		<b>393,467</b>	412,307
Right-of-use assets		<b>1,499</b>	1,798
Intangible assets		<b>89,780</b>	90,632
Goodwill		<b>102,739</b>	102,739
Deferred income tax assets		<b>28,697</b>	25,217
Other non-current assets		<b>105,015</b>	95,419
<b>Total non-current assets</b>		<b>1,150,430</b>	1,103,620
<b>Total assets</b>		<b>3,078,807</b>	2,898,028

# **CONSOLIDATED BALANCE SHEET (Continued)**

*As at 30 June 2021*

		<b>30 June 2021</b>	<b>31 December 2020</b>
		<b>RMB('000)</b>	<b>RMB('000)</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Current liabilities</b>			
Short-term borrowings		<b>300,000</b>	233,000
Notes payable	8	<b>98,600</b>	53,000
Accounts payable	9	<b>301,599</b>	316,867
Contract liabilities		<b>7,727</b>	12,098
Payroll payable		<b>6,252</b>	7,300
Tax payable		<b>14,461</b>	11,102
Other payables		<b>20,011</b>	24,921
Non-current liabilities due within one year		<b>24,566</b>	93,880
Other current liabilities		<b>599</b>	1,323
<b>Total current liabilities</b>		<b>773,815</b>	753,491
<b>Non-current liabilities</b>			
Long-term borrowings		<b>84,000</b>	–
Lease liabilities		<b>613</b>	1,226
Long-term payables		<b>12,511</b>	24,672
Deferred income		<b>5,060</b>	5,177
Deferred income tax liabilities		<b>765</b>	1,056
<b>Total non-current liabilities</b>		<b>102,949</b>	32,131
<b>Total liabilities</b>		<b>876,764</b>	785,622
<b>Owner's equity</b>			
Share capital		<b>448,920</b>	448,920
Capital reserve		<b>813,227</b>	813,227
Surplus reserve		<b>115,160</b>	115,160
Undistributed profits		<b>815,239</b>	726,328
Total equity attributable to owners of the parent		<b>2,192,546</b>	2,103,635
Minority interests		<b>9,497</b>	8,771
<b>Total owner's equity</b>		<b>2,202,043</b>	2,112,406
<b>Total liabilities and owner's equity</b>		<b>3,078,807</b>	2,898,028

# 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, 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 six months ended 30 June 2021 is presented in Renminbi (“**RMB**”) thousands.

The consolidated results for the six months ended 30 June 2021 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. AUDIT OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Company has submitted the application documents in connection with the proposed A share offering and listing, including the A share prospectus (application proof), to the Shenzhen Stock Exchange in December 2020. The audited financial statements for the six months ended 30 June 2020 have been prepared by the auditor of the Company as part of the reporting materials.

The differences between unaudited and audited financial statements for the six months ended 30 June 2020 are as follows:

Contents of audit adjustments	Affected statement items for each comparative period	Impact on income statement for the six months ended 30 June 2020 RMB (’000)
Revenue of engagement of processing wire should be recognized by net-value method	Operating revenue Cost of sales	(1,045) (1,045)
The loss on bad debts of contract assets and other non-current assets should be adjusted from loss on credit impairment to impairment loss of assets	Loss on credit impairment Impairment loss of assets	(402) 402

#### 4. ADJUSTMENT IN THE AUDITED FINANCIAL STATEMENTS FOR THE PRIOR PERIOD

##### Retrospective restatement method

Contents of amendments to accounting errors	Handling procedures	Affected statement items for each comparative period	Impact on income statement for the six months ended 30 June 2020 RMB('000)
In line with the new revenue principle and its application guidelines, transportation cost and cargo agency fees have been adjusted from selling expenses to operating cost	This error had been considered and approved by the Board of the Company, and was corrected by adopting retrospective restatement method for the current period.	Operating cost	11,581
		Selling expenses	-11,581

#### 5. 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: research and development, manufacturing and sales of rail fastening system products
- Flux cored wire products: research and development, manufacturing and sales of flux cored wires
- 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 reconciliations of the reportable segment results is as follows:

The segment information for January to June 2021 and January to June 2020 is listed as follows:

Items	Rail fastening system		Flux cored wires	
	January to June 2021 RMB('000)	January to June 2020 RMB('000) (Restated)	January to June 2021 RMB('000)	January to June 2020 RMB('000) (Restated)
Total revenue	449,810	440,806	101,035	96,906
Inter-segment revenue				
Revenue from external customers	449,810	440,806	101,035	96,906
Total operating cost	273,358	255,995	90,227	85,761
Segment gross profit	176,452	184,811	10,808	11,145
Other profit or loss disclosure				
Depreciation and amortisation	8,986	8,540	2,018	1,877
Provision for loss on credit impairment	(3,637)	(1,343)	(480)	677
Provision for impairment loss of assets	(194)	(3,128)	(527)	(79)
Finance costs	—	—	—	—

  

Items	Railway sleepers		Others		Total	
	January to June 2021 RMB('000)	January to June 2020 RMB('000) (Restated)	January to June 2021 RMB('000)	January to June 2020 RMB('000) (Restated)	January to June 2021 RMB('000)	January to June 2020 RMB('000) (Restated)
Total revenue	36,926	28,928	6,650	8,174	594,421	574,814
Inter-segment revenue						
Revenue from external customers	36,926	28,928	6,650	8,174	594,421	574,814
Total operating cost	24,849	18,920	5,107	5,806	393,541	366,482
Segment gross profit	12,077	10,008	1,543	2,368	200,880	208,332
Other profit or loss disclosure						
Depreciation and amortisation	1,490	1,357	134	158	12,628	11,932
Provision for loss on credit impairment	(1,207)	(201)	(121)	(76)	(5,445)	(943)
Provision for impairment loss of assets	(130)	—	—	—	(851)	(3,207)
Finance costs	—	—	7,263	5,273	7,263	5,273



## 6. NOTES RECEIVABLE

### Breakdown

Items	30 June 2021 RMB('000)	31 December 2020 RMB('000)
Book balance of notes receivable	76,179	136,291
Less: Provision for bad debts	5,110	12,460
Book value of notes receivable	<u>71,069</u>	<u>123,831</u>

## 7. ACCOUNTS RECEIVABLE

### (a) Breakdown

Items	30 June 2021 RMB('000)	31 December 2020 RMB('000)
Book balance of accounts receivable	1,080,371	903,496
Less: Provision for bad debts	140,175	123,316
Book value of accounts receivable	<u>940,196</u>	<u>780,180</u>

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

Items	30 June 2021 RMB('000)	31 December 2020 RMB('000)
Within 1 year	756,717	563,945
1 to 2 years	130,928	160,785
2 to 3 years	94,158	100,931
Over 3 years	98,568	77,835
Total	<u>1,080,371</u>	<u>903,496</u>

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

## 8. BILLS PAYABLE

Items	30 June 2021 RMB('000)	31 December 2020 RMB('000)
Bills payable	98,600	53,000
Total	98,600	53,000

## 9. ACCOUNTS PAYABLE

### (a) Breakdown

Items	30 June 2021 RMB('000)	31 December 2020 RMB('000)
Accounts payable	301,599	316,867
Total	301,599	316,867

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

Items	30 June 2021 RMB('000)	31 December 2020 RMB('000)
Within 1 year	234,825	251,332
Over 1 year	66,774	65,535
Total	301,599	316,867

## 10. OPERATING REVENUE/OPERATING COST

Items	January to June 2021 RMB('000)		January to June 2020 RMB('000)	
	Revenue	Cost	Revenue	Cost (Restated)
Revenue from principal business	587,771	388,434	566,640	360,676
Other operating revenue	6,650	5,107	8,174	5,806
Total	594,421	393,541	574,814	366,482

## 11. INCOME TAX EXPENSES

Items	30 June 2021 RMB('000)	30 June 2020 RMB('000)
Income tax expenses for the period	16,502	21,590
Deferred income tax expenses	(3,772)	(830)
Total	<u>12,730</u>	<u>20,760</u>

## 12. 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 2021 RMB	30 June 2020 RMB
Profit attributable to equity owners of the Company	88,911	126,621
Weighted average number of ordinary shares in issue	897,840	897,840
Basic earnings per share (RMB per share)	<u>0.10</u>	<u>0.14</u>

There were no potential dilutive ordinary shares for the six months ended 30 June 2020 and 30 June 2021. Diluted earnings per share were equal to basic earnings per share.

## 13. DIVIDEND

The Board of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB0.017 per share (tax inclusive) with an aggregate net amount of RMB15,263,280).

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

In the first half of 2021, the novel coronavirus (COVID-19) epidemic (the “**Epidemic**”) continued raging all over the world, while China has gradually stepped out from the shadow of the Epidemic with its business activities delivering positive results. According to the economic data released by the State Statistics Bureau of China, the GDP growth in China during the first half of the year reached 12.7% as the economy continued to stably recover and development quality steadily improved.

In the first half of 2021, the railway construction developed steadily and healthily towards the established objectives. The fixed asset investments in national railways accumulated to RMB298.949 billion, representing a year-on-year decrease of 8.26%. In terms of single-month investment, the amount of investment in each month in the first quarter showed a continuous upward trend with year-on-year growth rates of investment reaching 19.77%, 34.26% and 37.43%, respectively. In the second quarter, the growth rates in each month all turned out to be negative, with year-on-year growth rates reaching -16.81%, -40.43% and -8.70%, respectively.

During the period, a number of key construction projects of China’s railway construction have achieved good progress, including Sichuan-Tibet Railway (Lhasa to Linzhi Section), Yuxi-Mohan Railway, and Dali-Lincang Railway, etc. The constructions of foundation, tunnel and road works for those projects had basically been completed, and the railing work was underway which is planned to be completed in 2021. The railway transit network and high-speed rail passenger transit network will soon be completed, upon which, the transportation efficiency will be enhanced and the logistics cost will be reduced. It will also lead to the formation of urban economic zones and optimization of regional population and talent deployment efficiency, making positive contribution to regional economic development and poverty alleviation.

According to the Overview of Urban Rail Transit Lines in Mainland China for the First Half of 2021 (《2021年上半年中國內地城軌交通線路概況》) released by the China Association of Metros, as of 30 June 2021, a total length of 8,448.67 km of urban rail transit lines were under operation across a total of 49 cities in mainland China. In the first half of 2021, there were four more cities with urban transit under operation, while another 14 cities operated new lines or new sections, with the length of new operating lines reaching 478.97 km in total, and 22 lines newly added or extended. The China Association of Metros anticipates that urban transit will be put into operation in one more city in the second half of 2021, making a length of approximately 700 km newly added to the line under operation. During the period, the Group proactively captured these opportunities by actively participating in the construction of high-speed rail, heavy-haul rail and urban rail transit in various regions, in order to safeguard a secure, stable and efficient operation of railways by providing high-quality products and services.

## **RESPONSE TO THE EPIDEMIC**

The first half of 2021 showed repeated relapse of the Epidemic. At the beginning of the year, the Epidemic broke out in Shijiazhuang, Hebei Province, with Gaocheng District, where the Company is located, being the core area of the Epidemic. In late July, following its emergence at Nanjing Lukou Airport, the Delta variant quickly spread across Nanjing City and Jiangsu Province at large, spawning an expansionary trend of the Epidemic in China. 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 ensuring the safety and health of its staff as the top priority. The Company strengthened the prevention and control throughout the chain and suspended work and production promptly, in order to contain the possible occurrence and spread of the Epidemic to the greatest extent. After resuming work and production, the Company continued to take rigorous preventive measures, arranging comprehensive disinfection in production and office areas, actively promoting the importance of Epidemic prevention and stimulating the staff's motivation and alertness in preventing the Epidemic, so as to fully protect the health of the staff and consolidate the internal defensive line of the enterprise. The Company actively communicated with its customers and suppliers, assessed the impact of the Epidemic on its suppliers, customer demand and the market, and timely adjusted its production and operation plans, so as to effectively control the impact of the Epidemic on the operation of the enterprise.

## **BUSINESS REVIEW**

In the first half of 2021, uncertainties and downward pressure were added to the growth of global economy. Benefited from effective anti-Epidemic measures, China's economy and production activities have been generally recovered. The impact of the Epidemic on the business of the Group is relatively controllable as the principal business of the Group operates in the domestic market. During the period, despite the various uncontrollable factors caused by the Epidemic, the Group responded prudently and analysed the situation by continuously monitoring the development of the Epidemic and strictly formulating prevention and control measures, so as to safeguard the normal and stable operation of the Group and the personal safety of all staff, upholding its diversified business layout and realising the steady growth of revenue of the Group.

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) flux cored wire products; and (3) railway sleeper products. For the six months ended 30 June 2021, the total revenue of the Group amounted to approximately RMB594.4 million, representing a year-on-year increase of approximately 3.4% (restated).

## **Rail Fastening System Products**

For the six months ended 30 June 2021, the revenue from rail fastening system products amounted to approximately RMB449.8 million, representing approximately 75.7% of the Group's total revenue and an increase of approximately 2.0% over the revenue of approximately RMB440.8 million (restated) from this segment in the same period of last year. This was mainly attributable to the growing sales volume of rail fastening products during the period under review.

For the period under review, the cost of sales relating to rail fastening system products increased by approximately 6.8% from approximately RMB256.0 million (restated) for the first half of 2020 to approximately RMB273.4 million for the same period of 2021. The change in cost was mainly attributable to the growing sales volume of rail fastening system products during the period under review.

During the period, the gross profit of rail fastening system products amounted to approximately RMB176.4 million, representing a decrease of approximately 4.5% compared with the gross profit of approximately RMB184.8 million (restated) for the same period of last year. The gross profit margin of rail fastening system products decreased from approximately 41.9% (restated) for the first half of 2020 to approximately 39.2% for the first half of 2021.

As of 30 June 2021, the Group's initial contract value of agreements on supplying rail fastening systems amounted to approximately RMB514.37 million, representing a decrease of approximately 14.87% from the same period of last year. The initial contract value of agreements on high-speed rail fastening systems amounted to approximately RMB264.55 million, representing a decrease of approximately 28.47% compared with the same period of last year; the initial contract value of agreements on heavy-haul rail fastening systems amounted to approximately RMB110.27 million; the initial contract value of agreements on urban transit fastening systems amounted to approximately RMB57.65 million; and the initial contract value of agreements on normal speed rail fastening systems was approximately RMB81.89 million. As of 30 June 2021, the backlog of the Group amounted to approximately RMB1,110.77 million (value-added tax included).

## **Flux Cored Wire Products**

For the six months ended 30 June 2021, the revenue from flux cored wire products amounted to approximately RMB101.0 million, accounting for approximately 17.0% of total revenue of the Group. Compared to the revenue of approximately RMB96.9 million (restated) for the first half of 2020, the increase in revenue was mainly attributable to the growing market demand for flux cored wire over the first half of 2021.

The Group's revenue from flux cored 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 2021, the revenue from railway sleeper products was approximately RMB36.9 million, accounting for approximately 6.2% of the Group's total revenue, while the revenue from railway sleeper increased by approximately 27.7% 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**”).

## FUTURE PROSPECTS

This year marks the beginning of the “**14th Five-Year Plan**”. It is also a year to accelerate the building up of a strong nation of transit system. The Draft of Outline for the 14th Five-Year Plan for National Economic and Social Development and the Vision and Objectives through the Year 2035 (《國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要(草案)》) proposes the acceleration of building up China into a nation with strong transit network. It advocates the need to speed up the construction of a strong transit nation during the “**14th Five-Year**” period by enhancing and integrating the major transportation access, integrating transit hubs and logistics networks, as well as stepping up the construction of rail transit networks between urban communities and metropolitan areas.

The National Comprehensive Three-Dimensional Transit Network Planning Outline (《國家綜合立體交通網規劃綱要》) (the “**Outline**”) was published by the CCP Central government and the State Council in February 2021, which stated that the total length of the physical line of the national comprehensive three-dimensional transit network will reach approximately 700,000 km by 2035, of which the railway will account for approximately 200,000 km. The implementation of the proposals mentioned in the Outline will further accelerate building up China into a nation with strong transit network, establishing a modern, high-quality national comprehensive three-dimensional transit network, so as to support the modernisation of the economic system and the construction of socialist modernisation for a strong nation.

The Opinions on Further Improving the Planning and Construction of Railways (《關於進一步做好鐵路規劃建設工作的意見》) (the “**Opinions**”) was published by the State Council in March 2021, which stated that railway planning and construction shall be implemented in a scientific and orderly manner, with the theme of promoting high quality development, focusing on deepening the structural reform on supply side. By 2035, the layout structure of railway network should have been further improved, such that the debt scale and liability level for railway should have been controlled within a reasonable range, preparing to build up China as a strong nation of transit and providing solid support for constructing a modern socialistic nation in a comprehensive manner. Meanwhile, the Opinions stressed that all regions should strengthen the connection on planning, synergies on policy and resource coordination as well as enhancing the linkage and coordination, so as to achieve cooperation and jointly promote high-quality railway development.

\* For identification purposes only



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, flux cored 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 RMB594.4 million in the first half of 2021 from approximately RMB574.8 million (restated) in the first half of 2020, mainly attributable to the increase in revenue of rail fastening system products and railway sleeper products.

Revenue related to rail fastening system products increased by approximately 2.0% to approximately RMB449.8 million in the first half of 2021 from approximately RMB440.8 million (restated) in the first half of 2020, mainly attributable to the increase in sales volume of rail fastening system products.

Revenue related to flux cored wire products increased by approximately 4.2% from approximately RMB96.9 million (restated) in the first half of 2020 to approximately RMB101.0 million in the same period of 2021, mainly attributable to the higher market demand for flux cored wire during the first half of 2021.

Revenue related to railway sleeper products increased by approximately 27.7% from approximately RMB28.9 million in the first half of 2020 to approximately RMB36.9 million in the same period of 2021, 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, flux cored wire products and railway sleeper products, the Group also generated revenue mainly from the sales of electricity and the provision of product processing services.



## **Cost of Sales**

The Group's cost of sales increased by approximately 7.4% to approximately RMB393.5 million in the first half of 2021 from approximately RMB366.5 million (restated) in the first half of 2020, which was mainly attributable to the increase in product revenue, and the increase in cost of sales accordingly.

Cost of sales related to rail fastening system products increased by approximately 6.8% to approximately RMB273.4 million in the first half of 2021 from approximately RMB256.0 million (restated) in the same period of 2020, which was mainly attributable to the increase in the revenue of rail fastening system products, and the increase in cost of sales accordingly.

Cost of sales related to flux cored wire products increased by approximately 5.1% to approximately RMB90.2 million in the first half of 2021 from approximately RMB85.8 million (restated) in the same period of 2020, which was mainly attributable to the increase in the sales revenue of flux cored wire products which led to higher cost of sales.

Cost of sales related to railway sleeper products increased by approximately 31.2% to approximately RMB24.8 million in the first half of 2021 from approximately RMB18.9 million (restated) in the same period of 2020, which was mainly attributable to the increase in the sales revenue of railway sleeper products which led to higher cost of sales.

## **Gross Profit**

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB200.9 million from January to June 2021, representing a decrease of approximately 3.6% from the gross profit of approximately RMB208.3 million (restated) recorded for the same period of 2020, which was mainly attributable to the increase in cost of sales as a result of the increase in the price of raw materials.

Gross profit of rail fastening system products decreased by approximately 4.5% from approximately RMB184.8 million (restated) in the first half of 2020 to approximately RMB176.4 million in the same period of 2021. Gross profit margin of rail fastening system products decreased to approximately 39.2% in the first half of 2021 from approximately 41.9% (restated) in the first half of 2020, which mainly attributable to the increase in the price of raw materials.

Gross profit of flux cored wire products decreased by approximately 2.7% to approximately RMB10.8 million in the first half of 2021 from approximately RMB11.1 million (restated) in the same period of 2020. Gross margin of approximately 11.5% (restated) in the first half of 2020 remained similar level of approximately 10.7% in the first half of 2021.

Gross profit of railway sleeper products increased by approximately 21.0% to approximately RMB12.1 million in the first half of 2021 from approximately RMB10.0 million (restated) in the first half of 2020. Gross profit margin dropped to approximately 32.8% in the first half of 2021 from approximately 34.6% (restated) in the first half of 2020, 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 RMB8.2 million (restated) for January to June 2020, compared to approximately RMB12.3 million for January to June 2021. For the six months ended 30 June 2020 and 30 June 2021, selling expenses accounted for approximately 1.4% (restated) and 2.1%, respectively as a percentage of total revenue. The increase in selling expenses was mainly attributable to the increase in product inspection and certification fees.

## **Management Expenses**

Management expenses of the Group amounted to approximately RMB33.6 million and RMB33.7 million for January to June 2020 and January to June 2021, respectively. The amount for January to June 2021 remained at the similar level to that for the same period of 2020.

## **Income from Investments in Associates**

From January to June 2021, the Group's share of investment profits of an associate amounted to approximately RMB11.5 million, representing a decrease of approximately RMB6.3 million as compared with the same period of 2020, which was mainly attributable to the decrease in net profit of the Group and the associate.

## **Net Finance Costs**

For the first half of 2021, the Group incurred net finance cost totaling RMB7.3 million, as compared to net finance cost totaling approximately RMB5.3 million incurred in the first half of 2020. The increase in net finance costs was mainly attributable to the decrease in exchange gain and loss and the decrease in interest income.

## **Operating Profits**

Based on the aforesaid reasons, the Group recorded operating profits of approximately RMB102.5 million from January to June 2021, representing a decrease of approximately 32.3% from approximately RMB151.3 million in the same period of 2020, which was mainly attributable to the increase in the cost of our principal business, and the decrease in the gain and loss from changes in fair value.

## **Income Tax**

Income tax expense of the Group decreased to approximately RMB12.7 million from January to June 2021 from approximately RMB20.8 million from January to June 2020, which was mainly attributable to a decrease in total profits.

## **Net Profit**

Based on the aforesaid reasons, net profit decreased by approximately 30.1% to approximately RMB89.6 million for the period ended 30 June 2021 from approximately RMB128.2 million for the period ended 30 June 2020, which was mainly attributable to increase in the cost of our principal business, and the decrease in gain or loss from changes in fair value.

From January to June 2021, the Group's net profit attributable to owners of the parent company amounted to approximately RMB88.9 million, representing a decrease of approximately 29.8% from approximately RMB126.6 million for the same period of 2020. For the first half of 2021, basic earnings per share amounted to RMB0.10, representing a decrease in the basic earnings of RMB0.14 per share for the same period of 2020, which was mainly due to the decrease in net profit of the Group in the first half of 2021.

## **Total Assets**

As at 30 June 2021, the total assets of the Group were approximately RMB3,078.8 million, representing an increase by approximately 6.2% from approximately RMB2,898.0 million as at 31 December 2020, which was mainly due to increase in monetary capital and accounts receivable.

## **Total Liabilities**

As at 30 June 2021, the total liabilities of the Group were approximately RMB876.8 million, representing an increase by approximately 11.6% from approximately RMB785.6 million as at 31 December 2020, which was mainly attributable to the increase in bank borrowings.

## **Total Equity**

As at 30 June 2021, the total equity of the Group was approximately RMB2,202.0 million, representing an increase of approximately RMB89.6 million from that as at 31 December 2020, 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 2021, the Group's gearing ratio was 8.8%, representing a decrease of 0.5 percentage point as compared to 9.3% as at 31 December 2020, which was mainly attributable to the increase in total equity.

## **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 2021.

## **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 2021.

## **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 2021, 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 2021.

## **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 2021 prepared in accordance with the PRC Accounting Standards and agreed to the accounting principles, accounting treatment and practices adopted by the Company.

## OTHER MATTERS

### The Proposed A Share Offering and Listing

As disclosed in the announcement of the Company dated 30 December 2020, the Company has submitted the application documents in connection with the proposed A share offering and listing, including the A share prospectus (application proof), to the Shenzhen Stock Exchange, and has received a notice issued by the Shenzhen Stock Exchange on 30 December 2020 in respect of the acceptance of the application documents for the proposed A share offering and listing submitted by the Company. As at the date of this announcement, the proposed A share offering and listing of the Company are still in the review process.

### 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 2021 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, 26 August 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.*

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